



National study on the adequacy of Unemployment Benefits in Malta

Final Report

17th November 2022

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List of Abbreviations

ALMP	Active Labour Market Policies
CBM	Central Bank of Malta
CIR	Commissioner for Inland Revenue
COLA	Cost of Living Adjustment
DIER	Department for Industrial and Employment Relations
DSS	Department of Social Security
EA	Euro Area
EC	European Commission
EPD	Economic Policy Department
EU	European Union
GDP	Gross Domestic Product
GVA	Gross Value Added
HICP	Harmonised Index of Consumer Prices
ICT	Information & Communications Technology
ILO	International Labour Organisation
ISCD	Income Support and Compliance Division
ISIC	International Standard Industrial Classification
ISSA	International Social Security Association
LFS	Labour Force Survey
MISSOC	Mutual Information System on Social Protection
MSPC	Ministry for Social Policy and Children's Rights
NAW	National Average Wage
NEET	Not in Employment, Education or Training
NMW	National Minimum Wage
NRR	Net Replacement Rate
NSO	National Statistics Office
OECD	Organisation for Economic Cooperation and Development
PES	Public Employment Services
PTR	Participation Tax Rate
RRF	Recovery and Resilience Facility
SA	Social Assistance

SSA	Social Security Act
SSC	Social Security Contribution
SUA	Subsidiary Unemployment Assistance
SUB	Special Unemployment Benefits
TaxBEN	OECD Tax-Benefit Model
TCN	Third Country Nationals
UA	Unemployment Assistance
UNRISD	United Nations Research Institute for Social Development

1.0 Executive Summary

Involuntary unemployment is an economic contingency that can strike every individual at some point in their working life. For some this may be a short-lived and one-time experience, for others it may be a defining feature of their life. In all cases, however, unemployment bears a human, social and economic cost that often stretches beyond the temporary loss of income.

For this reason, unemployment benefits are a core dimension of social welfare systems and, in public policy terms, an important line of defence against social exclusion and poverty. At a national level they are also critical macroeconomic stabilisers, sustaining the business cycle particularly during economic shocks.

In most European welfare systems unemployment benefits fall into two broad types: the contributory benefits, in which access to such benefits depends on the beneficiary's contribution through previous labour force participation, and unemployment assistance, which does not have this contributory element and is dependent only on financial means-testing. Malta's system falls within this broad classification, with characteristics of the Anglo-Saxon welfare state model which promotes social assistance as a last resort.

The fundamental design of Malta's unemployment benefit schemes dates back to the 1950s, despite a comprehensive consolidation of all relevant legislative instruments into the Social Security Act (SSA) of 1987. Linking back to the high human, social and economic risks associated with unemployment, a review of these schemes to ensure they are fit for purpose is opportune. It is also very timely. Malta's economy has grown and transformed in recent years, with associated changes in labour market dynamics. Workforce composition is also vastly different when compared to just one decade ago, with a steep rise in female participation and a far higher share of foreign workers. Future skills are increasingly in demand, leaving unskilled or low-skilled workers at a competitive disadvantage. High rates of job mobility, as opposed to a 'job for life,' are now a reality. This is the complex context for this National Study, which will assess if unemployment benefits are adequate and effective in the face of these changing realities. The comprehensive evaluation detailed in this report is the first step of this process; a monitoring and evaluation framework will follow to ensure that this adequacy and effectiveness is tracked on an ongoing basis.

The assessment process captured in this report is an evaluation of Malta's contributory and non-contributory unemployment benefits. Using a logic-model approach in line with best practice evaluation methodology, it aims for a comprehensive analysis by examining the different dimensions of the system, from the wider economic and labour market conditions that drive unemployment, through the policies and processes that regulate benefit administration, to the outcomes and impacts on beneficiaries. Different indicators were used to measure these outcomes and impacts to ensure evidence-based findings. The findings of each research phase were then analysed to support an evaluation of the benefits in terms of their adequacy and effectiveness across different dimensions.

The report is structured in line with this sequential approach.

Section 5 examines the various economic and labour market conditions that characterise the unemployment situation in Malta, including trends over the past ten years in the unemployment and long-term unemployment rate.

Section 6 maps out the different contributory and non-contributory unemployment protection measures currently available to ensure that the evaluation being made is rooted in a clear understanding of the overall system and its policy framework.

Section 7 then moves to the output of unemployment benefits, primarily in terms of formal and effective coverage levels. This analysis also factors in related indicators, such as the eligibility conditions that determine this coverage as well as the duration of benefits.

Section 8 completes this assessment by assessing the direct outcomes of unemployment benefits and assistance for beneficiaries, particularly in terms of the linkages between the level of income received, the activation support provided and the ease of transition back into employment.

Section 9 finally consolidates the main findings of the data analysis carried out in the earlier phases of the research that relate to the key impacts of Malta's unemployment protection system on beneficiaries.

A number of interesting findings emerge from the research. At a fundamental level, Malta's unemployment benefits system is aligned with recommended policy trends in the level of its formal coverage. Benefit duration is generally adequate and eligibility conditions, though towards the stricter end of the spectrum, also fall within reasonable parameters based on comparative assessments with other EU Member States. Similarly, the stronger links with activation measures rolled out in the last five years are having effective results, although impacts on particular segments of the unemployed population (including older and low-skilled workers) may be impacted somewhat negatively.

However, certain gaps are then identified in the income replacement level provided by the current system of unemployment benefits. Detailed data analysis confirms that, while non-contributory unemployment assistance offers a generally adequate income replacement rate, the current rate of contributory benefits does not adequately replace the income lost by the individual due to job loss to the level required to uphold a decent standard of living, prevent them from falling into poverty and facilitating a return to work. Given the current structure of Malta's contributory unemployment benefits scheme, this inadequacy relates primarily to the previous in-work earnings of the beneficiary. On this basis, while the income replacement rate for beneficiaries who previously earned the National Minimum Wage is generally adequate, this declines significantly for beneficiaries with higher previous earnings. The analysis also concluded a more positive assessment for the same cohort of income earners after twelve months of unemployment. At that point non-contributory benefits (such as unemployment assistance) would have kicked-in once the maximum duration of the unemployment benefits have elapsed. In these cases, the net income replacement rate is either higher than the EU median, particularly when compared to the national minimum

wage, or at par with it, when expressed at 67.0 per cent and 100.0 per cent of the average wage.

Comprehensive recommendations are therefore proposed in the final section of the report to address this inadequacy. In contrast to the current approach, these recommendations are calculated, by design, to differentiate between the previous in-work earnings of beneficiaries, thereby addressing current gaps in replacement levels. Tapering-off of these benefits is also being proposed to reinforce the Mutual Obligation Principle, incentivising activation while providing improved income support.

These recommendations are grounded in the core principles of proportionality and financial sustainability, while ensuring that no specific cohort is adversely impacted by any modifications to the current system.

2.0 Scope

This report is the second deliverable due under the contract signed on 29th March 2022 between Seed Consultancy Ltd. and the Ministry for Social Policy and Children's Rights (MSPC), for the delivery of a national study assessing Malta's unemployment benefits system.

Following the Contracting Authority's approval of the methodology proposed in the Inception Report submitted on 12th May 2022, work began on a comprehensive review of Malta's unemployment benefits policy, particularly in terms of its adequacy and effectiveness. The findings of this review are presented in this report.

This review was developed and implemented in line with the first specific objective of the above-mentioned contract as defined in para. 2.2a of the terms of reference. This stated the following:

“Undertake an evidence-based policy evaluation of current unemployment benefits in Malta. Empirically assess the adequacy and effectiveness of social security policy with regards to unemployment benefits and develop recommendations according to an evidence-based policy design based on the outcomes of research and assessment.”

As per this objective, the scope of this report is therefore to detail the evidence-driven research carried out in relation to the adequacy and effectiveness of Malta's unemployment benefits, present the outcomes of this assessment, and propose possible policy solutions to address any adequacy gaps identified.

3.0 Context

3.1 Project context

This project focuses on unemployment benefits, which are an integral feature of Malta's social security system. It has been contracted by the Ministry for Social Policy and Children's Rights as the Ministry responsible for this policy area. Contributory benefits fall within the remit of the Department of Social Security (DSS) which is tasked with "*providing correct financial assistance and other benefits to eligible persons in time.*"¹ Non-contributory benefits are administered by the Income Support and Compliance Division (ISCD), which is responsible for "*providing timely financial assistance and other benefits to eligible recipients while ensuring that social benefits and services are granted and received in compliance with the provisions of the applicable legislation.*"² These roles are mandated by the Social Security Act (Cap 318)³ which is the umbrella national legislation enacted in 1987 that regulates all social security matters in Malta.

Social security in Malta is financed through taxation, general revenue, and national insurance contributions made by employees, employers, and self-employed/self-occupied persons.

3.2 Project objectives

Para. 2.1 of the terms of reference defines the overarching objective of the project as follows:

"To assess the current unemployment benefits scenario and provide tangible recommendations to the Government aimed at ensuring better adequacy of unemployment benefits whilst enhancing the incentive to work."

The terms of reference then divide this overarching objective into four key tasks (para. 2.2), each targeting specific results and deliverables that are essential to meeting the core aims of the project. These tasks and their targeted results are listed in Table 1 below.

Table 1: Key actions and results of the project

¹ Social Security. Department of Social Security. Retrieved on 20 May 2022.

<https://socialsecurity.gov.mt/en/about/department-of-social-security/>

² Social Security. Income Support and Compliance Division. Retrieved on 20 May 2022.

<https://socialsecurity.gov.mt/en/about/>

³ Social Security Act. Chapter 318 of the Laws of Malta. Retrieved on 3 June 2022.

<https://legislation.mt/eli/cap/318/eng/pdf>

Tasks	Results
<p>Carry out an evidence-based policy evaluation of current unemployment benefits in Malta to empirically assess the adequacy and effectiveness of social security policy in this regard.</p> <p>Based on the outcomes of this evaluation and assessment, develop policy recommendations to improve this adequacy and effectiveness.</p>	<p>An evidence-based assessment of current unemployment benefits protection framework.</p> <p>An evidence-based policy design recommendations to improve the current framework, with a focus on adequacy and efficacy of benefits.</p>
<p>Develop a policy monitoring and evaluation framework based on measurable policy outcomes and outputs.</p>	<p>An evidence-based policy outcome and output monitoring framework based on proposed performance metrics.</p>
<p>Apply and test the proposed monitoring framework.</p>	<p>A thorough testing process for the proposed monitoring framework to ensure that it is fit for purpose.</p>
<p>Based on the results of the testing process, evaluate the proposed monitoring framework's outputs and outcomes.</p> <p>Recommend any appropriate amendments and/or recalibrations.</p>	<p>A finalised monitoring framework that is fit for purpose and is available for roll-out by the Contracting Authority.</p>

This report completes the first of the four tasks listed above.

3.3 The National Study in the context of EU social protection policy and funding developments

This National Study primarily stems from Malta's commitment towards the Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed.⁴ This adopted Council Recommendation calls on Member States to ensure access to adequate social protection for all employed and self-employed workers within the framework of each State's national social protection system. Unemployment benefits are specified as one of the branches of social protection covered by this Council Recommendation.

⁴ Council of the European Union. (2019). Recommendation of 8th November 2019 on access to social protection for workers and self-employed, 2019/C 387/01.

On this basis, the Council recommends that Member States address four key principles of social protection which combine to cover effective access to, and adequacy of, unemployment benefits. These principles are presented in Table 2 below together with the definition for each specified in the Recommendation.

Table 2: Principles of social protection defined in the Council Recommendation of 8 November 2019

Principle	Definition
Formal coverage	'Formal coverage' of a group means a situation in a specific social protection branch where the existing legislation or collective agreement states that the individuals in a group are entitled to participate in a social protection scheme covering a specific branch. (Objective and scope, para.7(j))
Effective coverage	'Effective coverage' of a group means a situation in a specific social protection branch where the individuals in a group have an opportunity to accrue benefits and the ability, in the event that the corresponding risk materialises, to access a given level of benefits. (Objective and scope, para.7(f))
Adequacy	Social protection is considered to be 'adequate' when it allows individuals to uphold a decent standard of living, replace their income loss in a reasonable manner and live with dignity, and prevents them from falling into poverty while contributing, where appropriate, to activation and facilitating the return to work. (Objective and scope, para. 11)
Transparency	'Transparency' means the provision of available, accessible, comprehensive and clearly understandable information to the general public, potential scheme members and scheme members and beneficiaries about the scheme's rules and/or about the individual obligations and entitlements. (Objective and scope, para.7(j))

This National Study is also one of Malta's commitments for accessing the EU's Recovery and Resilience Facility (RRF). This facility was adopted by the Union in February 2021 as a temporary post-pandemic recovery instrument. It targets reforms in Member States that address the country-specific recommendations under the European Semester framework for economic and social policy coordination. It was further noted that the 2020 Council Recommendation on Malta's 2020 National Reform Programme and 2020 Stability Programme includes clear references to unemployment and related benefits, particularly in view of labour market disruptions caused by the impacts of the pandemic. On this basis the Council stressed that "*ensuring adequate support and access to social protection for all workers, including the self-employed, and accounting for a possibly extended duration of unemployment are crucial.*"⁵ The 2020 Commission Recommendation accordingly includes a country specific recommendation to "*ensure the adequacy of unemployment protection for all workers.*"⁶

Malta's National Recovery and Resilience Plan was approved by the Commission in September 2021 and identified '*enhancing quality education and fostering socio-economic sustainability*' as one of six priority areas.⁷ In December 2021 the Commission disbursed €41.1 million to Malta as pre-financing for the reform measures presented in Malta's Plan which it (the Commission) felt were the most critical for the country's effective and sustainable recovery and resilience. Further disbursements of Malta's RRF allocation will in fact be conditional upon the effective implementation of these reforms. One of the reforms specified under the pre-financing arrangement falls under the target of '*fostering socio-economic sustainability*' referred above and refers to developing "*the regular analysis and monitoring of the pension and unemployment benefits system to support its adequacy and sustainability.*"⁸

⁵ Council of the European Union. (2020). Council recommendation on the 2020 national reform programme of Malta and delivering a Council opinion on the 2020 stability programme of Malta. (2020/C 282/18), Brussels, 20 July 2020.

⁶ European Commission (2020), Recommendation for a Council recommendation on the 2020 national reform programme of Malta and delivering a Council opinion on the 2020 stability programme of Malta, COM (2020) 518 final, Brussels, 20 May 2020.

⁷ Office of the Prime Minister. (2021). Malta's recovery and resilience plan.

⁸ European Commission. Press Release. NextGeneration EU: European Commission disburses €41.1 million in pre-financing to Malta. Brussels. 17 December 2021.

4.0 Methodology

4.1 Research approach

In line with the methodology proposed in the Inception Report, a mixed method approach was adopted throughout this evaluation study, using both qualitative and quantitative research tools. This blended research process is aligned with best practice in impact evaluation studies, particularly in fields with a strong social dimension such as health sciences, education, and social sciences.⁹ It ensures that the limitations of one type of data are balanced by the strengths of another, combining the complementary perspectives of each research method to provide a better understanding of a research topic as opposed to taking a single approach in isolation.

Working back from the defined research objectives, this mixed methodology was adopted to complement the analysis of empirical data on the adequacy and effectiveness of unemployment benefits with qualitative data and information gathered through desk research and consultation with key stakeholders.

These mixed methods were applied within an overarching framework to ensure a structured and coherent research and analysis process.

4.2 Research framework

The research framework adopted for this study is based on the 'input-process-output-outcome-impact' logic model recommended by the European Commission¹⁰ (EC) and the International Labour Organisation (ILO) as a best practice evaluation methodology.¹¹

Working back from this evaluation study's core objective, that of assessing the adequacy and efficacy of Malta's unemployment benefits, the framework is structured around five components which are key to this evaluation.

These components and their alignment with the research objectives are outlined in Table 3 below.

⁹ White, H. (2009). Of probits and participation, the use of mixed methods in quantitative impact evaluation. *IDS Bulletin*. 39.98 – 109. 10.1111/j.1759-5436.2008.tb00436.x.

¹⁰ European Commission. (2015). *Supporting social protection systems. Tools and methods series concept Paper 4*. Luxembourg.

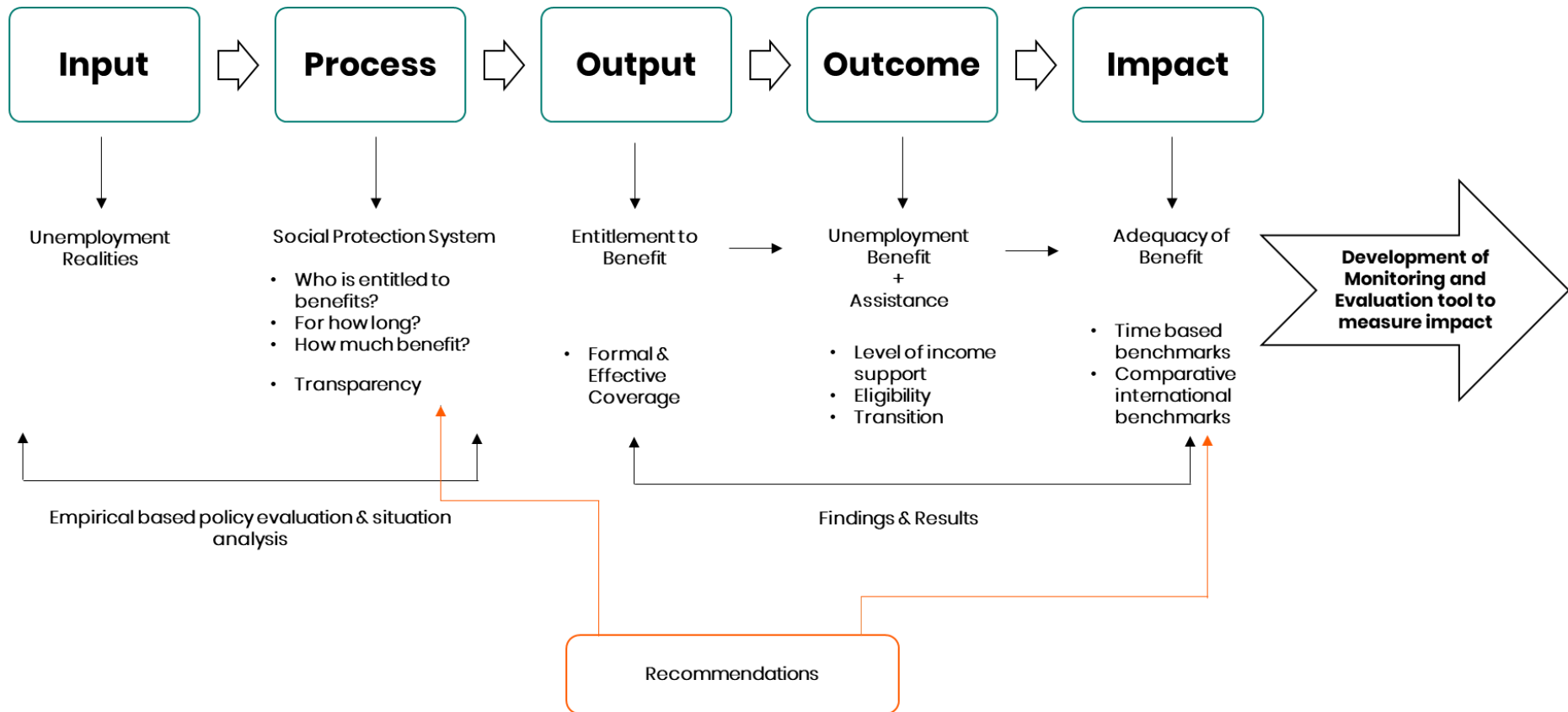
¹¹ International Labour Organisation. (2020). *ILO policy guidelines for result-based evaluation: Principles, rationale, planning and managing for evaluations*, 4th edition.

Table 3: Alignment of research framework components with project objectives

Framework component	Research topic	Description
Input	Unemployment realities	Examines the various economic and social forces that characterise the current unemployment scenario in Malta that creates the need for the social protection measures under evaluation. In this initial stage, emerging trends and issues affecting the adequacy and efficacy of unemployment benefits are identified and analysed.
Process	Social protection system	Maps out the social protection measures and processes that support unemployed persons, with reference to the legislative, policy, and administrative inputs which determine how these processes are applied in practice.
Output	Benefit entitlement	Assesses and analyses the formal and effective coverage of unemployment support measures, including duration and entitlement conditions as determining factors in the coverage rate.
Outcome	Provision of benefit and/or assistance	Evaluates the direct effects of the support measures on beneficiaries in terms of income support, inclusion of activity-related eligibility conditions, and impact of activation incentives.
Impact	Adequacy of benefit and/or assistance	Draws in all evidence-based research findings to present conclusions on the adequacy and efficacy of unemployment benefits and assistance.

The process linking these components within the overall framework is illustrated in Figure 1.

Figure 1: Result-oriented framework to assess social protection performance



4.3 High-level description of research methods applied within the framework

Measuring adequate coverage is tied to how adequacy is defined. As referenced in Section 3.3 above, the Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed does provide a definition of adequacy, however this is a very broad definition which ties 'adequacy' to the how effectively a given benefit replaces any income loss brought about by the beneficiary's particular contingency or set of contingencies, allowing that beneficiary to *"uphold a decent standard of living"* and therefore reducing the risk of poverty. This Council Recommendation was shortly followed by a monitoring framework issued by the Indicators Sub-Group of the Council's Social Protection Committee Council with the aim of supporting and monitoring its implementation.¹² This document noted that there is no universal definition of adequacy, as it may be very different from one Member State to the next. The proposed framework also acknowledges *"that comparing the level of benefits of different groups is not a straightforward exercise in a context where social protection systems strike a delicate balance between different principles: the principle of redistribution and poverty reduction, but also the principle of equivalence (according to which a longer and more continuous working career and contribution history should be rewarded with higher benefits or a longer duration of benefits)."* For this reason, in the same monitoring framework the Commission has proposed a triangulation approach, where *"progress towards key objectives of access to social protection is assessed through various indicators and information, sources and methods."* The stated purpose of this triangulation is *"to capture different facets of the same phenomenon"*, as well as to cross-validate indicators. The Commission's monitoring framework concludes that this strategy also *"appears to be more prudent when the evaluation methodology comprises a comparative perspective."*

The mixed methodology proposed for Malta's National Study was therefore applied with the Commission's monitoring framework in mind and using a parallel convergent design. This involved gathering quantitative and qualitative data in parallel and analysing them separately. After both analyses were complete, results were compared to draw overall conclusions.

The quantitative and qualitative methods applied are outlined below.

4.3.1 Quantitative methods

As indicated in the Inception Report previously submitted, the assessment of a social protection instrument requires the identification of performance indicators against which the success of that instrument in achieving specific goals can be measured. This is in fact the methodology put forward in the monitoring framework referred to above, which specifies that *"progress towards the key objectives of the Recommendation is monitored through performance indicators as well as information on policy levers used by Member States and*

¹² European Commission. (2020). Access to social protection for workers and the self-employed. Version 0 of the monitoring framework. Brussels.

context indicators recalling the labour market context in which social protection systems operate." In the case of indicators capturing adequacy, the framework recommends that these should reflect as far as possible the key objectives of social protection schemes for this dimension as set out in article 11 of the Council Recommendation of 8 November 2019:

"Where a risk insured by social protection schemes for workers and for the self-employed occurs, Member States are recommended to ensure that schemes provide an adequate level of protection to their members in timely manner and in line with national circumstances, maintaining a decent standard of living and providing appropriate income replacement, while always preventing those members from falling into poverty. When assessing adequacy, the Member State's social protection system needs to be taken into account as a whole".

The initial phase of the research process therefore focused on identifying the most effective and reliable set of indicators within the parameters laid down by the Council Recommendation. This was based on a review of recent and reputable literature, studies and recommendations related to the scope of the National Study to identify the indicators used and the basis on which they were selected. Following this review, six documents were selected as the most reliable and robust sources for indicator selection, particularly within the parameters set by the Council Recommendation of 8 November 2019.

These six documents which guided the selection of indicators for the purposes of this National Study are listed below.

- Access to social protection for workers and the self-employed: Version 0 of the monitoring framework;¹³
- Directorate-General for Economic and Financial Affairs economic paper on benchmarking unemployment benefit systems;¹⁴
- European Commission working paper 2/2016 on the coverage rate of income support measures in the EU: measurement and challenges;¹⁵
- European Semester thematic factsheet on unemployment benefits;¹⁶
- Organisation for Economic Co-operation and Development (OECD) activity-related eligibility conditions for receiving unemployment benefits;¹⁷
- ISSA unemployment benefits adequacy model.¹⁸

¹³ European Commission. (2020). Access to social protection for workers and the self-employed. Version 0 of the monitoring framework Brussels.

¹⁴ Stovicek, K., Turini, A. (2012). Benchmarking unemployment benefit systems. Brussels. European Commission Directorate-General for Economic and Financial Affairs. Economic Papers 454.

¹⁵ Maquet, A., Maestru, V., Thevenot, C. (2016). The coverage rate of income support measures in the EU: Measurement and challenges. Brussels. European Commission Directorate-General for Employment, Social Affairs and Inclusion. Working Paper 2/2016.

¹⁶ European Commission. (2017). European semester thematic factsheet: Unemployment benefits. Brussels.

¹⁷ Organisation for Economic Co-operation and Development. (2020). Activity-related eligibility conditions for receiving unemployment benefits. OECD Publishing, Paris.

¹⁸ International Social Security Association. (2016). ISSA unemployment benefits adequacy model: User manual.

Following this review, a final set of performance indicators was identified as the basis for the adequacy and effectiveness assessment.

The selected indicators were then clustered under each of the research framework's components and the data under each indicator was gathered for analysis. The following points are to be noted in relation to the data collation process:

- As a rule, data under specific indicators was requested for the last ten years (2011-2021) to support a time series analysis of key indicators where possible.
- To ensure accuracy and reliability, the research analysed administrative data maintained by the Department of Social Security (DSS) and Jobsplus. Taking the entire unemployment/social protection cycle into account, Jobsplus data provided insights into the labour market dynamics that drive unemployment, while DSS data covered the take-up of unemployment benefits and support, including the effect of other social policy measures aimed at incentivising work (these included the activation measures specifically referenced in the terms of reference, that is, the Tapering of Benefits Scheme, the In-Work Benefits Scheme, and the Free Childcare Scheme).
- In addition to local data, statistics issued by external organisations, notably the OECD, Eurostat and the Mutual Information System on Social Protection (MISSOC), were analysed with the aim of supporting the overall evaluation through comparative international benchmarks. Here the national scheme was compared to similar schemes in other countries across the four key pillars: adequacy, formal coverage, effective coverage, and transparency.
- A quantitative element also featured in the comparative reviews of unemployment benefits in other jurisdictions, particularly within the EU. Where possible numerical data was analysed to obtain clearer insights into the adequacy of these systems. This applied particularly to benefit coverage and monetary level data.

4.3.2 Qualitative methods

The qualitative research proposed for this project fell into two main areas: (i) desk research, and (ii) stakeholder engagement. Both elements touched upon each of the five components of the research framework and complemented the quantitative data analysis relevant to each.

Desk research

Desk research focused on relevant secondary sources such as research papers, policy papers, legislation, and regulations to amplify the analysis of the topic under review and enhance the quality of the evaluation process. This research covered the following areas:

- an analysis of existing local information and reports on the unemployment benefits system, to enable this to be mapped and the process clearly defined.

- a review of recent reputable reports and recommendations related to the monitoring, benchmarking and/or measurement of unemployment benefits.
- a review of unemployment benefits policy and procedure in some selected states to identify possible improvements to the national system. This focused on aspects related to coverage, level of income support and duration, and eligibility, while linkages with incentivisation measures and relevant Active Labour Market Policies (ALMPs) were also explored.

Stakeholder engagement

The research team consulted with the two stakeholder entities referenced below to capture their views on the unemployment situation in Malta and on the process, outcomes, and impacts of unemployment benefits on beneficiaries.

- Jobsplus
- Economic Policy Department (EPD) within the Ministry for Finance and Employment

Each stakeholder entity was consulted on an individual basis in a semi-structured interview format. Ongoing consultations were also held with MSPC as the primary stakeholder to report on developments and discuss main findings as they happen.

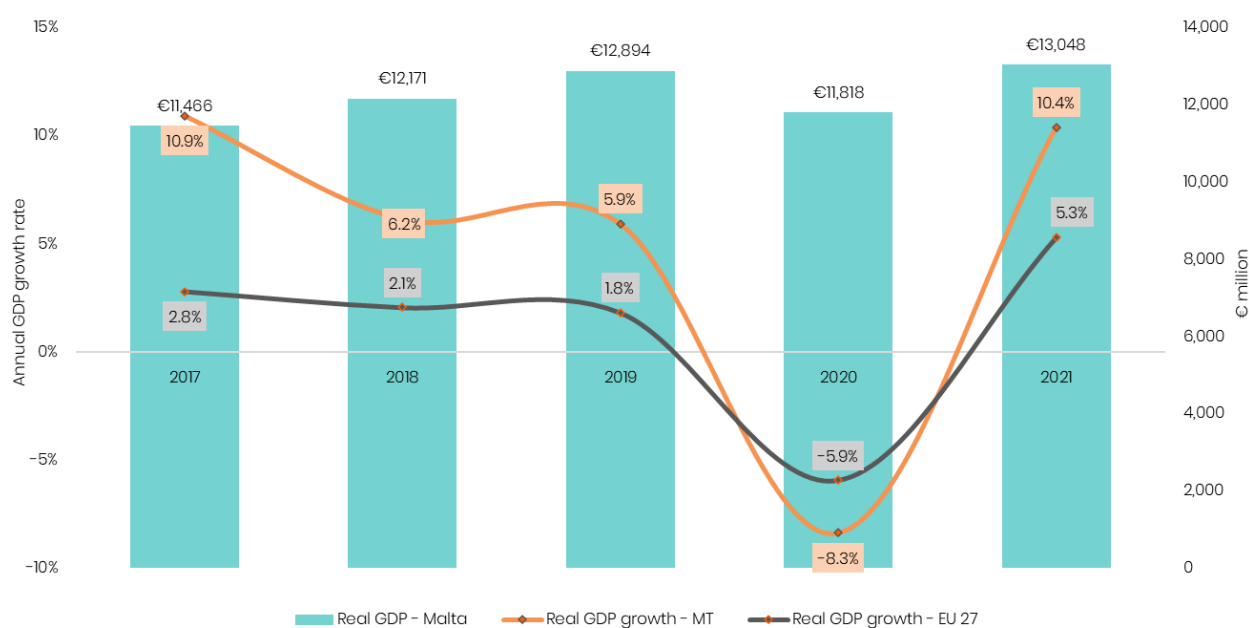
5.0 Input – Unemployment realities

5.1 Labour market overview

5.1.1 Economic context

Malta's economy registered significant and sustained growth in recent years, driven by diversification and the development of niche economic sectors to emerge as one of the strongest economic performers in the European Union (EU). As illustrated in Figure 2, between 2017 and 2019 Gross Domestic Product (GDP) growth averaged 7.7 per cent, far outpacing the EU 27 average of 2.2 per cent over this same period. This trajectory was suddenly disrupted by the onset of the COVID-19 pandemic in March 2020, negatively impacting economic activity at a global, regional and local level. Given its open economy and strong reliance on the tourism sector, Malta's economy was particularly hard hit, and contracted by 8.3 per cent in 2020, compared to the EU 27 average of 5.9 per cent.

Figure 2: Real GDP Growth



Source: Eurostat

The stresses of the pandemic-related restrictions eased in 2021, with Malta's economy rebounding strongly to register a 10.4 per cent growth by the end of that year. A faster than anticipated resurgence in international tourism was a key factor in this recovery, as was a strong growth in services activities¹⁹.

¹⁹ National Statistics Office. News Release. National Accounts: Gross Domestic Product 2021. https://nso.gov.mt/en/News_Releases/Documents/2022/03/News2022_037.pdf

A recovery focused on securing an effective digital and green transition while strengthening social and economic resilience

Current forecasts indicate that economic recovery will remain on track through 2022 and into 2023. In its 2021 Annual Report, the Central Bank of Malta (CBM) has stated that after the robust recovery recorded in 2021, economic activity in many key sectors appears to have returned to pre-pandemic levels and growth is now set to moderate to more normal levels. The Bank is accordingly projecting that Malta's GDP will grow by 6.0 per cent in 2022, 5.3 per cent in 2023 and 3.8 per cent in 2024.²⁰ However, it must be highlighted that these projections pre-date the unexpected Russian invasion of Ukraine, which represents a downward risk to this outlook.²¹

The European Commission has put forward a similarly positive assessment of Malta's economic recovery into the medium-term, stating in its latest economic forecast that "*Malta remains on a growth path withstanding the current headwinds.*" This forecast, which factors in the effects of the invasion of Ukraine and the related increase in commodity prices, projects that Malta's GDP will expand by 4.2 per cent in 2022 and by 4.0 per cent in 2023. As per the CBM, the Commission cites the main growth drivers as being strong domestic demand, growth in the export of services and a faster than anticipated rebound in international tourism.²²

This economic regeneration will continue to take shape over the coming months. Driven by the EU's NextGenerationEU initiative, this will be increasingly characterised by reforms and investments aimed at securing Malta's green and digital transition. Strengthening social and economic resilience through a series of targeted measures will also be a strong focus, with the initial priorities stemming from the country-specific recommendations issued under the European Semester framework for economic and social policy coordination. Elements of these recommendations are relevant to this National Study.

In May 2020, in its recommendations to the Council on Malta's 2020 National Reform Programme and 2020 Stability Programme, the Commission included a country-specific recommendation to "*ensure the adequacy of unemployment protection for all workers.*"²³ In July 2020 the subsequent Council Recommendation accordingly reiterated this view and highlighted the need for effective unemployment and related benefits, particularly given labour market disruptions caused by the impacts of the pandemic. It stressed that "*ensuring adequate support and access to social protection for all workers, including the self-employed, and accounting for a possibly extended duration of unemployment are crucial.*"²⁴

²⁰ Central Bank of Malta. (2022). Annual Report 2021.

²¹ Central Bank of Malta. CBM Annual Report for 2021 released. News Release. 27 April 2022.

²² European Commission. (2022). Spring 2022 economic forecast for Malta. 16 May 2022. Brussels.

²³ European Commission. Recommendations for a Council Recommendation on the 2020 national reform programme Malta and delivering a Council opinion on the 2020 stability programme of Malta. 20 May 2020. Brussels.

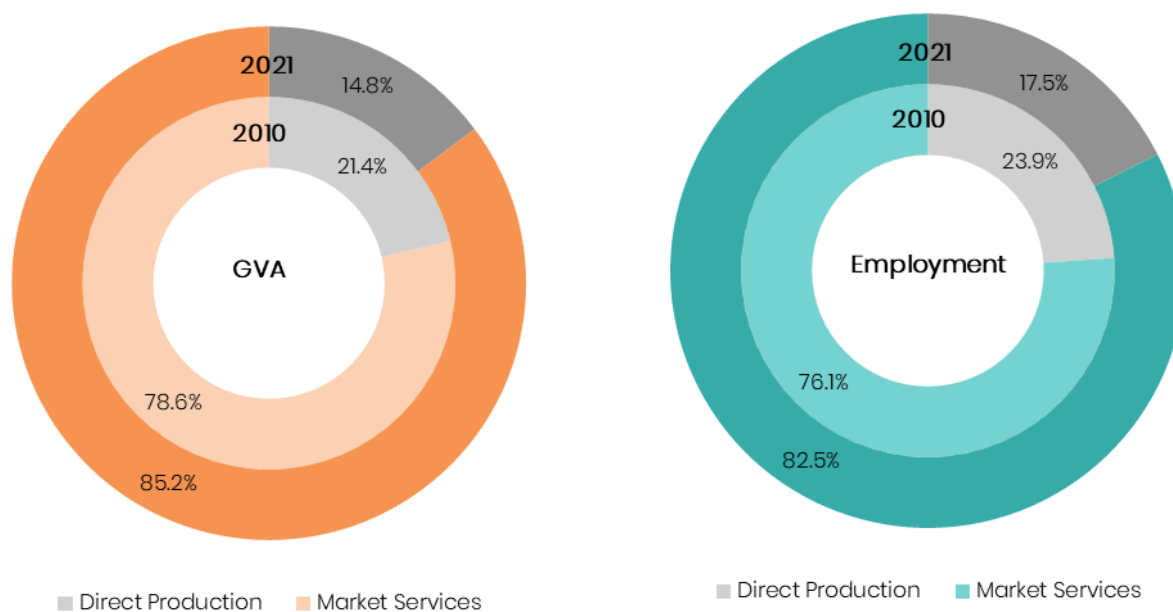
²⁴ Council of the European Union. Council Recommendation on the 2020 national reform programme of Malta and delivering a Council opinion on the 2020 stability programme of Malta. (2020/C 282/18). 20 July 2020. Brussels.

A structural transformation to a service-based economy has been key to Malta's growth and resilience, supporting a swift and sustained post-pandemic recovery

The restructuring of Malta's economy into a diversified base of services sectors was a key driver for the country's rapid economic growth in the years leading up to the COVID-19 pandemic. This development also proved critical to providing the necessary strength and resilience to withstand the worst of the pandemic-induced shocks. As illustrated in Figure 3 below, the services industry today accounts for 85.2 per cent of the Maltese economy, in terms of Gross Value Added (GVA) and is well-diversified and export oriented. Its main sub-sectors are firmly established within the local economy and generate significant employment growth.

Figure 3 below illustrates this transformation, comparing the relative scale of direct production sectors versus market services sectors in 2010 and 2021, both in terms of their changing contribution to the economy as well as employment.

Figure 3: Malta's economic transformation 2021 versus 2010



Source: National Statistics Office, Jobsplus

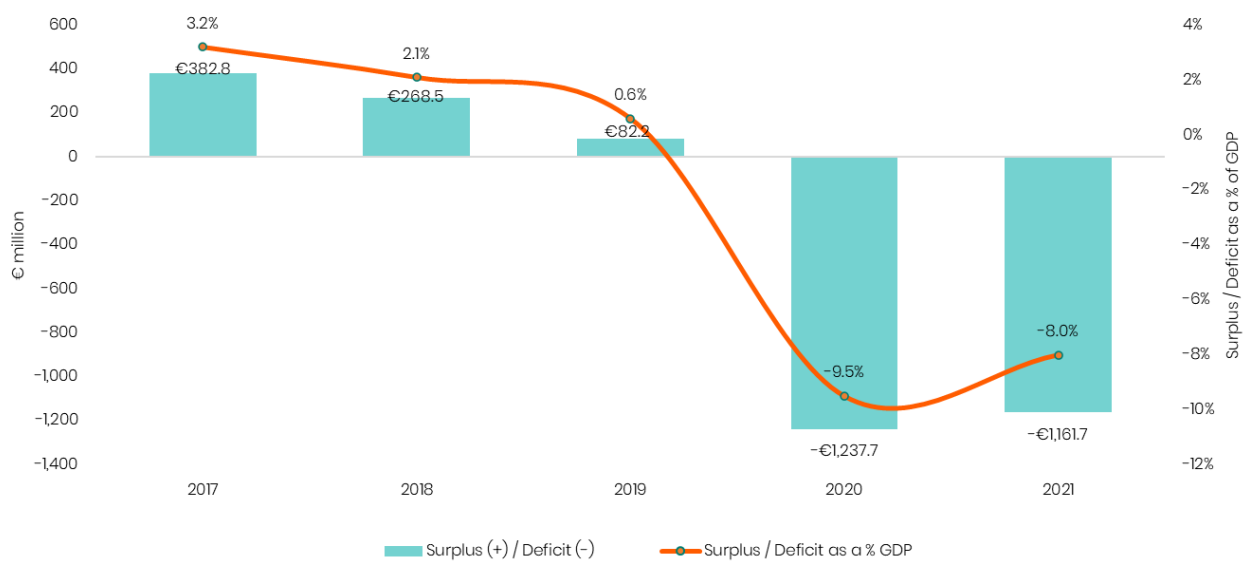
In particular, information and communications technology (ICT), professional and scientific activities, financial services and remote gaming, thrived as key growth engines. A common denominator across all these sectors has been the comprehensive uptake of digitalisation and tech innovation which in turn drove further growth and the creation of innovative niches, such as fintech. This was the result of focused policy development and investment in this area, and a very relevant example of the transformational economic shifts referred to above. Throughout this period, more traditional sectors also performed strongly. The tourism sector

retained a dominant position in the services industry while the manufacturing sector remained an important employer even if its performance registered some decline in market share.

Healthy public finances were key to mitigating the impact of the pandemic on the economy and labour market

Sustainable fiscal health remains an important element of macroeconomic stability and long-run growth prospects. The crisis triggered by COVID-19 has highlighted the importance of having a fiscal buffer to act as a counter-cyclical stabiliser to safeguard employment. Over the past two years, sound fiscal policies successfully contained the economic pressures caused by the public health restrictions associated with the pandemic and safeguarded thousands of jobs in Malta. This was made possible by Malta's strong fiscal position leading into the crisis, with strong economic growth and increased government revenue easing Malta's general Government balance into positive territory in 2016 following several years of fiscal deficits (Figure 4).

Figure 4: Government deficit-to-GDP



Source: National Statistics Office

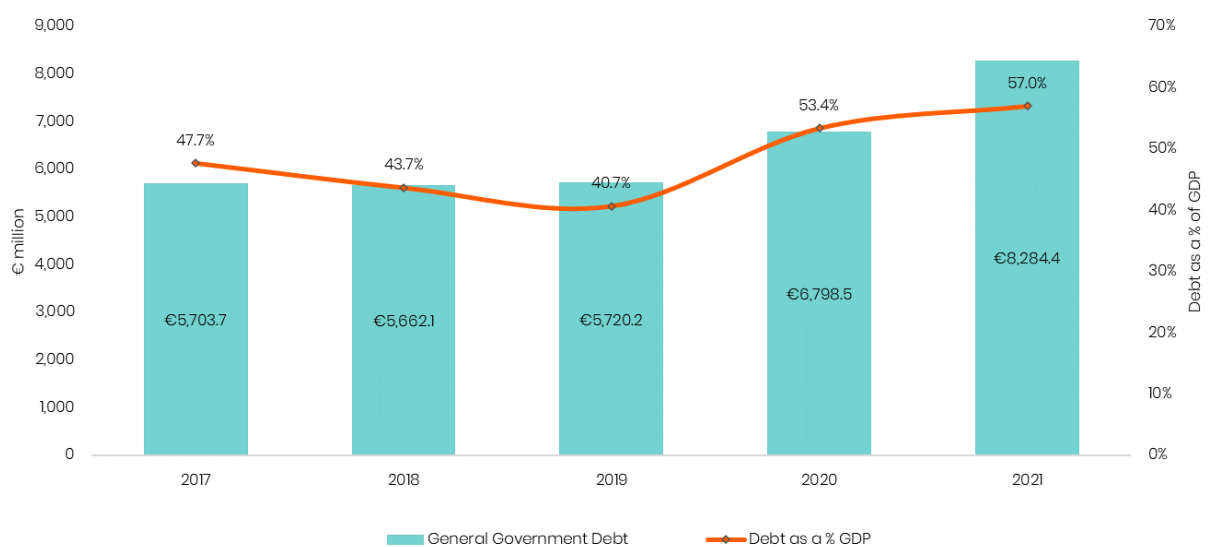
This healthy fiscal position allowed the Government to act early and roll out *ad hoc* fiscal measures to support firms and households through the worst of the pandemic. Such measures included the wage supplement scheme, the tax deferral scheme and other forms of financial assistance to businesses.

In parallel, social measures were also introduced in collaboration with the social partners to reduce the burden on employees in the private sector, including an additional unemployment benefit for workers who lost their job as a direct result of the pandemic. Financial support was also provided in the form of grants for employees who were unable

to work during this period, either as a result of having to care for children when schools were closed, or due to any form of medical vulnerability or disability that precluded them from reporting to work. This assistance was offered in conjunction with any other social benefits to which the beneficiaries were entitled.

Implementing these fiscal support measures did lead to an inevitable strain on public finances. The latest deficit and debt data indicates that the Government recorded a deficit of €1,161.7 million in 2021. At 8.0 per cent of Malta’s GDP, this was an improvement on the 2020 position of 9.5 per cent of GDP but was still the highest deficit recorded across the EU in 2021.²⁵ To this end, public debt rose sharply, from 40.7 per cent of GDP in 2019 to 57.0 per cent of GDP in 2021, remaining below the Euro Area (EA) threshold.

Figure 5: Government debt-to-GDP



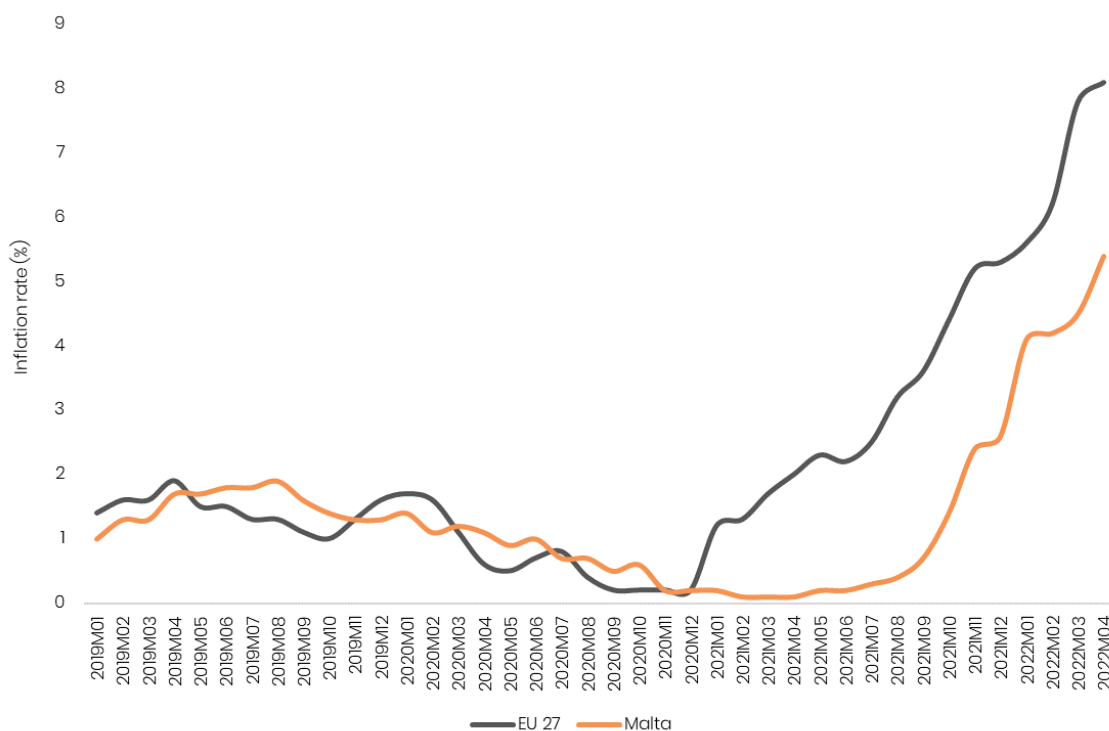
Source: National Statistics Office

Inflation has been contained and is lower than the EU average, however global and European geopolitical tensions pose a challenge

Due to weak demand, inflation decelerated from 1.5 per cent before the pandemic to near zero by the end of 2020. In 2021, inflation in Malta increased only moderately when compared to the EU average. However, the increase in food, transport and imported goods prices and a gradual recovery in the tourism and hospitality sectors started to impinge on price levels in the last quarter of 2021. These inflationary pressures are expected to continue intensifying well into 2022, on the back of continued supply chain disruptions and exacerbated by the war in Ukraine, particularly food and energy costs, as exports are blocked and countries across the West commit to reducing their reliance on Russian oil imports (Figure 6).

²⁵ Eurostat. Provision of deficit and debt data for 2021 – first notification. 22 April 2022. <https://ec.europa.eu/eurostat/documents/2995521/14497748/2-22042022-AP-EN.pdf/332c1346-5604-bad3-adf1-1fde9c4574f2?t=1650981832129>

Figure 6: Monthly inflationary developments (HICP)



Source: Eurostat

5.1.2 Labour market dynamics

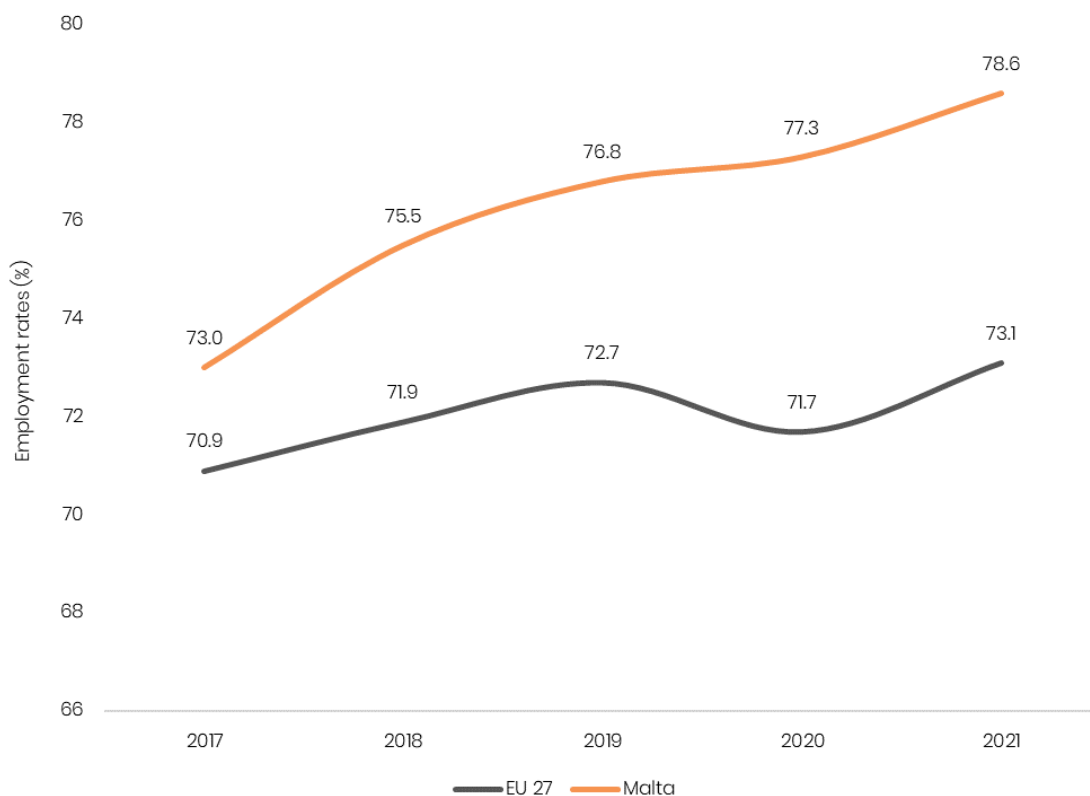
Over the past decade Malta registered a buoyant labour market, with employment growth accelerating after 2015, outperforming European averages

Malta's strong economic performance in recent years has also been reflected in its employment growth figures. Malta achieved historically high employment growth rates that have consistently outpaced EU averages. As a result, Malta's employment remained relatively buoyant throughout the COVID-19 crisis. The activity rate in Malta as at the end of 2021 stood at 78.6 per cent as opposed to 73.1 per cent for the EU 27. In absolute terms, the number of registered employees with Jobsplus²⁶, by the end of December 2021, amounted to 276,521 persons, an increase of 11,624 when compared to December 2020.

This employment growth rate, compared to EU 27 trends, is presented in Figure 7 below.

²⁶ Jobsplus is the national public employment service agency, which also provides information through administrative sources on the actual numbers of registered full-time and part-time employment and on persons registered as unemployed with the agency.

Figure 7: Malta's employment rate



Source: Eurostat

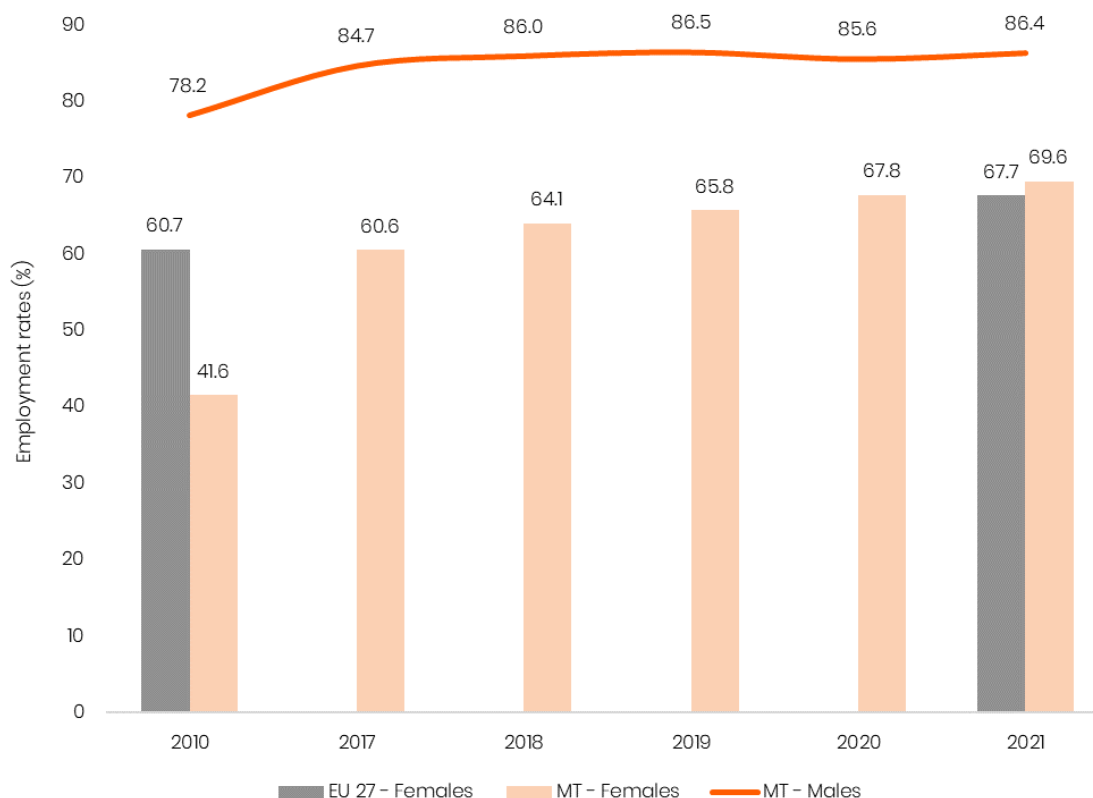
A steady increase in female participation rates was a key driver to employment growth

The total employment growth registered in the past decade was driven by increases in both male and female employment. Male employment in fact rose steadily from 137,711 in 2017 to 161,774 in 2021 (Jobsplus, 2022). However, the most striking feature of the growth in employment in recent years is the steep rise in female participation.

This was the result of targeted ALMPs, implemented through the 2014 National Employment Policy, which facilitated and incentivised female participation, notably by providing free childcare for pre-school age children as well as free after-school care for older children.

These measures provided the right conditions for Malta to decisively tackle the persistent issue of low female participation that had been repeatedly flagged, including by the European Commission, as a barrier to economic growth and social inclusion. In 2010, Malta was behind the European average by 19.1 percentage points but managed to overtake it by just over 1.9 percentage points by the end of 2021. With the faster rate of growth in female participation, the gap also shrunk between the male and female activity rates, from 36.6 percentage points in 2010 to 16.8 percentage point in 2021.

Figure 8: Employment rates by gender



Source: Eurostat

Despite these positive developments, there remains room for improvement, since Malta's gender employment gap remains amongst the widest in the EU: in 2021 the EU 27 average was 10.8 percentage points, significantly lower than the 16.8 percentage points for Malta recorded in the same year (Eurostat, 2022). A contributor to this persistent gap is the relative underrepresentation of older women in the workforce. In Malta, women's participation in employment decreases with age and the gender gap consequently widens for older age groups, particularly in the 55 to 64 age cohort. Although employment within this bracket has risen considerably in recent years, it still lags behind the employment rates in younger female cohorts and remains far lower than the EU 27 average for older female workers. In fact, in this age segment of the working age population 65.7 per cent of males are in employment compared to only 37.3 per cent of females (Eurostat, 2022). It should be noted that this lower labour participation rate among older women is driven to some extent by social and cultural barriers which are harder to overcome through standard activation measures. These factors include caregiving responsibilities and a lack of confidence or employability skills following a lengthy absence from the workforce.²⁷

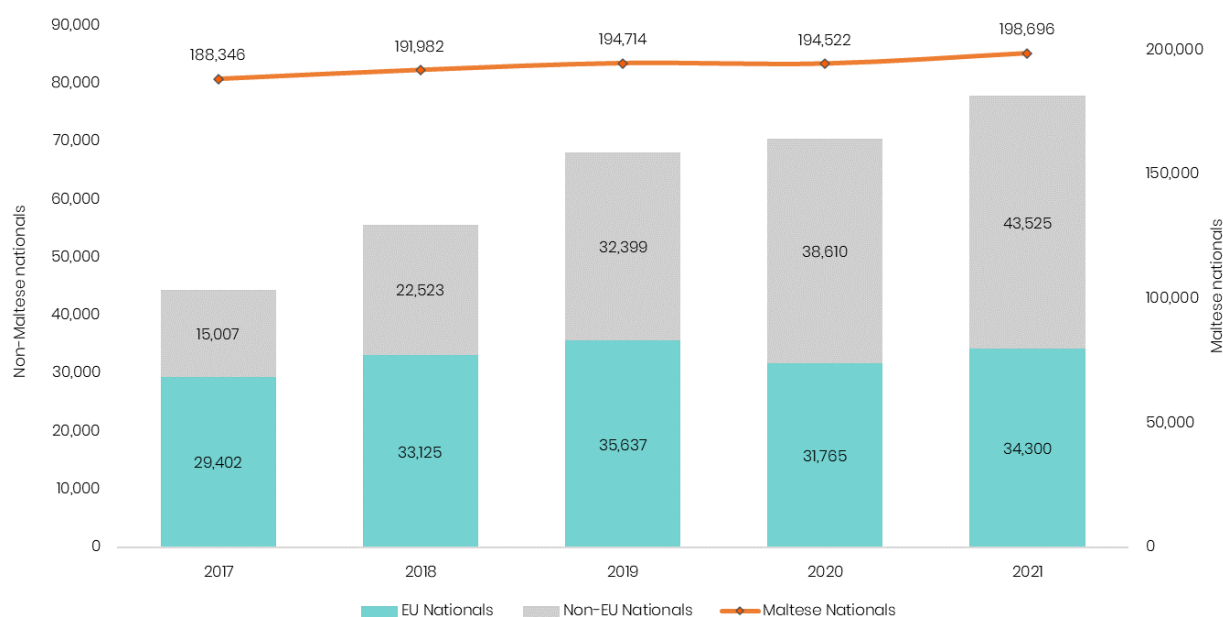
²⁷ Formosa, (2014). Marvin. Socio-economic implications of population ageing in Malta: Risks and opportunities. University of Malta.

The buoyant labour market resulted in a growing demand for non-Maltese workers

Malta's labour market in recent years has also been characterised by a significant increase in non-Maltese working in Malta. The non-Maltese workforce has been the largest contributor to the growth of Malta's labour force and has also contributed significantly to overall economic performance. The latest official data provided by Jobsplus indicates that at the end of 2021 non-Maltese workers in the labour market made up 28.1 per cent of the total Maltese labour force.

Between 2017 and 2021, the non-Maltese component of the labour force exhibited the fastest average annual growth rates. During this period, the Maltese cohort grew by an average of 1.3 per cent per year compared to an average annual growth rate of 30.5 per cent for the non-EU national cohort and 3.9 per cent for the EU cohort. As a result, the share of non-EU nationals in the labour force continued to increase over the years, and as at the end of 2021 exceeded the number of EU nationals working in Malta by 9,225 persons (Jobsplus, 2022).

Figure 9: Employment by nationality



Source: Jobsplus

The increase in non-Maltese nationals has been reflected in employment positions across all sectors. Several sectors are significantly above this average, most notably the gaming and betting sector, captured within the arts, entertainment and recreation sector, with 58.6 per cent of its workforce being non-Maltese. Close to half of the workforce in the accommodation and construction sectors are also non-Maltese, with the majority being non-EU nationals. Most sectors, however, gravitate towards the average, with public administration having the least number of non-Maltese in its labour force at just 2.7 per cent.

Given these developments, Malta’s workforce is more diversified and multicultural than at any point in recent history. This does pose some challenges from a public policy perspective across a number of areas, including unemployment and social protection. In this regard, efforts to ensure that policy design addresses the specific issues associated with foreign workers (the rise in the number of third country nationals engaged in the platform economy is a case in point) are required. In addition, the cumbersome procedures associated with processing unemployment benefit and assistance claims lodged by non-Maltese workers (EU and non-EU), particularly when cross-border arrangements are concerned, do pose an administrative burden on the DSS and Jobsplus. Within the EU, the provision of unemployment benefits to cross-border workers also entails reimbursement procedures between respective Member States which require a high degree of verification and coordination efforts. Meanwhile, as demonstrated in Table 4 below, the number of unemployment benefit reimbursement claims by EU Member States increased considerably in recent years, intensifying the administrative requirement to assess and dispense benefits, whilst also increasing the total unemployment benefit reimbursement cost.

Table 4: Unemployment benefit reimbursements to EU Member States

Year	No of Claims	Reimbursed Amount
2016	10	€10,495
2017	116	€30,648
2018	107	€59,430
2019	179	€134,269
2020	219	€157,280
2021	394	€295,356

Source: Ministry for Social Policy and Children’s Rights

The share of foreign workers in the Maltese labour force does not appear to have been affected by the COVID-19 pandemic

Jobsplus data does not indicate a significant drop in the number of registered foreign employees in Malta as a result of the COVID-19 pandemic. This is explained by comparing the number of registered foreign employees in December 2021 with the totals recorded for December 2019. This confirms that the number of EU nationals registered as employees in 2021 (34,400) was only marginally less than that for 2019 (35,637); the number of registered non-EU employees in 2021 totalled 43,525, a significant increase over the 32,399 registered in 2019. In 2021 employers did refer to labour shortages caused by the departure of foreigners from Malta during the pandemic, however this Jobsplus data, as well as official 2020 population statistics issued by the NSO, show otherwise.²⁸ This is not to disprove the employers’ claims, however their individual skill shortage experiences need to be analysed

²⁸ The latest edition of the Regional Statistics Malta published by the National Statistics Office in June 2022 records a total resident population of 516,000 persons; 103,718 of which were foreigners. This marks a slight increase over 2019 when the number of foreign residents stood at just over 100,000.

within the broader realities of an ageing local demographic, greater job mobility and buoyant local economic conditions where demand for workers continues to outpace supply.

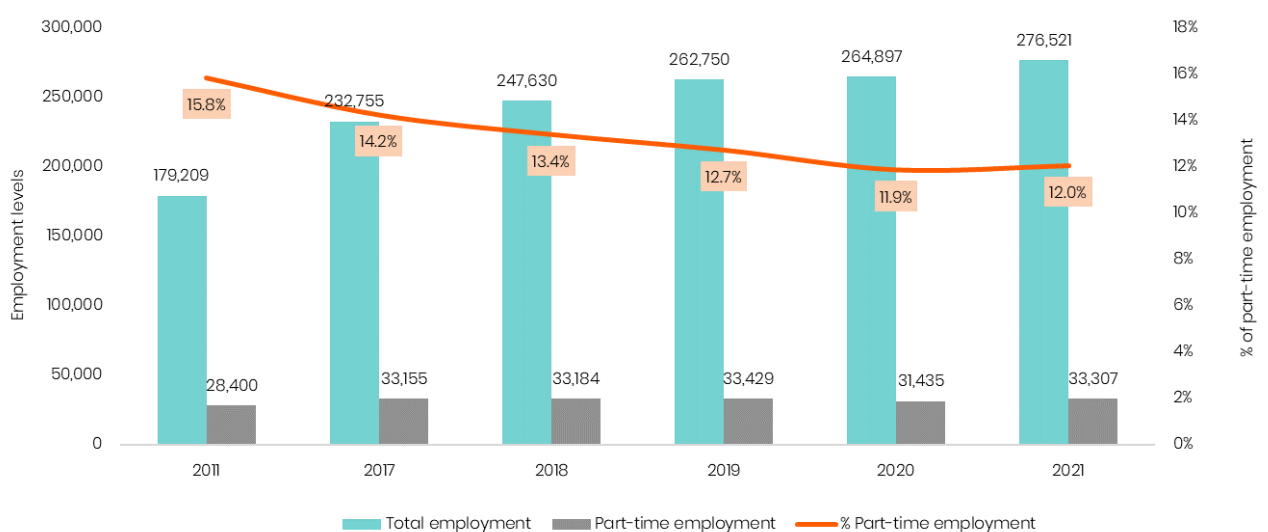
The growth of part-time employment is slower than that of full-time employment, but it remains a key feature of the employment market

Labour market growth has resulted in a steady rise in full-time employment over the past decade, with the rate of this growth accelerating sharply after 2017. In fact, the number of full-time employees rose from 150,809 in 2011, to 243,214 in 2021 (Jobsplus, 2022).

Throughout this period part-time²⁹ work continued to be an established feature of the employment landscape and an important contributor to the labour market. Both as a primary and secondary³⁰ source of employment, it has supported females transitioning back into the labour force as well as other workers seeking to supplement their income.

However, as indicated in Figure 10 below, the share of part-time work in the employment market has declined and it is evident that part-time work did not grow as fast as full-time employment. The number of part-time workers registered in 2011 stood at 28,400, increasing moderately to 33,307 in 2021.

Figure 10: Part-time work trends



Source: Jobsplus

²⁹ A part-time employee is one whose normal hours of work, calculated on a weekly basis or on an average over a period of employment of up to one year, are less than the normal hours of work of a comparable whole-time employee and who is not a whole-time employee with reduced hours (Department for Industrial and Employment Relations (DIER), Malta).

³⁰ Part-time work can also be carried out as a secondary job, whereby part-timers in this case would also hold a full-time job and are thus counted as full-timers. For ease of clarity and unless otherwise specified, any reference to part-time employment in this report shall be taken to only include part-time as a primary job.

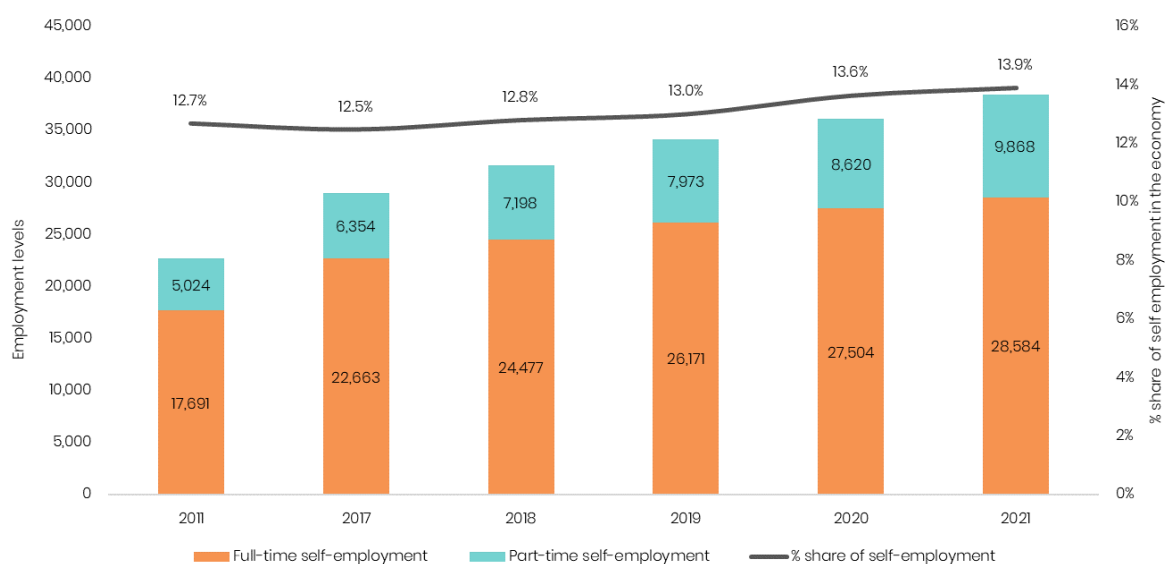
It is likely that as economic growth persists, demand for labour will continue to exceed supply, and part-time employment will remain an important contributor to the labour market, even as secondary employment.

Tech advances and innovation have opened new avenues for self-employment and entrepreneurship

Strong economic growth, the rise of new niche sectors and the development of a networked economy has established innovative business models and opened up opportunities that are particularly conducive to self-employment. This is reflected in an upward trend for self-employment over the past decade.

According to Jobsplus, the number of self-employed persons on a full-time basis rose from 17,691 in 2011, to 28,584 in 2021, while self-employed persons on a part-time basis increased from 5,024 in 2011 to 9,868 in 2021. These trends are captured in Figure 11 below.

Figure 11: Self-employment in Malta



Source: Jobsplus

It is likely that economic trends will continue to drive self-employment, particularly in sectors such as agriculture and fisheries, real estate, wholesale and retail trade, and construction. Should economic growth persist, it is also likely that the prevalence of self-employed persons with employees will increase.

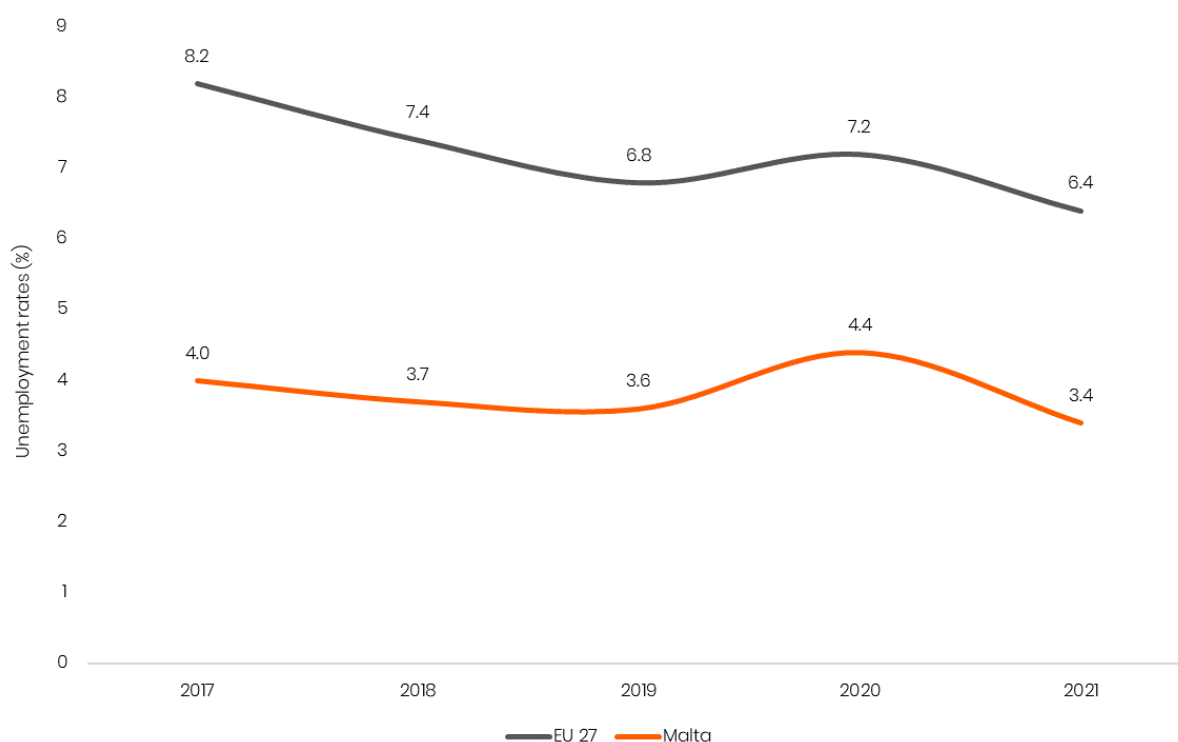
A relevant point to consider from the perspective of this National Study is that self-employment is, inevitably, more prone to social risks, notably precariousness.

5.1.3 Unemployment trends

As employment grew to record highs, unemployment has been on a downward trend and reached record lows prior to the COVID-19 crisis. Malta consistently achieved some of the lowest rates in Europe and was at its natural rate of unemployment between 2017 and 2019. Significant reductions were also achieved in long-term unemployment.

There are two main statistical sources that capture movements in the labour market. These are the Labour Force Survey (LFS) carried out by the National Statistics Office (NSO) on an ongoing basis using a quarterly gross sample of 3,200 private households, and Jobsplus, which provides information through administrative sources on the actual numbers of registered full-time and part-time employment and on persons registering as unemployed with the agency. LFS results show how Malta's unemployment hovered around 3.6 per cent by 2019 before edging up slightly in 2020 because of the immediate impact COVID-19 had on the economy. By 2021 unemployment rates were restored to 2019 levels (Figure 12).

Figure 12: Unemployment rate



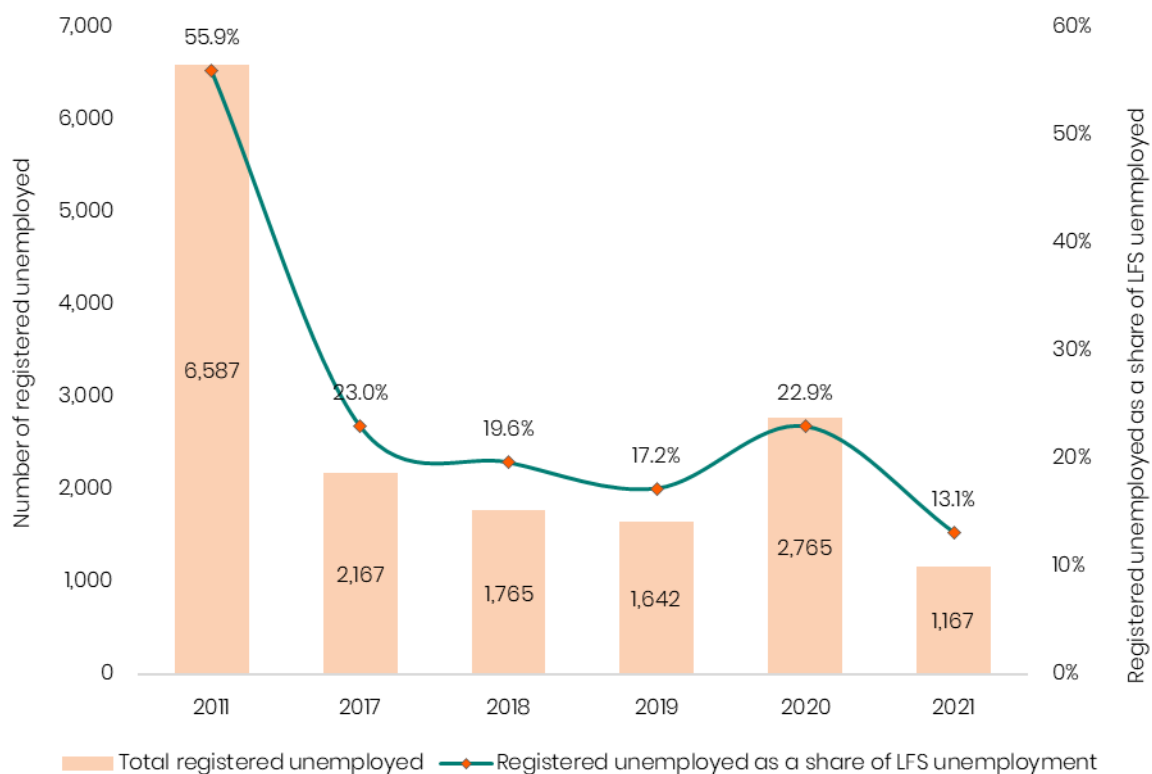
Source: Eurostat

However, given the methodology employed, this data source captures persons who are temporarily unemployed but who transition swiftly into another employment without necessarily registering officially for unemployment. On this basis, such individuals are not eligible at any point for unemployment benefits or unemployment assistance.

On the other hand, Jobsplus data captures those persons who are unemployed without any immediate indication of alternative employment and who therefore opt to register for unemployment in anticipation of receiving benefits or assistance (depending on their status in terms of contributions). This data indicates that the number of registered unemployed with Jobsplus had been steadily falling prior to 2019. Given the pandemic-induced disruptions to the labour market, the actual number of registered unemployed increased from 1,642 in 2019 to 2,765 in 2020. However, with economic activity gradually picking up again throughout 2021, the number of registered unemployed fell to an all-time low of 1,167 persons by end of 2021.

Figure 13 below presents the number of unemployed registered with Jobsplus as a share of the unemployment captured in the LFS. This indicates how the volume of unemployed persons registering with Jobsplus as a share of total unemployed reported by the LFS declined significantly over the past decade. The factors leading to these developments, which are also observed across other EU Member States, will be discussed in more detail in Section 7 of this National Study.

Figure 13: Number of registered unemployed and as a share of LFS unemployment



Source: Eurostat, Jobsplus

Table 5 below provides a breakdown of the persons registered as unemployed with Jobsplus by age and gender, tracing developments between 2011 and 2021. The significant decrease between the number of unemployed persons registered in 2011 compared to 2021 is immediately evident, despite the temporary rise indicated in 2020.

Table 5: Breakdown of persons registered as unemployed with Jobsplus, by gender and age

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total number of registered unemployed	6,587	6,811	7,401	6,287	4,615	2,912	2,167	1,765	1,642	2,765	1,167
By gender											
Male	5,154	5,279	5,637	4,812	3,510	2,115	1,533	1,227	1,159	1,794	829
Female	1,433	1,532	1,764	1,475	1,105	797	634	538	483	971	338
By age											
Under 20	487	417	409	254	118	123	76	80	87	154	79
20-24	742	730	765	555	313	217	143	118	132	264	131
25-29	685	678	739	592	410	226	152	120	107	267	86
30-44	2,045	2,140	2,388	2,076	1,472	930	684	528	487	901	336
45+	2,628	2,846	3,100	2,810	2,302	1,416	1,112	919	829	1,179	535

Source: Jobsplus

Unemployment trends indicate a higher share of older persons

Table 5 indicates a higher share of older persons (45+) among the total number of registered unemployed. This reflects a trend of decreasing employability by age which could impact older workers who find themselves involuntarily unemployed. A 2018 Eurofound working paper used Eurostat data to analyse the labour market situation of older workers in the EU. A key finding was that older workers tend to remain unemployed for longer than workers in lower age groups, and that they face specific challenges when attempting to reintegrate into the labour market. Reasons cited for this are the perceptions of, and attitudes towards, older workers (by employers, by the workers themselves, and by society at large), a reduced inclination on the part of older workers compared to younger workers to consider occupational and geographical mobility, and differences in job search approaches. Other factors such as productivity, pay, skills and health issues also apply.³¹

Similar findings were put forward in the case of Malta in an earlier study which looked into issues surrounding the employability of unemployed workers aged 40 years and over.³² This study analysed the perceptions of 40+ unemployed workers in relation to their chances of finding new employment. The results of this qualitative research found that this group felt disadvantaged and lacked sufficient confidence to navigate the job search process effectively (findings similar to the Eurofound paper referred to above).

An assessment of older workers in the context of unemployment often tends to raise the issue of education as an employability factor. The Eurofound study in fact referred to 'formal skills obsolescence' as an issue often raised in the context of older workers, finding that older workers are most affected by formal underqualification.

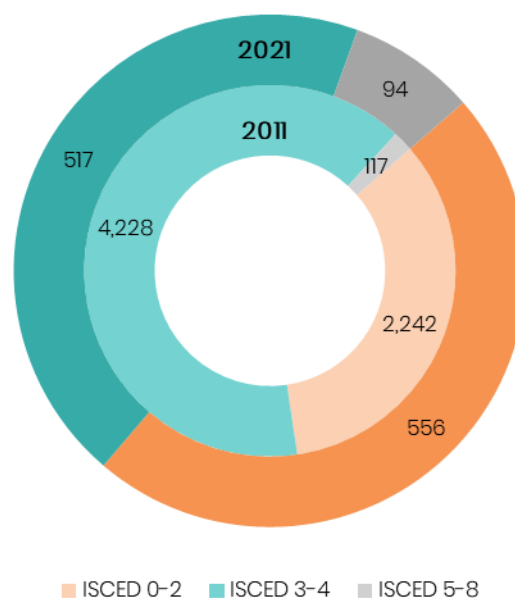
³¹ Eurofound. (2018). Labour market change: State initiatives supporting the labour market integration of older workers.

³² Brown, M., Brigulgio, M. (2007). The unemployed labour force aged 40 years and over in Malta. University of Malta.

In the case of Malta, educational attainment, as it relates to employment and unemployment, has been assessed in a recent policy note issued by the Central Bank.³³ This provides a 2020 snapshot of educational attainment in Malta by age cohorts which indicates that 45 per cent of the total population aged 45–54 years had an ISCED level of 0–2,³⁴ with this figure rising to 65 per cent for persons aged 55–64. In comparison, the equivalent rate in younger age cohorts was significantly lower.

An analysis of data provided by Jobsplus on the registered unemployed in 2021 reveals a similar distribution of educational attainment levels across this population. Figure 14 shows that in 2021 there is a higher proportion of unemployed persons with a lower level of educational attainment (ISCED 0–2) – 47.6 per cent – compared to a decade earlier, when this cohort made up 34 per cent of the total unemployed population.

Figure 14: Registered unemployed by maximum education level achieved



Source: Jobsplus

It should also be noted that over the same period the share of older workers (45+) in the total registered unemployed population also increased, rising to 45.8 per cent in 2021 when compared to 38.9 per cent in 2011. Given the evidence-based link between age and educational attainment levels discussed above, it is reasonable to consider that a basic level of educational attainment, which is more frequently found among older workers, is a driver of unemployment in Malta. In this context, the Central Bank policy note in fact refers to an ILO analysis carried out in 2016 on educational attainment and unemployment in which

³³ Gauci, T. (2021). An analysis of educational attainment in Malta. Policy Note. Central Bank of Malta. Valletta.

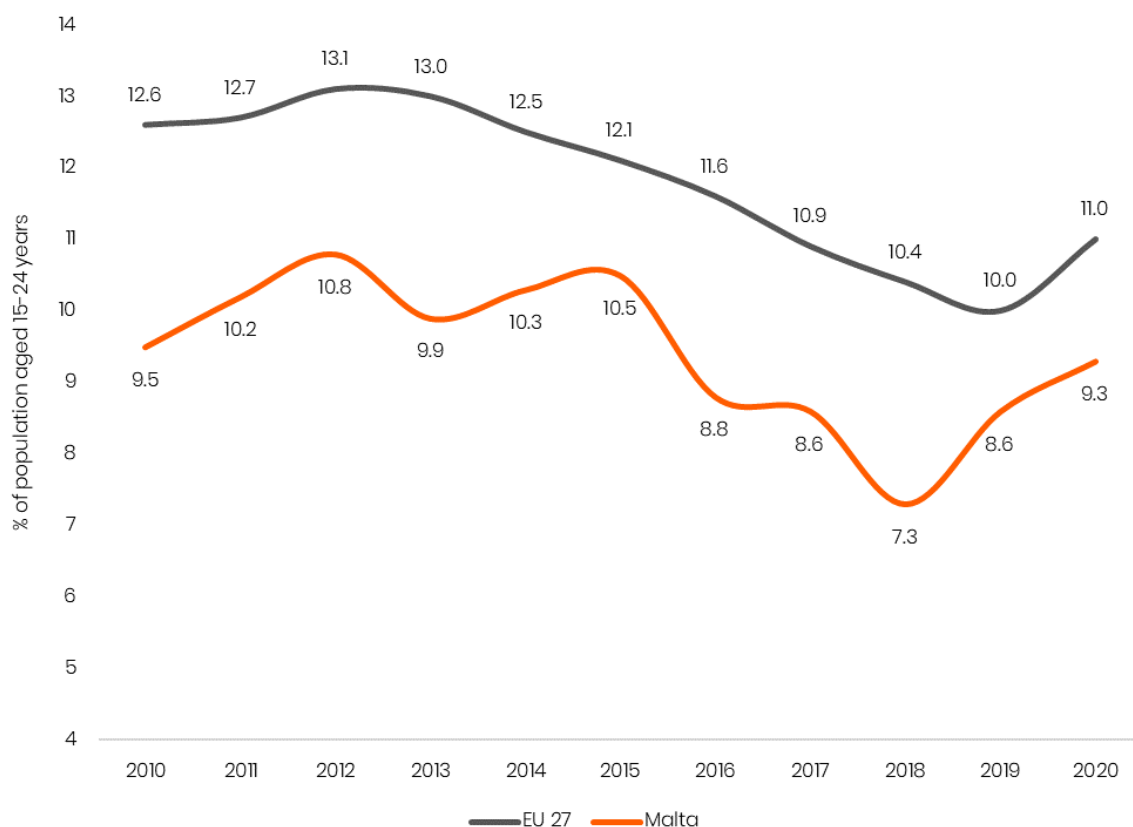
³⁴ Educational attainment levels are grouped into three categories: Less than primary, primary and lower secondary education (ISCED 0 – 2), upper secondary and post-secondary non-tertiary education (levels 3 and 4) and tertiary education (levels 5–8).

the authors conclude that “higher levels of education tend to protect workers from unemployment in advanced economies.”³⁵

A fluctuating rate of youth unemployment which has remained below the EU 27 average

Youths (aged 15 to 24) are another key category in this analysis. The rate of Malta’s youth not in employment, education or training (NEET) has been a pressing policy concern in recent years. As depicted in Figure 15 below, this fluctuated around 10 per cent between 2010 and 2015 and only started to improve after 2015. It eventually plateaued at 7.3 per cent in 2018 and started increasing again, becoming very similar to the EU 27 average, to reach 9.3 per cent of the total population aged 15–24 in 2020.

Figure 15: Rate of youths (aged 15 to 24) Not in Employment, Education or Training (NEET)



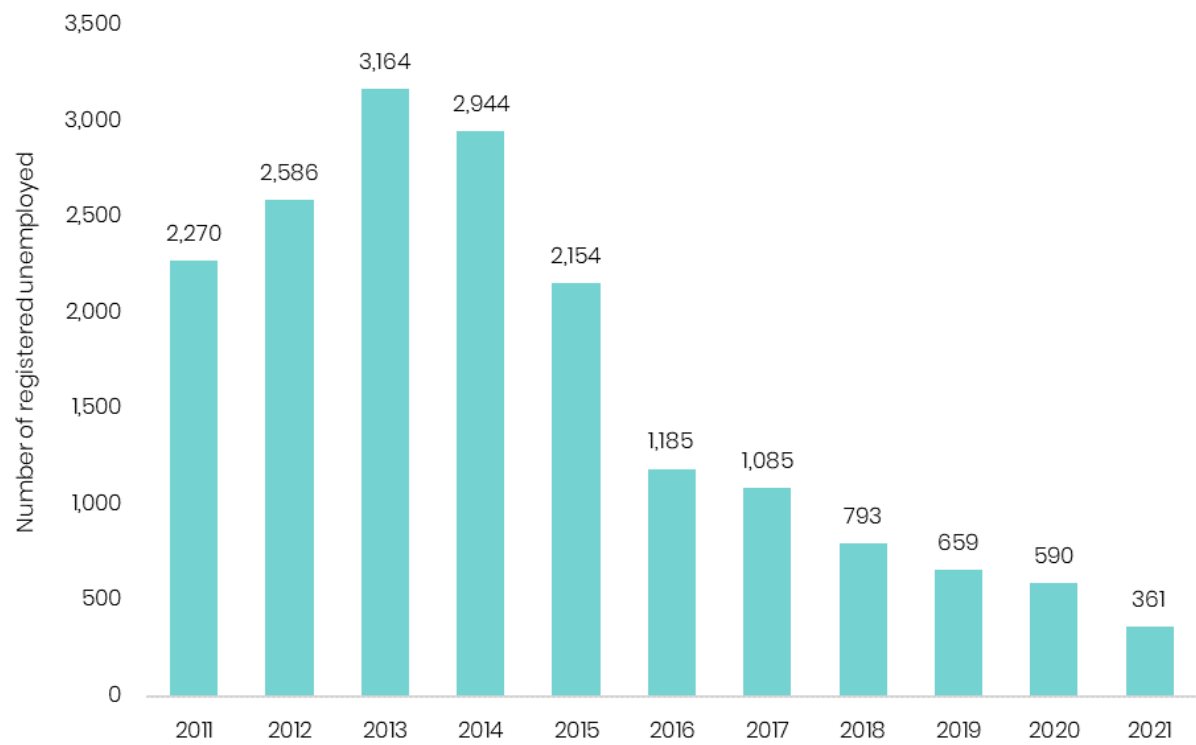
Source: Eurostat

Steady decrease in long-term unemployment

In line with strong labour market conditions and dropping unemployment levels, long-term unemployment, measured by the number of people that have been unemployed for more than 12 months, has also improved significantly over the past decade (Figure 16).

³⁵ International Labour Organisation. (2016). Key indicators of the labour market: Ninth edition. Geneva.

Figure 16: Registered long-term unemployed



Source: Jobsplus

6.0 Process

6.1 Key background points – Malta’s social security system

6.1.1 Legislative framework and financing

- The Social Security Act (Cap 318) of the Laws of Malta is the umbrella legislation that regulates Malta’s social protection system. Enacted in 1987, the purpose of this legislation is *“to establish a scheme of social security and to consolidate with amendments existing provisions concerning the payment of social security benefits, pensions and allowances, social and medical assistance, non-contributory pensions and the payment of social security contributions by employees, employers, self-employed and the State.”*³⁶
- The full range of benefits that fall under the Social Security Act (SSA) provided by the Department of Social Security is captured in Table 6 below. In many cases, each benefit category comprises sub-categories catering for specific requirements and/or circumstances. Where relevant to the scope of this National Study, the sub-benefits are also indicated. It should be noted that cash benefits are complemented by services provided in kind, including healthcare coverage and maternity leave.

Table 6: List of benefits administered by the Department of Social Security under the Social Security Act

Contributory Pensions	Retirement Pension
	Invalidity Pension
	Widow/er Pension
Family Benefits	Children-related benefits
	Family-related Benefits
	Maternity-related benefits
Medical Assistance	Injury-related benefits
	Sickness-related benefits
Non-contributory benefits	Age Pension
	Carer’s assistance
	Disability allowance

³⁶ Official website of the Department of Social Security. Social Security Related Legislation. Retrieved on 6 June 2022.

Work-related benefits & incentives	In-Work benefit
	Unemployment Assistance Tapering
Unemployment benefits	Subsidiary Unemployment Assistance
	Special Unemployment Benefit
	Unemployment Assistance
	Unemployment Benefit

- The coverage of Malta’s social protection system generally falls within the parameters defined below:

“The applicant is a citizen of Malta or married to a citizen of Malta, or is a citizen of a European Union Member State, or a citizen of a member country of the European Social Charter, or has a refugee status and ordinarily in Malta or Gozo.”³⁷

6.1.2 Contributory and non-contributory benefits

- Under the Social Security Act, benefit schemes in Malta are divided into two categories: those linked to payment of social security contributions (contributory benefits) and those subject to means-testing (non-contributory benefits).
- The essential difference between the two is that under the Contributory Scheme, eligibility for benefits is dependent on whether the individual has paid sufficient contributions in his or her working life; under the Non-Contributory Scheme this does not apply and access to benefits and assistance is dependent mainly on a means-test.
- All social security contributory benefits fall under the responsibility of the Department of Social Security within the Ministry for Social Policy and Children’s Rights.
- Contributory benefits fall within the remit of the Department of Social Security which is tasked with *“providing correct financial assistance and other benefits to eligible persons in time.”*³⁸
- Non-contributory benefits are administered by the Income Support and Compliance Division (ISCD), which is responsible for *“providing timely financial assistance and other benefits to eligible recipients while ensuring that social benefits and services are granted and received in compliance with the provisions of the applicable legislation.”*³⁹

³⁷ As per standard eligibility criteria provided on the official Social Security website.

³⁸ Social Security. Department of Social Security. Retrieved on 20 May 2022.
<https://socialsecurity.gov.mt/en/about/departments-of-social-security/>

³⁹ Social Security. Income Support and Compliance Division. Retrieved on 20 May 2022.
<https://socialsecurity.gov.mt/en/about/>

- Both schemes are relevant for the purposes of this National Study.

6.1.3 Transparency and accountability

- Transparency and accountability are recognised as key operational principles for the good governance of social protection schemes. The United Nations Research Institute for Social Development (UNRISD) refers to both as “*essential components of a rights-based social protection system*.”⁴⁰ In its latest World Social Protection Report, the ILO also emphasises the importance of transparency and accountability in developing effective social protection institutions.⁴¹
- Within the Social Protection Framework promoted by the UNRISD, transparency is determined to a large extent by ensuring that information on schemes and benefits is widely and effectively accessible to the public, while accountability rests on providing established channels for enquiries and a right to redress.
- The desk research carried out for the purpose of this National Study indicates that the Social Security Act as administered by the DSS upholds the principles of transparency and accountability significantly, including:
 - The provision of in-built mechanisms that ensure redress when a claimant feels aggrieved, including for an appeal to be lodged in front of the Umpire who is empowered to decide even against the Director. The Director is also liable to be to face legal proceedings in the Civil Courts, including the Court of Appeal as well as in the Constitutional Court.
 - Detailed information is available on the various benefit schemes through different channels, which also allow for members of the public to engage with servizz.gov through direct enquiries. These channels span online and offline resources, including an interactive official website as well as a network of servizz.gov regional hubs across Malta and Gozo.

The following sections present a detailed overview of the unemployment benefits currently established under the Act, focusing on how these are started, processed, and administered. This overview is divided into the benefits classified under the contributory scheme and those classified under the non-contributory scheme.

⁴⁰ United Nations Research Institute for Social Development. A resource platform for development practitioners and policy makers. Transparency and access to information. Retrieved on 5 June 2022. <https://socialprotection-humanrights.org/framework/principles/ensure-transparency-and-access-to-information/>.

⁴¹ International Labour Organisation. (2021). World social protection report 2020–2022: Social protection at the crossroads. Geneva. 2021.

6.2 Unemployment benefits under the contributory scheme

6.2.1 Coverage

- Under the Social Security Act all persons in employment are considered to be in ‘insurable employment.’ This is defined in the First Schedule of the Act as *“any contract of service or apprenticeship, written or oral, and whether expressed or implied, including employment by or under the Government of Malta.”* Part II of this First Schedule lists types of employment that are ineligible (or ‘excepted’) from being considered as insurable⁴² and are therefore eligible for contributory benefits in the course of their lives provided that specific eligibility criteria are met.
- Beyond this definition of ‘insurable employment’ in the Social Security Act, for the purposes of social protection procedure the legal definition of an ‘employee’ is provided in the Employment and Industrial Relations Act (CAP 452). This defines an employee as *“any person who has entered into or works under a contract of service, or any person who has undertaken personally to execute any work or service for, and under the immediate direction and control of another person, including an outworker, but excluding work or service performed in a professional capacity or as a contractor for another person when such work or service is not regulated by a specific contract of service.”*
- As previously stated, the Social Security Act caters primarily for persons in employment and does not differentiate between employees and persons who are engaged in an economic activity on a self-employed basis.
- In practice, the Maltese social protection system accordingly categorises workers who fall outside the above definition of employee as ‘self-occupied,’ defining such persons as those who earn their income from an economic activity (typically described as a trade or a skill) with earnings exceeding €910 per year.⁴³ On this basis, for the purpose of eligibility for unemployment benefits under the contributory scheme, workers classified as ‘self-occupied’ comprise the segment of the labour force ordinarily referred to as ‘self-employed.’
- The SSA uses the term ‘self-employed’ to refer to persons who earn an income from rents, interests, and investments.
- Before 2019, self-employed persons (i.e. ‘self-occupied’ in terms of the Act) were ineligible for unemployment benefits under the contributory scheme and could only receive means-tested unemployment support.

⁴² Including individuals who are in full-time education or training; persons not in gainful employment, or those whose annual income falls below a floor established by the Department of Social Security; persons in receipt of survivors’, invalidity or retirement pensions; or those in receipt of non-contributory social assistance or pensions.

⁴³ Official website of the Department of Social Security. Social Security Contributions. Retrieved on 6 June 2022.

- In 2019, the right to contributory unemployment benefits was extended to self-employed persons (i.e. 'self-occupied' in terms of the Act) in circumstances, where they cease their economic activity and register for employment.

6.2.2 Payment of contributions

- Contributions are paid in weekly rates, with each year of gainful occupation normally resulting in 52 or 53 contributions (depending on the number of Mondays in a given year) on the payee's individual record. Through these contributions, the individual may access several benefits, covering sickness, unemployment, injury, invalidity, retirement, maternity and widowhood.
- Weekly contribution rates are categorised by the individual's age and level of declared income. Six categories (A-F) are defined in Part I of the Tenth Schedule of the Social Security Act. Category A covers all persons under 18 years of age; categories B, C and D vary according to the person's date of birth and basic weekly wage; categories E and F apply to persons following full-time education and/or training that includes remunerated work placements. Contribution rates are calculated based on the person's basic weekly wage, excluding all allowances, bonuses, or overtime.
- The scheme allows for two main types of contributions to extend coverage to all types of persons in employment. Employed persons pay Class One contributions, while the self-employed (i.e., 'self-occupied' in terms of the Act) pay Class Two contributions. The following parameters apply:
 - Class One contributions imply that any person employed under a contract of service in Malta is in insurable employment and subject to the payment of these contributions. For each person, a tripartite contribution is payable: the employed person, the employer and the State each pay 10 per cent of the basic salary of the employee; with the contribution capped to the Maximum Pensionable Income.
 - The payment of Class Two contributions is shared by the State and self-employed persons, whereby the self-employed person pays 15 per cent and the State pays 7.5 per cent of their annual income that is subject to the same ceiling that applies for employees.
- All amounts collected are credited to the Consolidated Fund, from which, in turn, all social security payments, together with all expenses for the free health system, are paid.
- The Social Security Act also allows for the award of credited contributions in cases such as sickness, injury, unemployment, carrying out voluntary work locally or abroad and caring for children with disability/rare illnesses, provided that the statutory contribution conditions are satisfied. This will ensure that in such scenarios, there will be no contribution gaps for the period during which the individual is not in employment. Credits

may also be awarded to parents raising a child, with a maximum of two years of contribution per child that can be extended to four years if the child has a disability.

- For contribution purposes, these credits are accounted in the same way as paid contributions. For the purposes of this National Study, it is relevant to note that credited contributions are awarded to persons in receipt of an unemployment benefit. A person receiving an unemployment benefit is awarded credited contributions for the duration of the benefit.
- Workers (employed and self-occupied) who are gainfully occupied for less than eight hours per week are generally not considered as being in insurable employment. However, in cases where their annual income exceeds €910, they are considered as self-occupied persons for social security contribution purposes.

6.2.3 Main classes of unemployment benefit under the contributory scheme

Table 7 below outlines the three different classes of insurable employment to capture the most salient details in each case. It can be noted that the key differentiating factor across the three classes is the source of earnings received, i.e. from employment, self-employment through a trade, or skills, or from rents and investments.

Table 7: Main classes of insurable employment under the contributory scheme

Class	Type	Description	Contribution rate	Contribution payment
1	Employed Persons	All persons employed with a provider of employment or employer, provided that they are not excepted under Part II of the First Schedule of the Social Security Act ⁴⁴	<p>Rate based on basic weekly wage and date of birth (d.o.b) as per Part I of the Tenth Schedule of the Social Security Act (Categories A-F).</p> <p>The normal rate is 10 per cent of basic wage subject to annual ceilings set by the DSS. An amount equivalent to this percentage is payable by three parties: the employee, the employer and the State.</p>	Direct deduction from employee's salary plus equivalent amount by the employer are paid to the Commissioner for Inland Revenue (CIR) on a monthly basis.
2	Self-Occupied Persons	All persons who earn an income above €910 per annum from a trade, skill, business, profession or vocation ⁴⁵	<p>Rate based on d.o.b and income derived from the net annual income from a trade or profession during the previous calendar year Normal rate is 15 per cent. Subject to annual ceilings set by the DSS.</p> <p>This amount is equally shared by the State and self-employed persons, whereby the self-employed pays 15 per cent and the State pays 7.5 per cent of their annual income that is subject to the same ceiling that applies for employees.</p>	Direct quarterly payments to the CIR
3	Self-Employed Persons	Persons who earn their income from rents, interests, and investments	Rate based on d.o.b and the net annual income derived from rents, investments, capital gains or any other income during the previous calendar year.	Direct quarterly payments to the CIR

⁴⁴ Persons residing in Malta but employed abroad may also be approved for Class 1 contributions under Article 13(i) in which case no contribution is payable by the employer and contributions are made directly to the Commissioner for Inland Revenue.

⁴⁵ This category also includes persons excepted under Part II of the First Schedule of the Social Security Act.

6.2.4 Unemployment benefits under the contributory scheme – Process overview

6.2.4.1 Submission of claim

- The benefit process is started once a person who has been employed or self-occupied becomes unemployed and registers as an unemployed jobseeker with Jobsplus. This register is divided into three parts:
 - Part 1, *inter alia*, caters for those persons who have had their employment or gainful occupation (in the case of the self-occupied) terminated involuntarily, normally due to redundancy.
 - Part 2 is for people who resigned, were dismissed, or have an incomplete registration application.
 - Part 3 is for those already in employment but looking for a new job. Part 3B is for those people who are seeking temporary employment, such as students.
- Only persons registering under Part 1 are eligible for unemployment benefits, since this indicates that their unemployed status was involuntary; the fact that they are registering as jobseekers further indicates that they are fit and able to work, and able to take up new employment.⁴⁶
- Upon registration with Jobsplus, a claim for unemployment benefits is automatically initiated with the Department of Social Security.
- This claim is assessed to ensure that the claimant has the required level of contributions within the requisite timeframe:
 - a minimum of 50 Class 1 and/or Class 2 Social Security Contributions since being registered under the Social Security Act (Cap. 318) until date of benefit claim; and,
 - 20 paid or credited Class 1 or Class 2 Social Security Contributions during the last two consecutive calendar years prior to the request for the Unemployment Benefit.

According to the DSS website, a claim typically takes two weeks to be processed, with the benefit received backdated to the first day of unemployment.

⁴⁶ It should be noted that not all persons who find themselves unemployed register as jobseekers with Jobsplus. Particularly given Malta's buoyant labour market, some may opt to seek employment independently through other channels. This means that they are ineligible for unemployment benefits. As touched upon in Section 5, such individuals may be captured in the Labour Force Survey as 'unemployed' but would not appear in the Jobsplus data analysed for this Study.

6.2.4.2 Payment rates

- There is one standard, contributory unemployment benefit. This is paid as a flat daily rate with two fixed amounts payable as follows:
 - A daily ‘married’ rate of €13.25 payable to lone parents or married heads of household whose spouse is inactive or in part-time employment; and,
 - A daily ‘single’ rate of €8.66 payable to a single head of household.
- If the spouse of a married beneficiary is in full-time employment, the beneficiary is eligible to receive the single rate of €8.66.

For the purposes of the payment of unemployment benefits, as well as other aspects of the social protection system, the definition of a household made up of two persons considered as ‘married’ has been extended to include civil partnerships regulated under the Civil Union Act (CAP. 530) as well as cohabitation regulated under the Cohabitation Act (CAP. 571). Article 15 (p) of this latter Act states that cohabitants *“shall have the right to unemployment benefit and to special unemployment benefit if the cohabitant is maintaining the other cohabitant in accordance with Article 30 of the Social Security Act.”*

6.2.4.3 Interventions with beneficiaries to boost re-employment

- The unemployment benefit system operates on the premise that the beneficiary will be open to, and available for, re-employment in the shortest reasonable time, and that he or she will be taking active measures to achieve this aim, including engaging with Jobsplus to identify suitable employment as well as reskilling or upskilling to increase employability.
- On this basis, each jobseeker is assigned with an Employment Advisor who works with the individual to draw up a Personal Action Plan, identifying best-fit employment and training prospects. Jobsplus also offers a range of training programmes and schemes targeting jobseekers, these include the Mature Workers Scheme, the Work Exposure Scheme, and the Work Placement Scheme. A range of customised training courses aimed at different skills levels is also offered through its licensed Training Centre.
- Jobseeker assistance is personalised and effective, closely monitored to ensure that beneficiaries engage in the process. Communication with registrants is ongoing, and the beneficiary is provided with targeted messaging regarding job interviews, training courses, seminars or job fairs.
- Beneficiaries are expected to cooperate in this process and attend job interviews and training sessions when advised.

- Through its Inclusive Employment Services Division, Jobsplus offers specialised support to jobseeker facing particular employability barriers. Persons in disadvantaged situations include former substance abusers, former offenders, persons with intellectual or physical disabilities, persons suffering from mental illnesses, and other individuals with socioeconomic difficulties.

6.2.4.4 Benefit duration and termination

- The unemployment benefit is paid on a six-day week basis (Monday to Saturday) from first day of unemployment for a maximum period of 156 days⁴⁷.
- The benefit lapses either (i) after this maximum period, after which the beneficiary is ineligible for a further benefit until after he/she has taken up employment for at least 13 weeks, or (ii) at any point within this 156-day period once the beneficiary has taken up new employment⁴⁸, or (iii) if the beneficiary does not reasonably comply with the jobseeker conditions imposed by Jobsplus leading to the beneficiary's subsequent removal from the Register.
- In cases where the maximum period of the unemployment benefit lapses without the beneficiary having secured employment and is therefore still registering under Part 1 of the Register, he or she may apply for Unemployment Assistance under the Non-Contributory Scheme.

6.3 Unemployment assistance under the non-contributory scheme

- The non-contributory scheme is essentially the second line of social security in Malta, offering a wide safety net of provisions that aim to provide beneficiaries with *"a stable income that is slightly lower than the minimum wage."*⁴⁹
- Eligibility is based on a financial means test of the person claiming assistance; the test may vary according to the particular assistance being requested and is normally based on the financial resources of the household rather than the individual beneficiary. All persons who meet the testing criteria are eligible to receive unemployment support under this Scheme.
- Assistance under this Scheme is mainly aimed at providing social and medical assistance (both in cash and in kind) to heads of households who are either unemployed, in search of employment or unable to perform work due to a proven inability to do so.

⁴⁷ This period may be modified to ensure it does not exceed the total number of contributions paid by the claimant.

⁴⁸ Upon employment, the employer will complete an engagement form in respect of the beneficiary which is submitted to Jobsplus, at which point any entitlement to unemployment benefit shall cease.

⁴⁹ Vassallo, M. (2009). Malta – Minimum income schemes: A study of national policies. European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities. Peer review in social protection and social inclusion and assessment in social inclusion. Brussels.

- The Non-Contributory Scheme originally catered for persons at or below the ‘at risk of poverty’ line but has evolved in recent years into an integrated scheme which incorporates a number of assistance measures that supplement and reinforce each other, depending on the beneficiary’s particular contingencies. The scheme allows more than one form of assistance to be allocated simultaneously in those cases where more than one contingency is present. For example, a head of household in receipt of unemployment or social assistance under the non-contributory scheme may also be eligible for sickness assistance in parallel with rent subsidies (administered by the Housing Authority); in the case of households with children, such persons will also be eligible for the higher rates of the Children’s Allowance benefit.

6.3.1 Specific unemployment non-related non-contributory benefits

- There are currently three non-contributory benefits which are triggered by a beneficiary’s involuntary unemployment status.
- Eligibility for all three benefits is based on a means test which covers both income and assets as follows:
 - Asset test: In case of a single person, capital should not exceed €14,000 per year. In the case of a household of two or more adult married or cohabiting persons, the capital should not exceed €23,300 per year.
 - Income test: The income test includes any earned incomes as well as maintenance, interests and income from rent payments. The relevant earned incomes for the income test are the gross earnings received by both parents after the deduction of the employee social security contributions. The income test also includes any unemployment benefit of the spouse, if the spouse of the claimant is also without work and eligible for unemployment benefit. The following incomes are not included in the means test: – Supplementary Allowance, Housing Benefit, Children’s Allowance, Foster Care Allowance, Disabled Child Allowance, and Maternity Benefit.
- Each of these three benefits relates to a specific beneficiary profile and contingency, as outlined in Table 8 below.

Table 8: Overview of non-contributory unemployment benefits

Benefit	Application
Special Unemployment Benefit (SUB)	Although this is classified as a non-contributory benefit it is technically a hybrid of the contributory unemployment benefit and the non-contributory unemployment assistance. It is payable to heads of household registering under Part 1 of the Unemployment Register who qualify for the standard contributory unemployment benefit. Subject to a financial means test, the standard benefit is topped up by an additional amount to supplement the household's income. Unlike the non-contributory unemployment assistance, the SUB is of fixed duration in line with the contributory unemployment benefit (156 days).
Unemployment Assistance (UA)	This benefit is payable to individuals who are heads of household registering under Part 1 of the Unemployment Register. It applies primarily to: <ul style="list-style-type: none"> - beneficiaries who have not paid any or sufficient contributions and therefore do not qualify for the contributory benefit; or - beneficiaries who were in receipt of the contributory unemployment benefit but who remained unemployed when this lapsed after the 156 days.
Subsidiary Unemployment Assistance (SUA)	This benefit is payable to heads of household with a Subsidiary Protection Status. ⁵⁰ The SUA is capped at the core benefit and will include an entitlement for other members of a household if the case applies.

Full details of all three benefits are captured in Table 9 below, including details regarding duration and rates of payment.

⁵⁰ Certificate awarded to third country nationals (TCNs) or stateless person who does not qualify as a refugee but who is subject to protection since it has been substantively proven that he/she faces serious harm if returned to their country of origin.

Table 9: Unemployment support under the non-contributory scheme

Benefit name	Eligibility criteria	Rate	Duration
Special Unemployment Benefit	<ul style="list-style-type: none"> – Head of a household – Has paid Class 1 or Class 2 contributions in line with the same requirements for the Unemployment Benefit under the Contributory Scheme – Satisfies the Capital Means Test 	<p>Paid on a weekly basis as per the rates below:</p> <ul style="list-style-type: none"> – Daily married rate €22.25 – Daily single rate €14.68 	<p>Paid on a six-day week basis (Monday to Saturday) from first day of unemployment for a maximum period of 156 days⁵¹. After this, person is ineligible for a further benefit unless he/she takes up employment for at least 13 weeks.</p>
Unemployment Assistance	<ul style="list-style-type: none"> – Head of Household – Registering for work under Part 1 of the Unemployment Register – Satisfies the Capital Means Test 	<p>Paid as per the rates below:</p> <ul style="list-style-type: none"> – Weekly flat rate of €111.18 for the head of household – Weekly additional amount of €8.15 for any additional person in the household <p>Unemployment Assistance is awarded in full if the applicant is single and is living on his/her own. However, if living with a relative), he/she receives 75 per cent of the Unemployment Assistance rate.</p>	<p>Paid indefinitely until the beneficiary finds employment or until he/she is above the means test threshold.</p>
Subsidiary Unemployment Assistance	<ul style="list-style-type: none"> – In possession of a valid Subsidiary Protection Certificate – Unemployed – In possession of a valid Identity Card and a valid Police Document – Satisfies the Capital Means Test (including any declared capital or income in Malta or abroad) 	<p>Paid at the rate of €111.18 if person having subsidiary protection status lives alone and at 75 per cent of the social assistance rate for one person, if claimant is sharing household with other persons. In the case of a head of household with dependents living as a family, an additional amount will be paid for each additional person.</p>	<p>Paid on a weekly basis indefinitely until the beneficiary either leaves the country or secures employment.</p>

⁵¹ This period may be modified to ensure it does not exceed the total number of contributions paid by the claimant.

6.3.2 Non-contributory unemployment benefits – Process overview

- Desk research indicates that the process for the non-contributory unemployment benefits shares a number of common elements with contributory benefits.
- In both cases the process is started via registration as a jobseeker under Part I of the Jobsplus Unemployment Register.
- Once the DSS determines that the applicant is ineligible for contributory benefits, means testing for non-contributory unemployment assistance is carried out. This also applies to registrants who are heads of household, are eligible for the contributory benefit, but who apply for the top-up provided under the Special Unemployment Benefit.
- Although the duration of the non-contributory benefit is indefinite (with the exception of the SUB), it is expected that beneficiaries fulfil their jobseeker obligations as laid down by Jobsplus, in terms of attendance at job interviews and training courses, as well as follow-up with their employment adviser.
- It should be noted that current registration regulations stipulate that after registering for more than three months, beneficiaries are expected to accept lower skilled jobs and failure to do so may jeopardise their registration, and by extension, their benefit. These regulations also stipulate that jobseekers who have been on the unemployment register for more than three months cannot refuse job offers that offer (at least) the minimum wage.

6.4 Access of foreign nationals to unemployment benefit

- All persons, irrespective of nationality, who reside and work in Malta are obliged to pay national insurance contributions under the Social Security Act and are therefore eligible for contributory benefits.
- For non-contributory benefits, persons who are legally residing in Malta (both EU and non-EU nationals) may be eligible to social assistance under the conditions stipulated in the Social Security Act.

6.4.1 EU nationals

- The right of EU citizens to move and reside freely in other Member States also establishes the portability of welfare entitlements from one EU country to another. Accordingly, the EU Social Security Coordination Rules, are in place across all Member States to ensure effective coordination of national social security systems and to facilitate access for EU citizens.⁵²

⁵² The current framework is established through EU Regulations (EC) Nos. 883/2004 and 987/2009 which came into force on the 1st May 2010, replacing the previous Regulations (EC) Nos. 1408/71 and 574/72 respectively.

- The key underlying principles applied in these cases are:
 - Equality of Treatment: Member States must not discriminate against the nationals of other Member States
 - Applicable Legislation: Each eligible person should be covered by a social security system, but should not contribute to more than one for the same coverage
 - Aggregation: Entitlement accumulated in one Member State should be recognized when calculating benefit entitlement in another
 - Exportability of Benefits: Benefits are payable outside the national territory
- In cross-border situations, the country of last employment/self-employment is generally responsible for processing and settling the unemployment benefit claim. However, under the principle of aggregation of periods, social security contributions paid in one Member State can be exported to another and included in the individual's contribution total when that individual submits an unemployment benefit claim.

Under the EU Coordination Rules, Member States declare exportable benefits and classify which benefits are social security benefits, special-non-contributory benefits (such as disability related benefits) and social assistance. Member States are obliged to export classified contributory social security benefits.

- On this basis, EU nationals are eligible to apply for contributory unemployment benefits under the same conditions as Maltese citizens if they find themselves unemployed in Malta. This process is started once the person registers as a jobseeker with Jobsplus. In cases where a person's work activity in the designated period involved other Member States, the above-mentioned coordination principles apply.
- Under the aggregation rules a further point is worth noting: an EU national can only claim unemployment benefits in Malta provided that he or she was employed or self-employed locally immediately before becoming unemployed. In the case of non-contributory benefits and social assistance, the eligibility of EU nationals will be dependent on their residency status.

6.4.2 Third Country nationals

The situation is understandably more complex in the case of third-country nationals (TCNs). TCNs with a long-term resident status are eligible to receive unemployment benefits while they seek alternative employment. TCNs who do not have a long-term resident status, but whose resident

status is dependent on their employment are not eligible for such benefits, since, on this basis, they are unable to register as jobseekers with Jobsplus.

6.5 Response to the COVID-19 pandemic

The Government responded swiftly to the pressures of the COVID-19 pandemic by implementing a series of social security measures to mitigate the impacts of the pandemic. Given the immediate economic slowdown triggered by the imposed public health restrictions, widespread job losses were anticipated. For this reason, the response measures included an additional unemployment benefit which was introduced on a temporary basis between March 2020 and June 2020. This specifically targeted employees and self-employed persons who lost their job or income as a direct result of the pandemic.

Through this benefit, beneficiaries were entitled to a new temporary benefit of €800 per month (€500 per month for part-timers). Standard unemployment benefit rates were topped up either to €800 or €500 depending on the type of previous employment.

In addition to this benefit, a wage supplement scheme administered by Malta Enterprise was also introduced for employers in affected sectors to safeguard jobs and minimise job losses.

6.6 Interplay of unemployment support schemes with activation measures

The landmark National Employment Policy launched in 2014 set out a new long-term labour market policy which encompassed both the economic and the social dimensions of employment. Based on the principle of 'Making Work Pay' this policy introduced a comprehensive set of initiatives and measures aimed at striking an optimal balance between adequate income support measures and effective work incentives.

These policies included three key measures which were all aimed at incentivising employment, namely the Free Childcare Scheme, the Tapering of Benefits Scheme, and the In-Work Benefit Scheme, all of which work together to:

- reduce dependence on unemployment or social assistance;
- incentivise work;
- reduce barriers to employment; and
- supplement income for families that may be at risk of poverty.

These measures are complemented by access to several training and development initiatives to ensure upskilling or reskilling opportunities. These activation measures are presented in Tables 10 – 12 below.

Table 10: In-work Benefit

Target beneficiaries	Description	Objective/s
<p>Couples and single parents who are in gainful occupation and have children under the age of 23 years, who are still dependent and living with them.</p>	<p>The scheme classifies three target beneficiary groups: parents with one person employed, parents with both persons employed, and single parents.</p> <p>Benefits are paid on a quarterly basis with weekly rates calculated based on the beneficiary or beneficiaries' net wage, as per the thresholds defined below.</p> <ul style="list-style-type: none"> • Single parents earning between €6,600 and €23,000: up to a maximum amount of €1,500 yearly per child. • Single parents earning between €23,000 and €35,000: payable rate of €200 yearly per child. • A couple in gainful employment whose collective net income from employment is between €10,000 and €35,000 (and where the net income of one of the spouses must be over €3,000): up to a maximum amount of €1,500 yearly per child. • A couple in gainful employment whose collective net income is between €35,000 and €50,000: payable rate of €200 yearly per child. • A couple of whom only one is in gainful employment and whose net income from employment is between €6,600 and €26,000: up to a maximum rate of €730 yearly per child. • A couple of whom only one is in gainful employment and whose net income from employment is between €26,000 and €35,000: payable rate of €200 yearly per child. 	<p>To incentivise inactive persons receiving social benefits to opt for employment.</p> <p>To curb undeclared work by increasing the opportunity cost of not being in formal employment.</p> <p>To supplement the income of working household in the lower income bracket.</p>

Table 11: Tapering of Benefits

Target beneficiaries	Description	Objective/s
<p>Persons in receipt of Unemployment Assistance, Social Assistance and Social Assistance for Single Unmarried Parents.</p>	<p>As of September 2022, the awarded Tapering of Benefits rate is a percentage of the last Social Benefit rate awarded excluding bonuses:</p> <ul style="list-style-type: none"> • 65 per cent for the first year; • 45 per cent for the second year; and • 25 per cent for the third year. <p>For a period of 3 years, 25 per cent of the benefit rate is also paid to the employer in the circumstance of full-time employment and 12.5 per cent in the circumstance of part-time employment.</p> <p>If a beneficiary in receipt of Tapering of Benefits becomes unemployed, upon re-employment, the Tapering of benefits resumes from the year that the benefit was stopped.</p> <p>The Scheme differs in the case of single parents with children under 23 years of age who are gainfully employed for at least 10 hours per week and earning more than €42.44 per week. In such cases the requirement to have received social assistance for one year in the last three years does not apply.</p>	<p>To incentivise unemployed persons to re-enter the labour market after having been on benefits for at least two years, by allowing them to continue to receive such benefits at a declining rate over the first three years of employment or self-employment.</p>

Table 12: Free Childcare Scheme

Target beneficiaries	Description	Objective/s
<p>Parents of children of pre-school age in part-time or full-time employment or education.</p>	<p>Provision of free childcare for children aged three months to three years in licensed childcare centres.</p>	<p>To support the engagement of parents of pre-school age children in employment or education by providing a safe and regulated childcare option at no cost.</p>

7.0 Output

7.1 Measuring the reach and accessibility of unemployment benefits is a core component of monitoring their overall adequacy and effectiveness

The preceding sections of this report have established the context for unemployment support schemes in Malta, first by analysing the economic and labour market conditions that generate unemployment trends ('input'), followed by presenting the main characteristics of the social protection schemes currently in place that target unemployment ('process'). This analysis covered the contributory benefits as well as the means-tested assistance schemes that both aim to provide minimum income security to households temporarily impacted by unemployment.

This section now focuses on the output of both support streams, assessed in terms of how effectively they protect the share of persons among the working-age population who find themselves involuntarily unemployed, both in the shorter and the longer term. This assessment is based on determining the coverage rates of unemployment benefits and assistance across the working-age population.

Coverage is an important indicator for measuring adequacy and efficacy of unemployment benefit schemes across the working-age population. The Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed highlights the importance of minimising any coverage gaps, stating that such gaps

"could put at risk the welfare and health of individuals and contribute to increasing economic uncertainty, the risk of poverty and inequalities. They could also lead to suboptimal investment in human capital, reduce trust in institutions and limit inclusive economic growth. Such gaps could also reduce the revenues of social protection if a growing number of people do not contribute to the schemes."

On this basis, low coverage can point to an insufficient capacity of an unemployment benefit scheme to effectively support workers weathering unemployment. In addition, the OECD argues that inadequate coverage can negatively impact the efficacy of reactivation measures since, as is the case in most countries including Malta, benefit schemes are a principal instrument for linking unemployed persons with the employment services and ALMPs that improve their job prospects.

In this context, determining the entitlement conditions for accessing unemployment benefits is a key component of any evaluation of unemployment benefits, since these conditions have a direct impact on their coverage. If effectively designed, entitlement conditions ensure that the share of jobless people who are receiving unemployment benefits is sufficiently large to provide income protection for those in need. This is not only important at an individual and/or household level for

reducing poverty and exclusion, but it also contributes to economic stabilisation by smoothing fluctuations in domestic consumption and ensuring compatibility with fiscal constraints.

This section will therefore analyse the coverage rate of Malta's unemployment benefits under the contributory and non-contributory schemes. A review of the entitlement conditions and duration of benefits will be an integral aspect of this analysis, since both are key factors affecting coverage.

7.2 Analysing the gap between formal and effective coverage

Coverage entails two dimensions; formal and effective coverage. Both are important indicators which contribute to a thorough assessment of unemployment benefits.

7.2.1 Formal coverage

The Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed defines 'formal coverage' as a situation where an individual or group of individuals are entitled to participate in a social protection scheme under the existing legislation. For the purposes of this National Study, it therefore refers to the share of the Maltese labour force that is entitled to unemployment benefits based on established formal rules, and who can therefore access these benefits should the contingency arise. This approach is useful for a first-round assessment of the availability of income support for working age individuals in case of job loss.

Formal coverage in Malta is assured under the contributory scheme and legislated under the Social Security Act

As detailed in the analysis of the unemployment benefit process outlined in Section 6, all persons in employment aged between 16 and 64 are considered at law to be in insurable employment through the payment of national insurance contributions. This means that every insured person is then eligible to claim and receive unemployment benefits provided they meet the minimum entitlement conditions in terms of contributions paid.

The contributory scheme covers all forms of employment and all categories of workers across all sectors; self-employed and employed persons are eligible for the same unemployment benefits based on contributions paid, while workers in part-time employment who become unemployed involuntarily may also opt to register for work under Part I of the Register and claim unemployment benefits, provided they are willing and able to take on full-time employment. This wide coverage compares favourably to the ILO's recommended unemployment insurance entitlement framework, in which they recommend the following inclusion parameters as being key to an effective and adequate system:

- The inclusion of public sector workers;

- The coverage of the self-employed; and,
- The requirements of either social security contributions or employment records in order to qualify for unemployment benefits.⁵³

As described above Malta's formal coverage meets all three requirements, with self-employed persons having been granted the same entitlement to contributory unemployment benefits as employed persons in 2019.

In parallel to this contributory scheme, the Social Security Act also provides for a non-contributory pillar of social protection, including unemployment assistance, which is independent of national insurance and is based on financial means-testing.

As an integrated system, the non-contributory and contributory components of Malta's social security system generally ensure that all persons who are eligible for social protection in Malta receive some form of assistance in line with their particular contingency or set of contingencies. In this context, the non-contributory element acts as Malta's social safety-net similar to the EU's minimum income support mechanism, extending support even in cases where claimants have nil or insufficient contributions.⁵⁴

The fundamental requirement for social protection eligibility under both schemes is tied to citizenship and/or residency status, in that claimants must be a Maltese citizen, married to a Maltese citizen, an EU national, have refugee status or have a long-term residency status in Malta or Gozo.⁵⁵

Within this context, it is concluded that Malta has full formal coverage in terms of unemployment benefits (contributory) and assistance (non-contributory). To widen the assessment of benefit coverage, effective coverage will be further analysed in the upcoming section.

⁵³ International Labour Office. (2019). Unemployment insurance schemes around the world: Evidence and policy options. Working Paper No. 49.

⁵⁴ Vassallo, M. (2009). Malta – Minimum income schemes: A study of national policies. European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities. Peer review in social protection and social inclusion and assessment in social inclusion. Brussels.

⁵⁵ As referenced in Section 6, EU nationals who move to Malta to look for employment are not entitled to unemployment assistance for their first three months in Malta or during the subsequent job search period (up to a maximum of six months) but may continue to receive benefits from the country of origin. This is because unemployment assistance is a form of social assistance and falls outside the scope of Regulation 883/2004.

7.2.2 Effective coverage

Although formal coverage is a useful metric in the evaluation of benefit adequacy, 'effective' coverage is also an essential indicator. The Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed defines effective coverage as

“a situation in a specific social protection branch where the individuals in a group have an opportunity to accrue benefits and the ability, in the event that the corresponding risk materialises, to access a given level of benefits.”

Beyond formal coverage, therefore, a close analysis of effective coverage can provide salient insights into the actual reach and accessibility of a given benefit. This approach, referred to by the OECD as a 'decomposition analysis of benefit coverage,' essentially breaks down the total jobseeker population to determine whether any changes in its composition are impacting coverage levels. This also sheds light on groups of workers that may be less well served by the current schemes in place when compared to others.⁵⁶

This analysis is particularly opportune in Malta's case. The economic restructuring driving the rapid growth described in Section 5 generated wide and deep shifts in the labour market. This included a significant share of foreign workers (EU and non-EU) to meet ever-increasing labour demand. The rapid digitalisation of various sectors combined with changes in consumer behaviour embedded a fast-growing platform economy with its dependency on temporary and casual workers, often foreign nationals, and frequent use of informal and casual employment arrangements. These trends have resulted in a multicultural labour force with a complex composition that is markedly different from a decade ago, as borne out in the time-based data analysis carried out within the scope of this National Study. Assessing effective coverage provides an indication as to whether all groups of unemployed persons are being adequately provided by Malta's current unemployment protection measures.

Unlike the one-dimensional formal coverage indicator, effective coverage is based on a mix of factors, particularly the conditions that determine entitlement to benefits and/or assistance as well as the duration of those benefits/assistance once granted.

Understanding these aspects are essential for a comprehensive understanding of the dynamics of a given unemployment protection framework. This then informs an analysis of the coverage rates of, and reasons for, the non-take up of benefits among those individuals and households that may be entitled to them, as well as particular segments that may be excluded.

⁵⁶ Organisation for Economic Co-operation and Development. (2018). Unemployment benefit coverage: Recent trends and drivers. Employment outlook 2018. OECD Publishing, Paris.

7.2.2.1 Using previous employment history and/or contribution history as qualifying conditions

Qualifying conditions determine which workers who are formally covered by unemployment protection, are actually entitled to receive them when the contingency arises. The conditions applied most frequently across different economies are:

- Employment history (most commonly expressed in terms of the length of the previous employment spell);
- Payment of contribution history; and,
- The reasons for the termination of last employment.

7.2.2.2 Duration of benefits

Establishing an effective maximum duration for benefits is a critical component of their design and has a direct impact at an individual level (in terms of providing adequate support to enable effective re-entry to the labour market, while reducing the risk of poverty in the interim), as well as at a macroeconomic level (e.g., reducing the risk of labour market distortion, a loss in job quality, etc.).

7.2.3 Comparison of eligibility conditions and benefit duration within the EU

As outlined above, the effective coverage of unemployment benefits and assistance is dependent on the strictness of the eligibility rules, as well as their minimum and maximum duration.

Using data from the Mutual Information System on Social Protection (MISSOC), eligibility conditions and benefit duration were compared across the EU Member States to assess Malta's standing in both aspects. This comparative assessment is summarised in Table 13 below.

Table 13: Eligibility conditions and benefit duration across the EU Member States

Country	Qualifying		Specific conditions	Duration (weeks)		Dependent on	
	Weeks worked	Reference period (weeks)		Min	Max	Insurance / working history	Age
Austria	52	104	For persons under the age of 25 an insurance record of 26 weeks within the last 12 months is required	20	52	✓	✓
Belgium	62	91	Qualifying period varies according to the age of the insured person. It can go up to 125 weeks of insurance records over the previous 42 months	Unlimited on condition that claimant is actively searching for a job and ready to participate in courses		-	-
Bulgaria	52	78		17	52	✓	-
Croatia	39	104		13	64	✓	-
Cyprus	26	-		26	26	-	-
Czechia	52	104		22	48	-	✓
Denmark	52	156		104	104	-	-
Estonia	52	156		26	51	✓	-
Finland	26	121		43	71	✓	✓
France	18	104	Reference period depends on age (36 months for those aged 53 and over)	17	156	✓	✓
Germany	52	130		26	104	✓	✓
Greece	18	61		22	52	✓	✓
Hungary	51	156		1 day	18	✓	-
Ireland	39	52	A total of 104 weekly contributions required, 39 weekly contributions have to be paid in the year preceding the benefit	26	39	✓	✓
Italy	13	52		Equal to half the number of weekly contributions paid during the last four years prior to dismissal		✓	-
Latvia	52	69		35	35	-	-
Lithuania	52	130		39	48	-	✓
Luxembourg	26	52		52	104	-	✓
Malta	50	104		26	26	✓	-
Netherlands	26	36		13	165	✓	-
Poland	52	78		26	52	Dependent on area unemployment rate, spouse employment status, children's age	
Portugal	51	104		21	111	✓	✓
Romania	52	104		26	52	✓	-
Slovakia	104	208		26	39	-	-
Slovenia	43	104		13	108	✓	✓
Spain	51	312		17	104	✓	-
Sweden	26	52	Employed or self-employed for at least 6 months and at least 80 hours of work per month during the last 12 months, or employed or self-employed for at least 480 hours during a consecutive period of 6 months with at least 50 hours of work every month during the last 12 months	42	64	Dependent on children's age	

Source: MISSOC updated at 1st July 2021

7.2.3.1 Eligibility conditions

The eligibility for unemployment benefits, depends primarily on the paid contributions in previous periods. It is evident from the comparative assessment summarised in Table 13 that this qualifying period varies across the EU Member States.

The qualifying and reference periods determining accessibility to unemployment benefits may be categorised as follows :

- A cluster of three states – Italy, France, and Greece – have the shortest qualifying periods and therefore the most accessible unemployment benefits. Italy requires just 13 weeks of contributions paid in the past 52 weeks, while France and Greece require 18 weeks of contributions paid in the last 52 and 61 weeks respectively.
- These are followed by five states – Netherlands, Sweden, Luxembourg, Finland and Cyprus – which all require 26 weeks of contributions. The reference period does differ slightly within this grouping, ranging from a low 36 weeks in the case of the Netherlands to 121 weeks for Finland.
- The next group consists of three states – Ireland, Croatia, and Slovenia – with a qualifying period of between 39 weeks, in the case of Ireland and Croatia, and 43 weeks in the case of Slovenia. The reference period is of 104 weeks for all three countries; in the case of Ireland however, 39 contributions should be been paid in the year preceding the benefit claim.
- By far the largest group of Member States falls in the category requiring 50 to 52 weeks of contributions. This group comprises 14 countries, including Malta.⁵⁷ The reference period varies from 69 weeks (Latvia) to 312 weeks (Spain). However, it should be noted that Spain has the second-longest reference period in this group amounting to 156 weeks (Denmark and Estonia).
- Belgium is the only Member State requiring 62 weeks of paid contributions, with a standard reference period of 91 weeks.
- Finally, Slovakia is the Member State with the most stringent qualifying period, requiring 104 weeks of paid contributions and a reference period of 208 weeks.

It is evident from this depiction that Malta's unemployment benefit conditions, in terms of contributions paid and reference period applied, are similar to the majority of Member States.

⁵⁷ The countries in this group are Austria; Bulgaria; Czechia; Denmark; Estonia; Germany; Hungary; Latvia; Lithuania; Malta; Poland; Portugal; Romania; Spain.

7.2.3.2 Duration of unemployment benefits

With reference to basic entitlements (minimum duration of unemployment benefits), the most generous entitlement by far is Belgium, which offers unlimited unemployment benefits. This is followed by Denmark which has a duration of two years. On the other hand, Croatia and Slovenia have the shortest basic entitlement of two months. The duration of unemployment benefits generally depends on previous working history and, in a smaller number of countries, on age and other factors.

In Malta, age does not affect the duration of the benefits and the basic entitlement is equal to its maximum duration. A maximum of 156 working days (six working days are considered per week) applies to all beneficiaries without exception. On this basis, Malta (together with Cyprus) has the second shortest maximum duration of unemployment benefits among Member States. Only Hungary has a shorter maximum duration (90 days).

At face value this may suggest inadequacy, as benefit duration should allow those who are unemployed enough time to find a suitable job that matches their skills and qualifications. However, recent research on the duration of unemployment benefits indicates that, for the overall unemployed population, the impact of benefit duration on the length of the unemployment spell is *“generally relatively weak.”* This is highlighted in the European Commission’s Thematic Factsheet on unemployment benefits which ties this finding to the conclusions of several reputable case studies carried out between 1990 and 2015 (pg. 6).⁵⁸ Further insight into the impact of duration was also obtained through later studies, particularly a 2018 study into the Swedish system,⁵⁹ as well as a 2017 analysis of the Hungarian unemployment benefits system.⁶⁰ Both studies found that the critical period for activation is the first 90 days of unemployment. The latter study carried out in Hungary, in fact indicated a clear spike in flows out of unemployment at the 90-day threshold. Based on this research, and as clearly depicted in Figure 17, the average number of weeks over which unemployment benefits, or special unemployment benefits are availed of in Malta is within this critical initial three-month period and is markedly lower than the maximum entitlement of benefits. More importantly, this has also been the case in two different periods over the past decade in which Malta was experiencing an economic downturn, with perceptible impacts on the employment landscape. These were the years following the 2008 economic crisis and, more recently, during the COVID-19 pandemic, at which time the number of registered unemployed increased, and the average duration of benefit receipt increased to sixteen weeks.

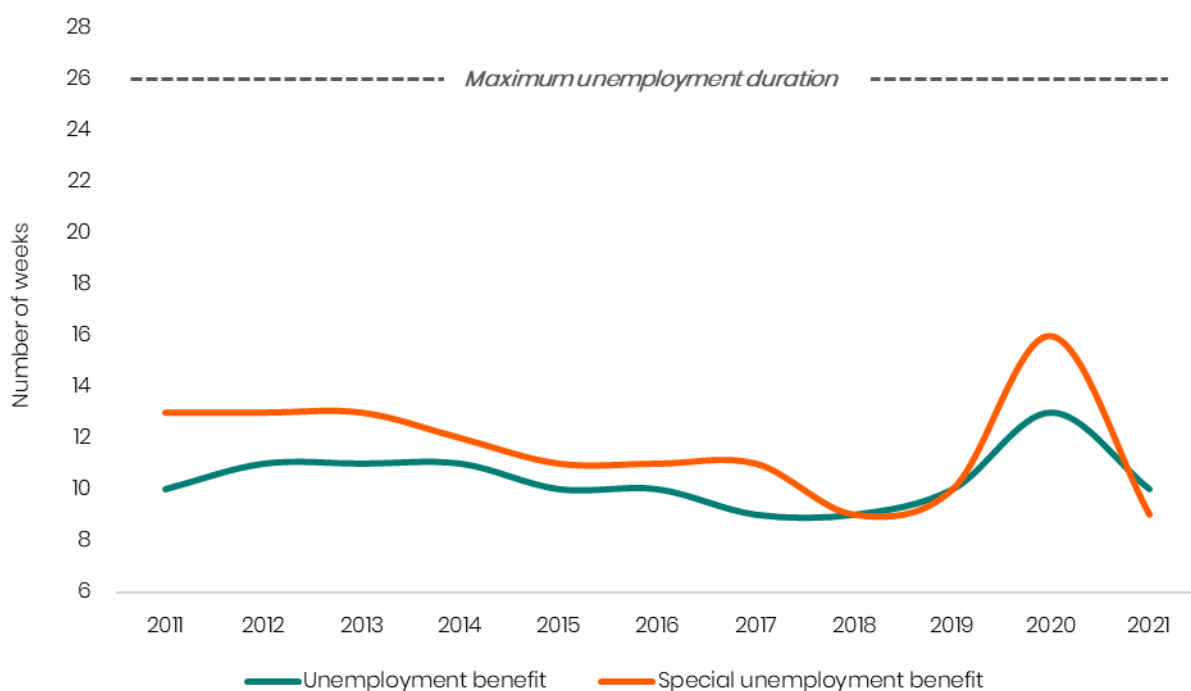
These findings indicate that the current duration design of Malta’s unemployment benefit system is sufficient.

⁵⁸ European Commission. (2017). European semester thematic factsheet: Unemployment benefits.

⁵⁹ Kolsrud, J. et al. (2018). The optimal timing of unemployment benefits: Theory and evidence from Sweden. *American Economic Review*, Vol. 108/4-5, pp. 985-1033.

⁶⁰ Della Vigna, S. et al. (2017). Reference-dependent job search: Evidence from Hungary. *The Quarterly Journal of Economics*, Vol. 132/4, pp. 1969-2018.

Figure 17: Average duration (in weeks) of unemployed persons claiming benefits in Malta



Source: Ministry for Social Policy and Children's Rights

Another aspect to consider in this assessment, is that while the duration of unemployment benefits in Malta is low (when compared to other Member States), persons who remain unemployed after the exhaustion of the contributory benefit, may access unemployment assistance for as long as required, provided that the means testing criteria are met.

7.3 Patterns of non-take up of unemployment benefits

Determining effective coverage rates provide valid data and insights into the segments of the working labour force that, for different reasons, may not be accessing unemployment benefits or assistance.

Gauging this rate is crucial to a clear conclusion on the adequacy and efficacy of social protection measures, since a basic requirement is that such protection is accessible to those who are most in need.

A reliable measurement of effective coverage depends on a clear definition of the target population being assessed. As with many other EU countries, Malta has two data sources for measuring unemployment; Labour Force Survey data and administrative data maintained by the Public Employment Services (PES).

7.3.1 Defining the right target population for measuring effective coverage in Malta

As previously depicted in Section 5, there are two main statistical sources that capturing the Maltese labour market. These sources are the:

- National Statistics Office, which runs a Labour Force Survey (LFS) carried out on an ongoing basis using a quarterly gross sample of 3,200 private households;⁶¹ and,
- Jobsplus, which is the national public employment services agency which collates information through administrative sources on the actual numbers of registered full-time and part-time employment, and on persons registered as unemployed with the agency.

As is the case in many other EU countries, the unemployment rate reported by the LFS has historically always been higher than the number of jobseekers registering as unemployed with Jobsplus. The volume of unemployed persons registering with Jobsplus as a share of the total unemployed reported by the LFS declined consistently and significantly in recent years. Data presented in the 2021 National Employment Policy indicated that in the year 2000, 75 out of every 100 persons willing to work were registered with the public services employment agency. By 2012, this number had declined to around 57 out of every 100 persons, and in 2019 only 17 out of every 100 people willing to work were registered with Jobsplus. This has more recently gone up to 22.9 per cent due to the COVID-19 disruptions to the labour market. These disruptions saw the actual number of registered unemployed increase by 68.4 per cent from 1,642 in 2019 to 2,765 by the end of 2020, before reverting to pre-pandemic levels in 2021.

This data indicates a steady downward trend in the take-up of unemployment benefits and assistance in Malta. This is further explained by the consistently lower number of unemployed persons registering with Jobsplus, when compared to the total unemployed persons reported by the LFS. This downward trend which is also observed in other Member States, may be attributable to various social and economic factors and recent changes in labour market dynamics and composition..

This National Study covered several research studies and publications issued over the last decade which bring out some common trends in the coverage of unemployment benefits, including a detailed Working Paper prepared for the European Commission in 2016 focusing specifically on this aspect.⁶² At a policy level, an ILO study carried out in 2019 presents a comparative analysis of the

⁶¹ All criteria used for this survey match international methodologies used by the International Labour Organisation (ILO). The LFS is designed to satisfy the concepts and definitions as outlined by Eurostat, which is the EU Statistical Agency. This allows the comparability of results with other EU Member States and countries following ILO definitions of employment and unemployment.

⁶² Maquet, A., Maestru, V., Thevenot, C. (2016). The coverage rate of income support measures in the EU: measurement and challenges. Brussels. European Commission Directorate-General for Employment, Social Affairs and Inclusion. Working Paper 2/2016.

main institutional and design characteristics of unemployment schemes, drawing out key differences between emerging and advanced economies.⁶³ Finally, an OECD paper issued in 2018 about recent trends and drivers in unemployment benefit coverage based on a decomposition analysis for selected countries pinpointed key drivers and trends associated with the relative decline in coverage rates documented in a number of studies.⁶⁴

The factors cited for non-take up across these studies include:

- the amount and duration of the benefit;
- the entitlement conditions applied;
- the transparency of the system in terms of information supplied to potential beneficiaries; and
- social factors associated with the perceived stigma of applying for benefits;⁶⁵
- greater job mobility and a higher incidence of transitional unemployment.⁶⁶

7.3.2 Applying these trends to the Maltese context

Following the analysis carried out in the ‘input’ and ‘process’ phases of this National Study, including stakeholder consultations with Jobsplus and the Economic Policy Department (EPD), it is possible to arrive at a reasonable interpretation of the take-up trends of unemployment benefits and assistance in Malta. This interpretation is also informed by the economic and labour market data which was part of this analysis. The following observations are made:

- Taking the above-mentioned EU-wide trends into account, in general terms, transparency, or inadequate information, would not appear to be a critical contributing factor. The Maltese government has invested significantly in recent years in their online communications, while still providing in-person customer care at a community level.
- With the extension of unemployment benefits under the contributory schemes to self-employed persons in 2019, all major employment categories are now formally covered by unemployment benefits/assistance, and therefore the ineligibility of one or more of these

⁶³ International Labour Office. (2019). Unemployment insurance schemes around the world: Evidence and policy options. Working Paper No. 49. October 2019. Geneva.

⁶⁴ Organisation for Economic Co-operation and Development. (2018). Unemployment benefit coverage: Recent trends and drivers. Employment outlook 2018. OECD Publishing, Paris.

⁶⁵ Bargain, H, Viitamäki, P. (2010). No claim, no pain: Measuring the non-take-up of social assistance using register data. IZA DP No. 5355.

⁶⁶ Eurofound. (2015). Access to social benefits: Reducing non-take-up. Publications Office of the European Union, Luxembourg.

categories is not considered to be a major factor. However, it is noted that temporary, transitory, and/or casual workers associated with the fast-growing platform economy are likely to be ineligible under current rules for both the contributory scheme (due to lack of contributions and possibly long-term residency status) and non-contributory schemes (due to lack of long-term residency status).

- In terms of the amount and duration of the benefit, the perception may be present among jobseekers that new employment will be relatively swift and easy to secure, and therefore the potential amount received in unemployment benefit may not be worth the personal inconvenience of registering as jobseekers with Jobsplus. This is due to the buoyant labour market driven by a strong economy, in which labour demand tends to outstrip supply. Two points are worth noting here:
 - In 2020 and to a lesser extent in 2021, the COVID-19 disruption and the ensuing temporary slowdown in the employment market resulted in a notable uptick in registrations. This indicates a greater readiness to engage with public employment services at a time of labour market uncertainty.
 - The age distribution of the registered unemployed population shows a higher share of mature workers compared to the younger age groups. In the context of Malta's resilient labour market, this indicates a higher job mobility and employability potential among younger persons that enables them to bypass jobseeker registration and search for employment independently.
- This high rate of job mobility and healthy employment dynamics also mean that a significant proportion of jobseekers do not fall into the category of 'involuntary unemployed' but are job searching for other reasons, such as improving their income or seeking better quality employment. Such individuals may self-report as 'unemployed' in the LFS but either do not register as jobseekers with Jobsplus or register under Part 2 of the Register (reserved for voluntary unemployed). As such they are ineligible for unemployment benefits or assistance.
- The above scenario implies that a proportion of Malta's long-term unemployed, are likely to be persons facing specific employment barriers such as age, disability or other vulnerabilities which limit their employability. Assuming they fall within the minimum eligibility criteria in terms of citizenship (EU and Maltese nationals) and long-term residency status (third country nationals and refugees), such individuals can access non-contributory unemployment assistance as the second resort of unemployment benefits. This coverage can be effective for an indefinite duration and can be integrated with other benefits such as sickness, injury or disability assistance. Dedicated services are also offered by Jobsplus through the Inclusive Employment Services Division to prepare these persons for suitable employment wherever possible.

Against these developments, and for the scope of this National Study, the overall effective coverage rate of unemployment benefits in Malta, will be calculated on the target population of people registering as unemployed with Jobsplus (as at the end of the year), and not the number of unemployed captured by the LFS.

7.4 Analysis of administrative data on the effective coverage of unemployment benefits and unemployment assistance

Table 14 below traces the number of persons registering for work with Jobsplus under Parts 1 and 2 of the Jobseeker Register between 2011 and 2021. The figure recorded represents the number of registrants at the end of each year. As indicated in Section 6 above, Part 1 captures those persons who have had their employment or gainful occupation (in the case of the self-employed) terminated involuntarily, normally due to redundancy, while Part 2 captures people who resigned (and are therefore considered to be 'voluntarily unemployed'), were dismissed, or have an incomplete registration application. Registration under Part 1 also requires that the registrant is available for full-time employment at the earliest possible time. Only persons registered under Part 1 are eligible for unemployment benefits or assistance.

It is evident that the number of persons registering under both Parts 1 and 2 has declined over the period under review. This decline intensified after 2013, maintaining an annual downward trend except for 2020, which saw a temporary increase due to the economic impact of COVID-19 before dropping to a level below pre-pandemic levels the following year.

Throughout this period, the number of persons registering under Part 1 on the basis of involuntary unemployment has significantly exceeded the number of Part 2 registrants, hovering at 86.4 per cent of the total number of registered unemployed in 2021.

Table 14: Total number of registered unemployed and registered unemployed beneficiaries in Malta

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total number of registered unemployed	6,587	6,811	7,401	6,287	4,615	2,912	2,167	1,765	1,642	2,765	1,167
Part 1	5,924	6,291	6,956	5,889	4,201	2,712	2,010	1,601	1,496	2,517	1,008
Part 2	663	520	445	398	414	200	157	164	146	248	159
Total number of registered unemployed beneficiaries	5,034	5,263	5,346	4,522	3,328	1,866	1,274	1,024	933	1,373	614
<i>Number of registered unemployed receiving:</i>											
Unemployment benefits	633	772	675	602	435	306	248	186	254	647	229
Special unemployment benefits	193	226	208	120	90	61	32	33	36	59	20
Unemployment assistance	4,208	4,265	4,463	3,800	2,803	1,499	994	805	643	667	365

Table 14 also captures the annual number of registered unemployed who received unemployment benefits or unemployment assistance due to their registration under Part 1 of the Jobseekers Register. The number of unemployment beneficiaries declined steadily over the period under review, decreasing from 5,034 recipients in 2011 to just 614 beneficiaries in 2021. This downward trend follows the steep employment growth that was very evident after 2014, which also saw a parallel drop in unemployment levels and by default a lower number of people claiming unemployment benefits / assistance.

Analysis of beneficiaries by benefit type

As explained previously, there are three main forms of social protection that are available to persons registering as unemployed under Part 1 of the Jobseekers Register. These are unemployment benefits (contributory), special unemployment benefits (available only for persons who meet the contributions criteria but who are eligible for a means-tested top-up due to their status as a Head of Household), and unemployment assistance (means-tested).

It is immediately clear that throughout the period under review the number of unemployment assistance beneficiaries has been far higher than the number receiving unemployment benefits. In 2011, these amounted to 83.6 per cent of the total number of beneficiaries, compared to the 12.6 per cent receiving unemployment benefits. However, a different distribution pattern emerges in 2021, with the share of unemployment assistance beneficiaries declining to 59.4 per cent while the proportion of those receiving unemployment benefits rose to 37.3 per cent. Over this period, the share of beneficiaries receiving the special unemployment benefit remained relatively unchanged at 3.0 per cent.

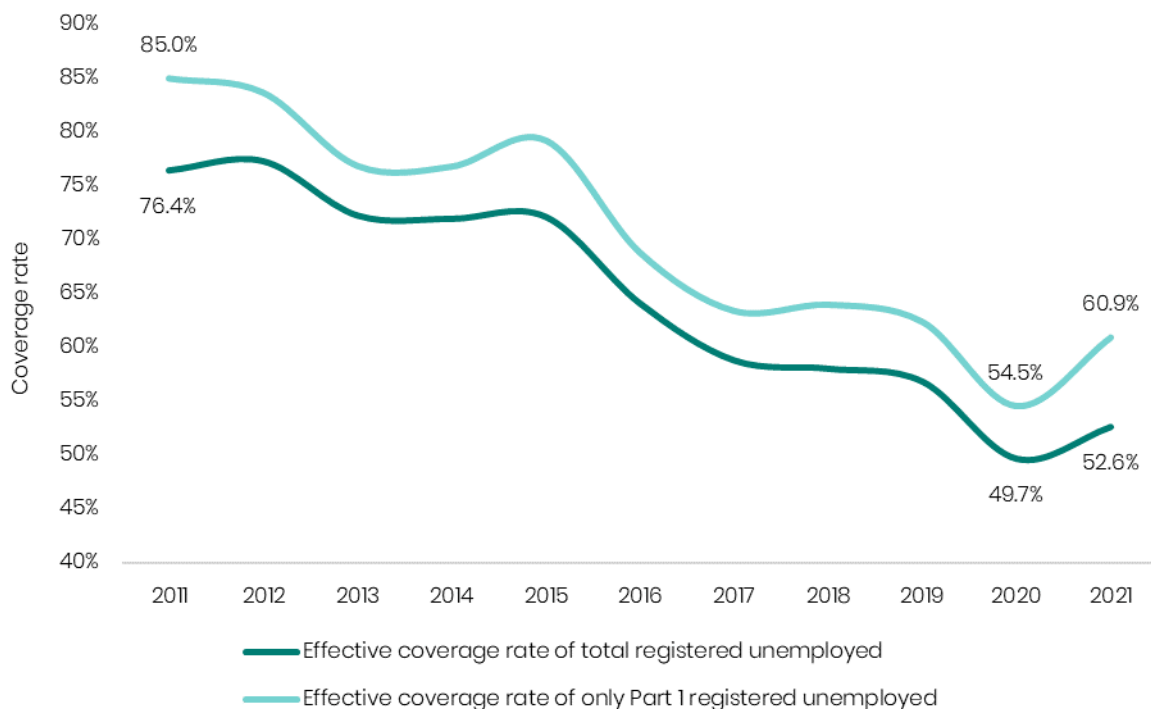
The consistently higher proportion of unemployed persons receiving unemployment assistance as opposed to benefits is likely to be mostly due to the softer eligibility criteria applied to the non-contributory form of assistance. Meanwhile, the decline in this share, which gathered momentum after 2015, can also be linked to the strong employment growth characteristic of that period, coupled with the implementation of activation measures that were deliberately designed to reduce benefit dependency and incentivise employment.

Based on these trends, the effective coverage rate of unemployment benefits and assistance, expressed as a percentage of the total number of persons registering as unemployed, has decreased over time.

In 2011, 76.4 per cent of the total number of persons registering as unemployed under Parts 1 and 2 received some form of benefits or assistance. By 2021, this had declined to 52.6 per cent. However, this population includes persons who registered under Part 2 and who are therefore ineligible for unemployment benefits or assistance due to their status as 'voluntarily unemployed.' Removing

this group from the total population results in an effective coverage rate of 60.9 per cent during 2021. These trends are captured in Figure 18 below.

Figure 18: Effective coverage rates of unemployment benefits and unemployment assistance in Malta



Source: Seed's calculations based on Jobsplus, Ministry for Social Policy and Children's Rights administrative data

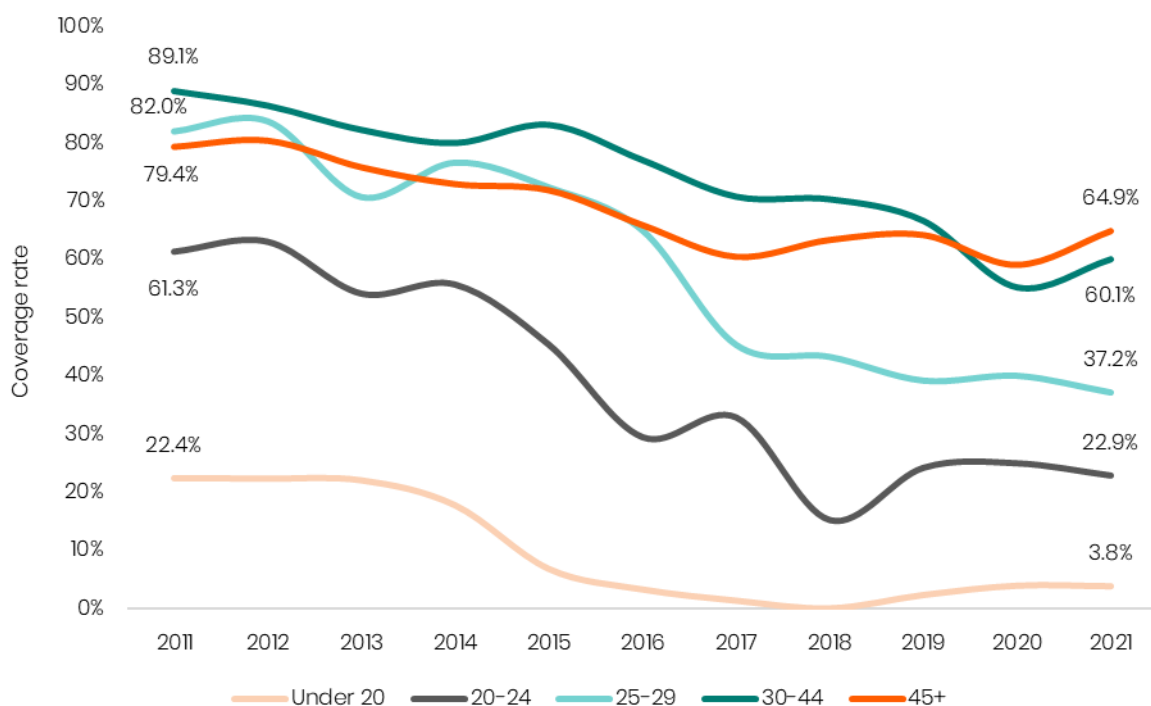
A closer analysis of the coverage rates of unemployment benefits and unemployment assistance by the age of beneficiaries can provide valid insights into the underlying reasons for this downward trend in effective coverage.

As indicated in Figure 19 below, this decline in coverage rates is reflected across all age groups but is particularly pronounced in the age brackets below 29 years of age. The low coverage rate for the under 20 age bracket can be explained by the fact that this cohort is unlikely to have accumulated enough paid contributions to be eligible for these benefits. In fact, the coverage of contributory benefits for this age group has historically been low when compared to older age groups. However, this does not sufficiently explain the significant decline observed in the subsequent age brackets (20-24 years; 25-29 years). Between 2011 and 2021, the effective coverage of persons aged 20 to 24 years decreased by 38.4 percentage points, while that of persons aged 25 to 29 years decreased by 44.8 percentage points. In contrast, the effective coverage of persons aged 30 to 44 declined at a slower and steadier rate of 29.0 percentage

points. The lowest decline is recorded in the coverage rate of persons aged over 45, at 14.5 percentage points.

The overall picture emerging is of an effective coverage rate that increases in line with the age of the beneficiary. This may reflect the policy shift referred to above and implemented through the 2014 National Employment Policy, which intensified training and employment measures targeting younger persons. These included the Youth Guarantee, which caters for young people aged up to 25, and the Access to Employment (A2E) Scheme. Complemented by incentives for employers, a common trait of these schemes was the activation of participants through work exposure or apprenticeship schemes, reducing the time spent as jobseekers. Older workers were eligible for a number of these schemes, including the Access to Employment Scheme, as well as programmes deliberately designed for older workers, notably the Mature Workers Scheme. The higher effective coverage rate consistently apparent in these age groups could be linked to the fact that while efforts to incentivise work over benefit dependency is also targeting the older age cohort, when considering that their transition into the labour market may prove more challenging. On this basis older unemployed persons require more benefit support over a longer duration to avoid poverty-related risks.

Figure 19: Effective coverage rates of unemployment benefits and unemployment assistance in Malta by age of beneficiary



Source: Seed's calculations based on Jobsplus, Ministry for Social Policy and Children's Rights administrative data

Overall Observation:

The effective coverage rate of unemployment benefits and assistance appears to be on a downward trend, however this aspect should be monitored further. Although the decline in this rate is due in large part to the successful results of the policy direction in favour of work activation, there remains a segment of beneficiaries that appears to be more dependent on these benefits. This may be due to a variety of reasons. Undoubtedly there may be individuals who prefer unemployment to employment, however there is also likely to be a number of persons with reduced capacity to transition easily into employment, in which case age and a lower skills level are contributing factors (see the research on the effect of age and low skills levels in Section 5.1.3 above).

8.0 Outcome

8.1 A research focus on the outcomes of unemployment protection on beneficiaries

The previous section ('output') analysed Malta's contributory and non-contributory unemployment schemes based on their formal and, most importantly, effective coverage of the unemployed population. Benefit duration and entitlement conditions were factored into this analysis. This measured the proportion of Malta's total unemployed population that benefitted from these schemes, defining the beneficiary pool of Malta's unemployment protection schemes.

This section will evaluate the outcome of these schemes based on their direct impacts on these beneficiaries, particularly in terms of the linkages between the level of income received, the activation support provided and the ease of transition back into employment.

8.2 Emerging policy trends: reinforcing the mutual obligation principle to secure better outcomes

The most recent policy recommendations relating to unemployment protection advanced by international organisations such as the OECD and the ILO, focus on the need to reinforce the 'mutual obligation' aspect of this fundamental pillar of social protection.⁶⁷ A sound and effective unemployment benefit system should evolve within a 'mutual obligation' framework, in which governments have the duty to provide jobseekers with benefits and effective services to find work and, in turn, beneficiaries must take active steps to find work or improve their employability. The EU has also followed this policy position in recent years, citing the "*need to strike a balance between the objective of sustaining job-seekers' incomes during unemployment spells and the need to ensure adequate incentives to work*" as being a key design characteristic of effective unemployment benefit systems.⁶⁸ This approach preceded the global pandemic, but gained traction as the economic downturn caused by COVID-19 destabilised labour markets and pushed up unemployment.⁶⁹

This policy objective rests on successfully linking adequate income protection that safeguards beneficiaries from poverty and exclusion during the period of unemployment, with an effective activation strategy that re-engages them with the labour market in the shortest possible time. This is a delicate balance to strike that requires careful policy formulation. Lower benefit-rate levels, particularly relative to previous earnings, may result in a sudden deterioration in the living

⁶⁷ Organisation for Economic Co-operation and Development. (2018). Good jobs for all in a changing world of work: The OECD jobs strategy. OECD Publishing, Paris.

⁶⁸ European Commission. (2017). European semester thematic factsheet: Unemployment benefits.

⁶⁹ Organisation for Economic Co-operation and Development /International Labour Organisation/International Social Security Association. (2021). Linking income support measures to active labour market policies. Background paper prepared for the 2nd Employment Working Group meeting under the 2021 Italian presidency of the G20.

standards of the beneficiary and, where applicable, his or her dependents. On the other hand, an insufficient difference between the amount received as a benefit or assistance and potential earnings from employment may disincentivise a return to work.

The following policy design considerations are relevant in this context:

- The incentive to work is determined not only by the intrinsic features of the unemployment schemes, but also by the other tax and benefit systems which may be accessible by the beneficiary in parallel with the unemployment support. These can include non-contributory and means-tested benefits such as social assistance, injury/sickness benefits, disability assistance, housing benefits, and in-work benefits. Similarly, individual job-search efforts are affected by the provision of active labour market policies (ALMPs), as well as by overall economic and labour market conditions.
- Other design characteristics of unemployment benefits systems also influence unemployed people's labour market attachment and employability. This is the case for job search and availability-to-work requirements as well as the compulsory participation in active labour market programmes that can be set as a condition for the continued receipt of benefits. The related imposition of sanctions, notably the suspension of benefit eligibility in cases of non-compliance with availability-to-work and job search requirements, is also a key factor. Generally, such conditions are in place to encourage recipients of unemployment benefits to actively look for work and to accept suitable job offers. This approach aims to counteract the possible financial disincentives to work generated by generous unemployment benefit systems and therefore reduce the risk of benefit dependency.
- However, although integrating targeted activation measures with unemployment protection schemes is broadly in line with EU policy and practice, in some cases this approach could have negative impacts on the long-term employability and well-being of the beneficiary. The enforcement of overly stringent job-search requirements and an insistence on the early acceptance of job offers may be counterproductive, undermining a beneficiary's prospects of decent work and possibly creating a cycle of short-term employment for that individual. Similar views have been put forward within the Commission's European Semester framework under the labour market and skills policy pillar. In fact, the thematic factsheet issued by the European Commission in 2017 on unemployment protection, points out that "*overly stringent job search and availability-to-work requirements may have unintended or counterproductive effects.*" The thematic paper cites situations whereby beneficiaries may be required to accept job offers for which their skills and qualifications may not be ideally suited, which may increase the number of job matches in the short-term, but may have impacts in the longer term due to the poor quality of these matches. This reservation tallies with the findings of another study issued by the Institute of Labour Economics in 2016 which analysed administrative data on the

population of Swiss unemployed job seekers.⁷⁰ This study concluded that increased enforcement strictness in unemployment benefits can *"increase the speed of job finding among non-compliant job seekers, but this effect results predominantly in unstable job matches."*

8.3 Defining the key characteristics for assessing the outcome of Malta's unemployment benefit and assistance schemes.

Three key characteristics were selected to assess the direct effects of both the contributory and non-contributory unemployment schemes on beneficiaries. These are:

- The level of income support provided;
- The inclusion of activity-related eligibility conditions; and,
- The impact of activation incentives.

Each will be analysed individually in the following sections.

8.4 Assessment of income support

The income support component is probably the key characteristic of unemployment benefit schemes and the primary motivator for unemployed persons to apply. As previously discussed, the main policy consideration in determining benefit generosity levels lies in balancing the provision of adequate income security for the period of unemployment with targeted employment-support and activation measures aimed at securing a swift transition back to employment. 'Adequate income security' at its most basic form is defined as *"providing at least partial income replacement, enabling the beneficiary to maintain a certain standard of living during the transition period until a new employment is available."*⁷¹

The Council Recommendation of 8 November 2019 on access to social protection of workers and the self-employed defines 'adequacy' in the context of income support in terms of three policy objectives: maintaining a decent standard of living, providing appropriate income replacement rate, and preventing beneficiaries from falling into poverty. This section will therefore assess the income support dimension of Malta's unemployment benefits and assistance scheme based on these objectives and policy considerations. Accordingly, the selection of the appropriate indicators to measure this dimension has been guided by version 0 of the Council Recommendation's monitoring framework, as well as the European Semester thematic factsheet on unemployment

⁷⁰ Arni, Patrick & Schiprowski, Amelie. (2016). Strengthening enforcement in unemployment insurance: A natural experiment. IZA Discussion Papers 10353, Institute of Labour Economics (IZA).

⁷¹ International Labour Organisation. (2011). World Social Security Report. Geneva.

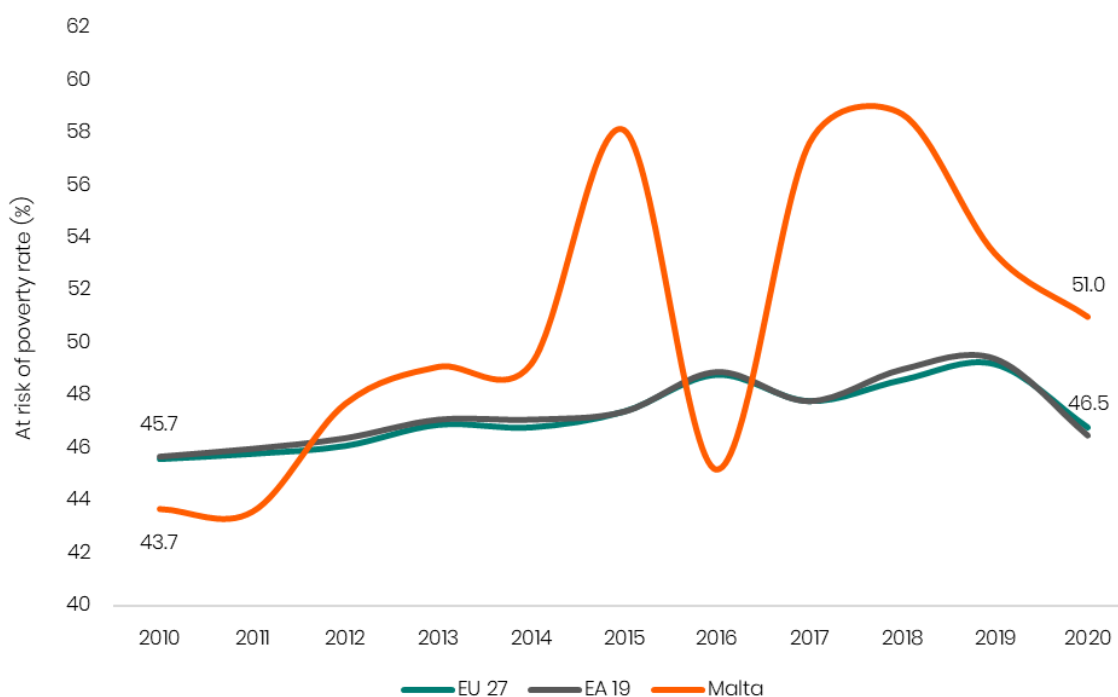
benefits⁷² which focuses on the design of unemployment benefit systems that strike a balance between the objective of sustaining jobseekers' incomes during unemployment spells and the need to ensure incentives to work. These are the:

- At-risk-of-poverty rate of the unemployed;
- Long-term unemployment rate (as a percentage of unemployment); and,
- Net Replacement Rate (NRR) in unemployment (of previous earnings).

8.4.1 The at-risk-of-poverty rate of the unemployed

Malta's at-risk-of-poverty rate of the unemployed (16-64 years of age) between 2010 and 2020 is presented in Figure 20 below, compared to the average rates of the EU 27 and the Euro Area over the same period.

Figure 20: At-risk-of-poverty rate of unemployed (below 60.0 per cent of median equivalised income after social transfers)



Source: Eurostat (EU-SILC)

Statistical note: In SILC a person is classified as unemployed if s/he declares to have spent more than 6 months during the calendar year as unemployed.

⁷² European Commission. (2017). European semester thematic factsheet: Unemployment benefits.

It is evident from the Figure above that during the period assessed Malta's at-risk-of-poverty rate among the unemployed population tended to fluctuate more than the average rates for the EU 27 and the EA 19, which both maintained a steady trend peaking just under 49.0 per cent in 2019. Malta's rate on the other hand shows a fast-rising trend after 2011, increasing from just under 44.0 per cent to 58.1 per cent in 2015. This then decreased sharply to 45.2 per cent in 2016 before climbing once again to 57.6 per cent by the following year. A downward trend is then noted with Malta's rate declining to 51.0 per cent in 2020, compared to the EU 27 / EA 19 rate of 46.5 per cent.

Observations:

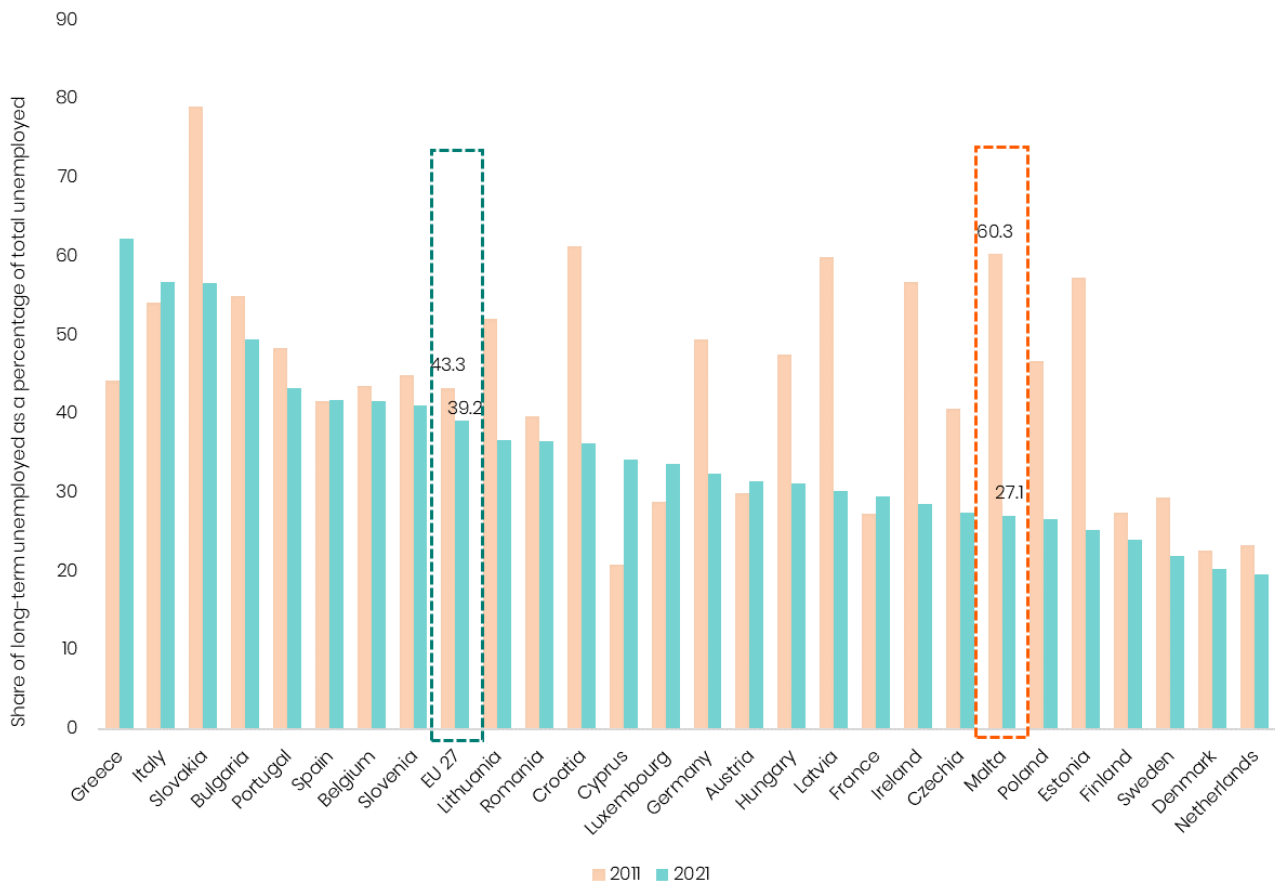
- This data represents the at-risk-of-poverty rate across Malta's unemployed population. It is reasonable to state that an unemployed population is likely to be more at risk of poverty than the active population in any given economy. However, it is very evident that since 2012 Malta has registered a higher 'at risk of poverty rate' among its unemployed population relative to the EU 27 and EA 19 averages.
- As referenced above, the 'at-risk-of-poverty rate' of the unemployed, measured at a threshold below 60.0 per cent of the median of the national equivalised income after social transfers (as per EU-SILC), shows a rising trend over time in the ten year-period assessed, except for the brief drop in 2016 before it reverted to its former level the following year. However, a distinct improvement is noted between 2018 and 2020, when Malta's rate started to drop, possibly on the strength of other social protection measures such as Children's Allowance, although at 51.0 per cent Malta still registered among the highest rates in the EU at 4.2 percentage points higher than the EU 27 average.
- Malta's higher than average at-risk-of-poverty-rate among the unemployed may be partly explained by the fact that Malta's unemployment benefit is based on a flat rate, which increases annually by the percentage increase in the National Minimum Wage (NMW), which is calculated using the following formula ($[\text{COLA}^{73} \text{ year } x] / [\text{NMW year } x-1] \times 100$). Driven by a booming economy, growth in average incomes have potentially outpaced the annual incremental increases in the benefit flat rate, creating the conditions for a gradual increase in the at-risk-of-poverty threshold over time. As a result, more people with fixed or low incomes, such as the unemployed, are being caught below this threshold.
- This argument is further validated when analysing the National Replacement Rate (NRR) of Malta's unemployment benefit. This analysis concludes that over the past decade the NRR calculated as a percentage of the National Average Wage (NAW) has remained mostly static, even decreasing in some years.

⁷³ Cost-of-living-adjustment.

8.4.2 The long-term unemployment rate

Due to strong labour market conditions and declining levels of unemployment, the rate of long-term unemployment⁷⁴ in Malta has improved significantly over the last decade. This is apparent in Figure 21 below.

Figure 21: Long-term unemployment as a percentage of total unemployment



Source: Eurostat (LFS)

Figure 21 shows that long-term unemployment in Malta, expressed as a percentage of total unemployment, fell from 60.3 per cent in 2011 to 27.1 per cent in 2021. This improvement mirrors trends across most other EU Member States, although Malta’s performance has outpaced most economies and is currently 12.1 percentage points lower than the EU 27 average.

⁷⁴ As per Eurostat, long-term unemployment refers to the number of people who are out of work and have been actively seeking employment for at least a year.

Although positive economic and labour market trends undoubtedly contributed to this consistently decreasing trend, the impact of targeted activation measures introduced after 2014 should also be considered.⁷⁵ Three measures in particular were directed at weaning beneficiaries off benefits and transitioning them back into employment, mainly through incentives which made the prospect of employment more attractive than remaining inactive and dependent on benefits. These measures were the Tapering of Benefits Scheme, the In-Work Benefit Scheme and the Free Childcare Scheme, which are described in further detail in Tables 10 - 12 above. All three schemes are now well established with increasing participation rates. These policies, which are work-first oriented in their design, share a longer-term approach which looks beyond the core aim of incentivising inactive persons back into employment; they are also geared to sustain this support over a longer period to minimise the risk of beneficiaries sliding back into unemployment after a short period of time. Since their introduction, the benefit rates of the Tapering of Benefits Scheme and the In-Work Benefits Scheme have been periodically increased and the income threshold ranges have also been broadened.

Table 15 below presents a breakdown of this cohort by gender and age.

Table 15: Breakdown of persons registered as long-term unemployed with Jobsplus by gender and age

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total number of long-term registered unemployed	2,270	2,586	3,164	2,944	2,154	1,185	1,085	793	659	590	361
By gender											
Male	1,920	2,147	2,607	2,415	1,738	904	776	561	479	436	259
Female	350	439	557	529	416	281	309	232	180	154	102
By age											
Under 20	17	18	33	14	3	4	2	5	2	9	4
20-24	136	128	176	149	51	23	11	10	8	17	19
25-29	192	226	265	248	138	66	43	23	14	19	13
30-44	782	891	1,066	1,002	719	378	325	209	173	153	78
45+	1,143	1,323	1,624	1,531	1,243	714	704	546	462	392	247

Source: Jobsplus

This data presents a profile of the long-term unemployed population in Malta between 2011 and 2021. A snapshot of the 2021 data indicates that a significant majority of this cohort (68.4 per cent) is aged over 45 years, 25.2 per cent are aged 25-44 and the remaining 6.4 per cent, or just 23 persons, fall within the 15-24 age bracket.

⁷⁵ This refers mainly to active labour market policies implemented through the 2014-2020 Employment Policy, which centred around a proactive 'Making Work Pay' policy premise.

In 2021, the registered long-term unemployed population was predominantly male, with females making up only 28.3 per cent of the total number.

8.4.3 The Net Replacement Rate of Malta's unemployment benefit and assistance schemes

The income support dimension of unemployment benefit systems varies widely across Member States, both in terms of their monetary level and how this adjusts over time, as well as the way in which they are calculated. Whilst, the EU Council Recommendation on access to social protection for workers and the self-employed⁷⁶ does not suggest replacement rates, it encourages Member States to strengthen income over the unemployment cycle. The monitoring framework on access to social protection for workers and the self-employed proposed by the EU Commission⁷⁷ acknowledges that *"replacement rates are however, well-established indicators of the generosity of the system, and the monitoring framework could also include them"*. To this end, it identifies two main sources which contain information on replacement rates: MISSOC and the OECD Tax-Benefit (TaxBEN) model.

MISSOC:

MISSOC provides an overview of rules (qualifying periods, benefit duration, earnings replacement rates) for each branch of the social protection that falls under the scope of the EU Council Recommendation. MISSOC contains information on replacement rates in each branch and could therefore be used to monitor legal replacement rates for workers and for the self-employed from a branch-specific perspective. The monitoring framework document on access to social protection for workers and the self-employed, however explains that MISSOC tables reports on national legislation, which are not necessarily exhaustive, as countries may have many minor exceptions that are not included in the database. Likewise, earnings replacement rates are calculated using different approaches and different income bases, gross or net incomes, and are therefore not always comparable between countries. In light of this, the monitoring framework of this study integrates MISSOC data on earnings replacement as information and not as performance indicators.

When looking at the different methods employed across the EU to arrive at their respective unemployment benefit levels, as documented by the MISSOC database, three main approaches can be extracted:

- calculation of the benefit as a percentage of the person's in-work earnings or some other work-based earnings such as the national average wage;

⁷⁶ Council of the European Union. (2019). Recommendation of 8th November 2019 on access to social protection for workers and self-employed, 2019/C 387/01.

⁷⁷ European Commission. (2020). Access to social protection for workers and the self-employed. Version 0 of the monitoring framework. Brussels.

- calculation of the benefit as a flat rate;
- calculation of the benefit using a formula comprising both elements, with the possible application of minimum and maximum thresholds.

Table 16 below summarises the different calculation methods applied across all 27 EU Member States.

From the below comparison, it is evident that most countries apply an earnings-based percentage to calculate the amount of unemployment benefit. Malta is one of four countries, together with Ireland, Greece and Poland, that have established flat-rates for unemployment benefits. Romania is the only country that applies a formula to calculate its unemployment benefits, incorporating levels of earnings and length of contribution periods.

Table 16: Calculation basis of unemployment benefits across the EU

Country	Basis for calculation
Austria	55% of daily net income
Belgium	65% of last salary, with a lower & upper ceiling
Bulgaria	60% of the average contributory income in the last 24 months with a lower ceiling
Croatia	60% of average gross earnings in the previous 3 months for first 90 days, 30% thereafter with a lower & upper ceiling
Cyprus	Rate is based on insurable earnings up to the first day of unemployment benefit and family composition
Czechia	65% of average net monthly earnings in the previous quarter for first 2 months, 50% for next 2 months and 45% thereafter
Denmark	90% of previous gross deducted payment of Labour market contribution earnings, with a maximum ceiling per month
Estonia	60% of previous earnings up to 100 calendar days of unemployment, 40% thereafter
Finland	A basic unemployment allowance of €33.78 per day which can be increased to €38.78 per day (if claimant participates in a service promoting environment) plus an earnings related allowance calculated at 45% of the difference between the daily wage and the basic allowance
France	40.4% of reference daily wages (RDW) + €12.12 per day or 57% of the RDW within the limit of 75% of the RDW, which ever is most beneficial, with a min and max ceiling. After 9 months of compensation allowances exceeding certain levels are lowered
Germany	67% of net earnings for beneficiaries with children, 60% for beneficiaries without children, with a max ceiling
Greece	Three flat levels of amount (€199.75, €299.50 and €399.25 per month) underlined by variations with previous gross earnings Plus 10% increase for each dependent family member to the basic unemployment benefit
Hungary	60% of the beneficiary's earlier average wage, with a fixed maximum amount (equivalent to 100% of the minimum wage, i.e. €477)
Ireland	Flat-rate benefit of €203 per week for those with average earnings of €300 per week or more. Lower rates apply for those with average weekly earnings of less than €300 per week
Italy	75% of the average monthly gross income earned by claimant in the last 4 years with a max gross monthly amount
Latvia	Determined in proportion to the insurance period and income on the basis of which unemployment contributions are paid
Lithuania	Comprises a fixed and a variable component. The fixed component equals 23.27% of the Minimum monthly wage while the variable component is based on the average real insured income of the unemployed for every month during the previous 30 months. The variable component is reduced every 3 months, cannot be less than 23.27% of Minimum monthly wage but cannot exceed 58.18% of the average national wage
Luxembourg	80% of previous monthly earnings, 85% with dependent children. Allowance cannot exceed a certain max level and reduces over
Malta	Not earnings related but based on flat rate for single & married persons
Netherlands	75% of last gross daily wage with a max ceiling during first 2 months, 70% thereafter
Poland	Not earnings related but calculated as a percentage of the basic unemployment allowance depending upon length of economic activity
Portugal	65% of average daily gross wage for 12 months preceding the 2 months prior unemployment. Amount is increased by 25% in situations where both spouses draw unemployment benefits and have dependent children, or in case of a single-parent household receiving an unemployment benefit
Romania	Calculated using formula $UI = P1*RSI+P2*AGI$, which incorporates level of earnings and length of contribution period
Slovakia	50% of the average gross earnings over the last 2 years
Slovenia	80% of the average gross monthly earnings received in the 8 months prior unemployment for first 3 months, 60% from 4th to 12 the month, 50% thereafter
Spain	70% of the average employee's contribution base for the 180 days preceding unemployment for the first 180 days, 50% thereafter with a maximum ceiling. Rates increase by 1/6 according to the number of dependent children
Sweden	During 200 days, 80% of the previous daily average income in a reference period of 12 months, thereafter 70%, with maximum ceiling per day

Source: MISSOC updated at 7th July 2021

Under the Maltese contributory scheme there are two fixed unemployment benefit rates, differentiating between married and single beneficiaries as follows:

- A daily married rate of €13.25 payable to lone parents or married heads of household whose spouse is inactive or in part-time employment;⁷⁸ and,
- A daily single rate of €8.66 payable to a single head of household.

Fixed rates are also the norm under the non-contributory scheme with the following rates currently in place:

Special Unemployment Benefit	*Daily married rate at €22.25 *Daily single rate at €14.68
Unemployment Assistance	*Weekly flat rate of €111.18 for the head of household *Weekly additional amount of €8.15 for any additional person in the household

Further information regarding the above rates is provided in Section 6, which provides a comprehensive overview of Malta's current contributory scheme. Further analysis is provided in Box 1 below, which assesses Malta's current social security contribution rates through a direct comparison with the contribution rates in other EU countries.

⁷⁸ If the spouse of a married beneficiary is in full-time employment, the beneficiary is eligible to receive the single rate of €8.66.

Box 1. High-level comparison of proportionality between social security contributions and contributory unemployment benefits

Although Member States are responsible for the organisation and financing of social protection systems within their own borders, there is a broad commonality across the EU in terms of their fundamental scope and design. The core objective of these systems is to protect people against the risks of loss of income arising from specific vulnerabilities and contingencies, including job loss; ill-health, disability, and invalidity; parental responsibilities; costs of children and housing; old age; or the death of a spouse or parent. European social security systems therefore implement a range of social protection measures which target most, or all, of these contingencies. Although specific rules and conditions vary widely from country to country, all EU Member States offer some form of unemployment protection in the case of involuntary job loss.

Social protection takes two main forms in the EU, along similar lines to the contributory and non-contributory pillars that define Malta's social protection system. The first is a benefits system based on the social insurance principle – this exists in all Member States and is specifically and primarily designed to partially replace individual incomes during an unemployment spell. The second is a social assistance system based on the social welfare principle – this also features in all EU countries and generally provides means-tested assistance in the case of social or economic contingencies including, but not limited to, unemployment. This assistance is primarily designed to provide a 'social protection floor' that prevents poverty.

For the purposes of this National Study, it was considered relevant to assess the generosity of Malta's unemployment benefits from the perspective of the level of social security contributions (SSC) paid by workers in insurable employment, comparing this to other countries in the EU. This provides an evidence-based insight into the proportionality of Malta's unemployment benefits to the social security contributions paid by respective workers in insurable employment when compared to other EU Member States,

Data on the social security contributions paid in each Member State was sourced directly from the European Commission's Taxes in Europe Database v3.⁷⁹

Assessment of contribution systems in EU countries

Malta's social security contributions system was thoroughly described previously in Section 6.2.2 ('Payment of contributions'). This system is a tripartite one, where the employed person, the employer and the State each pay 10.0 per cent of the basic salary of the employee; the contribution is capped to the Maximum Pensionable Income. Given the reliable data currently available on other Member States, this analysis will focus on contributions paid by employees and employers. This therefore does not factor in contributions by governments as well as contributions paid by workers in other forms of employment, such as self-employment.⁸⁰

Table 17 below presents the social security contribution data for the EU Member States under review.

⁷⁹ European Commission. Taxation and customs: taxes in Europe Database v3. Retrieved on 09 August 2022.

https://ec.europa.eu/taxation_customs/tedb/splSearchForm.html

⁸⁰ In Malta, self-employed persons pay Class Two contributions. This payment is shared with the State whereby the self-employed person pays 15.0 per cent and the State pays 7.5 per cent of their annual income subject to the same ceiling that applies for employees.

Table 17: Social security contributions payable by employers and employees in the EU

	Social security contributions by employees			Social security contributions by employers		
	Rate	Capped	Coverage	Rate	Capped	Coverage
Austria	18.12%	Yes	Pension/Health care/ Unemployment	21.38%	Yes	Pension/Health care/ Unemployment /Work related illness or accident
Belgium	13.07%	A general monthly reduction for low-income earners	Pension/Health care/ Unemployment	27.05%	Reduction in SSC of certain employee target groups	Pension/Health care/ Unemployment /Work related illness or accident/Childcare/Educational leave
Bulgaria	13.78%	Yes	Pension/Health care/ Unemployment / Maternity leave/Childcare	19.22%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave
Croatia	No information available on how unemployment benefits are financed					
Cyprus	No information available on how unemployment benefits are financed					
Czechia	11.00%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave	28.00%	Yes	Pension/Health care/ Unemployment / Maternity leave
Denmark	No information available on how unemployment benefits are financed					
Estonia	1.60%	No	Unemployment	33.80%	No	Pension/Health care/ Unemployment
Finland	9.18%	Contributions are deductible for earned income tax purposes	Pension/Health care/ Unemployment	21.94%	N/A	Pension/Health care/ Unemployment /Work related illness or accident
France	7.30%	No	Pension/ Unemployment /Maternity leave	35.13%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave/Childcare

Germany	19.33%	Yes	Pension/Health care/ Unemployment /Statutory long-term care insurance	19.33%	Yes	Pension/Health care/ Unemployment /Statutory long-term care insurance
Greece	18.12%	Yes	Pension/Health care/ Supplementary insurance/Lump sum pension benefits/ Unemployment /Housing	22.29%	Yes	Pension/Health care/ Supplementary insurance/ Unemployment /Housing
Hungary	18.50%	No	Pension/Health care/ Unemployment /Work-related illness or accident/Childcare/ Maternity leave	13.00%	No	Pension/Health care/ Unemployment /Work-related illness or accident/Childcare/ Maternity leave
Ireland	4%	No	Pension/ Unemployment /Work related illness or accident/ Maternity leave	11.05%	Reduced rate applies on low paid employees	Pension/ Unemployment /Work related illness or accident/ Maternity leave
Italy	9.49%	Yes	Pension/ Unemployment	31.58%	Yes	Pension/Health care/ Unemployment / Childcare/ Maternity leave
Latvia	10.50%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Childcare/ Maternity leave	23.59%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Childcare/ Maternity leave
Lithuania	19.50%	Yes	Pension/Health care/ Childcare/Maternity leave	1.45%	No	Unemployment /Work related illness or accident
Luxembourg	No information available on how unemployment benefits are financed					
Malta	10.00%	Yes	Pension/Health care/ Unemployment /Work related illness or accident	10.00%	Yes	Pension/Health care/ Unemployment /Work related illness or accident
Netherlands	27.65%	Yes	Pension/Health care/Dutch Survivor Benefit	18.52%	Yes	Health care/ Unemployment /Work related illness or accident/ Childcare
Poland	30.48%	Yes	Pension/Health care/Maternity leave	20.01%	Yes	Pension/ Unemployment /Work related illness or accident
Portugal	11.00%	No	Pension/ Unemployment /Work related illness or accident/ Maternity leave	23.75%	No	Pension/ Unemployment /Work related illness or accident/ Maternity leave

Romania	No information available on how unemployment benefits are financed					
Slovakia	10.40%	Yes	Pension/Health care/ Unemployment / Maternity leave	27.20%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave
Slovenia	22.10%	No	Pension/Health care/ Unemployment / Maternity leave	16.10%	No	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave
Spain	6.35%	Yes	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave	29.90%	Yes	Pension/ Unemployment /Work related illness or accident/ Maternity leave
Sweden	7%	Yes	Pension	31.52%	No	Pension/Health care/ Unemployment /Work related illness or accident/Maternity leave/Other

Source: European Commission taxation database

Statistical Note: For most countries, the basis of SSC assessments includes other sources of income besides employment income, such as interest received, royalties, dividends and inheritance. Some countries also take into account non-cash items into their assessment considerations such as benefits in kind, low interest loans and company benefits. Malta only takes employment income as a basis for the calculation of social security contributions.

Observations

- Using primary data from the European Commission Taxes in Europe database it has been possible to map out the SSC rates for 22 out of the 27 Member States, including Malta. No tax information is available from the same source for Croatia, Cyprus, Romania, Denmark, and Luxembourg.
- It is evident from this data that social contribution rates for both employees and employers vary widely across the EU; similarly, the precise configuration of social protection branches covered by these contributions also varies.
- The EU countries assessed display varying configurations of social protection branches covered by SSCs; at country level, these branches may also differ between employer and employee-coverage. For example, in Malta SSCs paid by both employers and employees cover the key branches of contributory social protection benefits. In contrast, in Sweden employee SSCs only contribute to pensions, while employer contributions also cover health care, unemployment, work-related illness or accidents and Maternity leave in addition to pensions. Other points to note:
 - Pensions are a key branch covered by employer and employee SSCs in all countries except for Poland (not covered by employee SSC but included under employer SSC) as well as Lithuania and the Netherlands (covered by employee SSCs but not by employer SSCs).

- Health care also features prominently across all countries: employee SSCs in 18 countries, including Malta, contribute to this branch, with employer contributions also covering this branch in 20 countries.
- As might be expected, employment-related branches feature strongly across all countries. Unemployment is one of the branches specifically covered by SSCs paid by employers in all EU countries; the same applies to SSCs paid by employees except for Netherlands, Poland, and Sweden. A similar situation applies to work-related illness or accident.
- Maternity leave and childcare are also a characteristic of many of the countries assessed. Employees in 11 Member States contribute to Maternity leave, while the same applies to employer contributions in nine countries. In Malta maternity leave for private sector employees is financed for fourteen weeks through specific employer contributions (distinct from SSCs) with no contributions borne by employees; the Government then covers the cost of any additional period up to 18 weeks for both public and private sector employees.
- There is significant variation between the social security contribution rates paid in the 22 Member States being assessed – this applies to both employee and employer SSCs.
 - Employee contributions: Employee contributions range widely from a low of 1.6 per cent in Estonia (which only covers unemployment) to a high of 30.5 per cent in Poland. As seen below, Malta falls among the largest group of countries with a contribution rate between 9.0 and 15.0 per cent.

Range (%)	0 - 9.0	9.0 - 15.0	15.0 - 20.0	20.0 - 30.0
No. of countries	5	9	5	3

The median employee contribution rate for all 22 countries is 11.0 per cent, only one percentage point above Malta’s current employee SSC rate.

- Employer contributions: Only two countries, Germany and Malta, have equal contribution rates for employees and employers. Among the remaining countries, 15 have a higher SSC rate for employers compared to that for employees, while the five remaining countries conversely have lower rates for employers compared to employees – four of these (Hungary, Lithuania, Poland, and Slovenia) are Eastern European countries which may indicate a certain alignment in the organization of their respective welfare and labour market policies and institutions. As seen below, the majority of the countries assessed have employer SSC rates higher than 20.0 per cent.

Range (%)	0 - 9.0	9.0 - 15.0	15.0 - 20.0	20.0 - 30.0	Over 30.0
No. of countries	1	3	4	10	4

On this basis, Malta’s employer SSC rate is low compared to the rates indicated for other countries. The median employer contribution rate for all 22 countries is in fact 22.1 per cent, more than double Malta’s current employer SSC rate.

Concluding observations

- Having assessed the SSC contribution rates for employers and employees in 22 of the 27 EU Member States it emerges that Malta hovers around the median in terms of current employee contribution rates and is significantly lower than the median for employer contributions.
- However, this assessment must factor in all social protection benefits covered by the contributions in each case, including those that may be received in kind, since this affects aspects of proportionality. In Malta's case, the employee's SSC covers their pension, provides access to unemployment benefits in the case of involuntary job loss, and ensures an injury benefit in the case of any injury or illness arising from their employment. In addition to these cash benefits, employees also have access to free healthcare through the publicly financed healthcare system.⁸¹ Parents in education and/or employment can also avail themselves of free childcare services for pre-school age children (See Section 6.6 above). Finally, it should be noted that maternity leave entitlement is not dependent on employee contributions but funded through a fund financed by employers and the Government.
- Based on this overall picture, there is some convergence of Malta's SSC approach with the overall characteristics of the Anglo-Saxon social security model which is at times used to describe Malta's general social security legal and policy framework.⁸² These characteristics point to 'relatively modest' unemployment benefits backed by a robust non-contributory social assistance system aimed at alleviating poverty. The provision of free health care is an important feature in this regard, which should be taken into account when assessing the proportionality of Malta's SSC rates against the monetary value of unemployment benefits received. This aspect also extends to maternity leave and free childcare which can be availed of by all eligible employees in Malta, but which are funded independently of employee contributions.
- Additionally, it shall be noted that most of the countries assessed have significantly higher SSCs for employers when compared to SSC rates for employers in Malta. In fact, a large number of these countries require employers to pay a much higher proportion of the SSC rate, when compared to their employees. This type of system provides the respective governments with additional revenue to finance social protection and is likely to permit more generous benefit levels. This is evident from the example of Sweden cited above.
- This overall context should be considered when assessing the adequacy of Malta's unemployment benefits. In recommending any improvements to the current provision of benefits, proportionality with the contributions payable by employers and employees alike must be considered, together with the comparisons made with other Member States. While employees in Malta contribute at a rate which is just below the median for the 22 countries assessed, the contribution rate for employers is significantly less than the rates presented for the vast majority of these same countries. These elements are particularly relevant for ensuring the sustainability of financing social protection into the longer term.

⁸¹ This system provides a comprehensive basket of health services free at point of use to all persons residing in Malta who are covered by the Social Security Act. The only exceptions to these free health services are elective dental care, optical services, and some formulary medicines. Entitlement to these services is means-tested.

⁸² Stovicek, K., Turini, A. (2012). Benchmarking unemployment benefit systems. Brussels. European Commission Directorate-General for Economic and Financial Affairs. Economic Papers 454.

OECD Tax-Benefit model:

The OECD TaxBEN model, which calculates Net Replacement Rates in order to assess the adequacy of unemployment benefits from a monetary entitlement perspective, integrates the complex rules of the different national unemployment benefit systems into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the disposable income of families in different labour market circumstances. Although Malta is not an OECD member, it participates through a joint EU-OECD collaboration, in the collection and provision of data used for the OECD TaxBEN model. This facilitates Malta's comparison with all other EU Member States, most of which are OECD members.

Net Replacement Rates in unemployment measure the proportion of net household income that is maintained during a selected month of the unemployment relative to the net household income before the job loss. The TaxBEN model allows for the analysis of benefit entitlements across a range of stylised families. Box 2 below provides some background into the application of this model in policy analysis.

Box 2. Uses of the OECD Tax-Benefit for policy analysis

The TaxBEN model has been supporting work undertaken across the OECD on employment, social, and fiscal policies for almost three decades. First versions of the model were developed in the early 1990s in context of the OECD Jobs Study.⁸³ This study was undertaken in response to high and persistent unemployment in many OECD countries at the time and included a specific focus on the generosity of unemployment benefit systems and their effect on out-of-work durations and re-employment incentives. This early version was maintained and expanded as a critical input into the analysis and comparison of how interactions between policy areas such as minimum wages and tax burdens, or in-work and out-of-work benefits, shape income security and work incentives. The following are some of the most recent flagship OECD reports using the TaxBEN to inform income support policies and employment activation policies and work incentives:

- OECD Employment Outlook 2019: The future of work⁸⁴
- Designing fair and work-oriented unemployment: The case of Belgium⁸⁵
- Activation and employment support policies in OECD countries. An overview of current approaches⁸⁶
- Growing unequal?: Income distribution and poverty in OECD countries⁸⁷

⁸³ Organisation for Economic Co-operation and Development. (1994). The OECD jobs study: Facts, analysis, strategies. OECD Publishing, Paris.

⁸⁴ Organisation for Economic Co-operation and Development. (2019). OECD Employment outlook 2019: The future of work. OECD Publishing, Paris.

⁸⁵ Hijzen, A. and Salvatori, A. (2020). Designing fair and work-oriented unemployment benefits: The case of Belgium. OECD Social, Employment and Migration Working Papers, No. 237. OECD Publishing, Paris.

⁸⁶ Immervoll, H. and Scarpetta, S. (2012). Activation and employment support policies in OECD countries. An overview of current approaches. IZA Journal of Labor Policy vol. 1, issue 1, 1-20.

⁸⁷ Organisation for Economic Co-operation and Development. (2008). Growing unequal?: Income distribution and poverty in OECD countries. OECD Publishing, Paris.

– Faces of Joblessness: Characterising employment barriers to inform policy⁸⁸

Outside the OECD, numerous institutions and researchers rely on the OECD TaxBEN model as an established and trusted source of evidence. The OECD tax-benefit simulation model user guide provides a partial listing of recent academic research that was published in reputable research journals and books. These span a number of fields including social and family policy, inequality research, labour economics, education, economic modelling, and political science.⁸⁹

The European Commission has been a major partner of the OECD in this area of research and has supported the use of the TaxBEN model in this context since 2002. The TaxBEN model has therefore featured in a number of EC publications and databases that provide monitoring capabilities in the context of key convergence objectives, such as the Council Recommendations on Access to Social Protection, and the European Pillar of Social Rights.⁹⁰

One key area of application in which the OECD TaxBEN model has emerged as the indicator of choice has been the income replacement and income smoothing aspects of social benefits.

Article (17) of the Council Recommendation of 15 November 2019 on access to social protection for workers and the self-employed ties the adequacy of social protection with a reasonable level of income replacement that allows beneficiaries to 'live with dignity.' The same Recommendation further refers to adequate income replacement as one that allows a decent standard of living, averts the risk of poverty, and generally facilitates a return to employment in the shortest possible time.

In this context, the Commission's Social Protection Committee 2014 Annual Report featured a relevant analysis of the poverty risk among (quasi-) jobless households which, inter alia, assessed the effect of replacement income provided to beneficiaries via social protection in the case of job loss.⁹¹ Covering both unemployment benefits as well as unemployment assistance, this report stresses the importance of effective income smoothing through adequate income replacement as key to enabling unemployed persons and their dependents to maintain a decent standard of living while searching for employment.⁹²

Within this context, the report concludes that assessing the adequacy of unemployment benefits in terms of providing effective income support is *"generally approached through the net replacement rates, in so far as unemployment benefits are considered as replacement income."* On this basis, the OECD Tax-Benefit model is identified as a viable theoretical indicator to assess the net replacement rates of unemployment benefits.

⁸⁸ Fernandez, R., et al. (2016). Faces of joblessness: Characterising employment barriers to inform policy. OECD Social, Employment and Migration Working Papers, No. 192. OECD Publishing, Paris.

⁸⁹ Organisation for Economic Co-operation and Development. (2020). TaxBEN: The OECD tax-benefit simulation model. Methodology, user guide and policy applications (Annex B). OECD Publishing, Paris.

⁹⁰ Organisation for Economic Co-operation and Development. (2020). TaxBEN: The OECD tax-benefit simulation model. Methodology, user guide and policy applications. OECD Publishing, Paris.

⁹¹ (Quasi-) jobless households are defined by Eurostat as people from 0-64 years living in households where the adults (those aged 18-64, but excluding students aged 18-24 and people who are retired according to their self-defined current economic status or who receive any pension (except survivors pension), as well as people in the age bracket 60-64 who are inactive and living in a household where the main income is pensions) worked a working time equal or less than 20% of their total combined work-time potential during the previous year.

⁹² European Commission. (2014). The poverty risk of the (quasi-) jobless households. Report of the Social Protection Committee. Brussels.

In fact, the OECD Tax-Benefit model has also been proposed for use as an indicator to analyse and compare earnings replacement rates in unemployment across different Member States, by the European Commission's access to social protection for workers and the self-employed monitoring framework⁹³ and by the European Commission's Directorate General for Economic and Financial Affairs in an economic paper proposing a methodology for benchmarking unemployment benefits systems.⁹⁴

The key output of TaxBEN is a measure of net family income after direct taxes, employee social security contributions and cash benefits are discharged. Benefits included in the calculation exclude benefits 'in-kind'. Hence, services such as free school meals, subsidised transport, free health care etc. are not included. Cash benefits considered include:

- Unemployment insurance and unemployment assistance benefits;
- Means-tested social assistance, including guaranteed minimum income benefits;
- Housing benefits for privately rented accommodations;
- In-work benefits;
- Transitional 'into-work' benefits (transitional payments designed to support jobseekers when transitioning into a new job);
- Family and child benefits, including lone-parent benefits; and
- Child-raising allowance paid to parents assuming childcare responsibilities for their own children.

Childcare benefits for parents with children in externally provided childcare and the costs of that care have been introduced into the models but are not implemented for standard outputs.

On the other hand, benefits excluded from TaxBEN amongst others relate to:

- Old-age cash benefits;
- Early retirement benefits;
- Sickness, invalidity and occupational injury benefits;
- Benefits relating to participation in active labour market policies; and
- Payments made to those unemployed as a result of collective dismissal and severance pay, even where legally required of employers.

To facilitate comparability between different Member States, the OECD TaxBEN model makes a number of technical assumptions to streamline the complexities of the different unemployment benefit systems employed by Member States. Box 3 below provides details on the main definitions

⁹³ European Commission. (2020). Access to social protection for workers and the self-employed. Version 0 of the monitoring framework. Brussels.

⁹⁴ Stovicek, K., Turini, A. (2012). Benchmarking unemployment benefit systems. Brussels. European Commission Directorate-General for Economic and Financial Affairs. Economic Papers 454.

and assumptions used in the TaxBEN model, as delineated in the 2020 TaxBEN methodology and user guide.⁹⁵

Box 3. Key technical assumptions underlying the TaxBEN model

Annualisation of income:

TaxBEN calculates tax liabilities and benefit entitlements for a particular month of the selected year. Income amounts enter the calculations in an annualised format, factoring in the effect of the tax-benefit policies that depend on annual incomes. When national legislation defines benefit amounts in monthly terms, values enter the calculations multiplied by 12 in order to obtain annualised amounts. Likewise, when national legislations specify amounts in terms of working days or weeks, the annualisation process in TaxBEN assumes five working days per week and 52 weeks per year. This has two main implications for users, which are worth noting.

First, income taxes, which depend on annual incomes, are determined in relation to annualised amounts, multiplying the values for the particular month under analysis by 12. Secondly, the annualised amount of unemployment benefits may exceed the maximum amount that will actually be received over a 12-month period. Consultations with the Economic Policy Department (EPD) within the Ministry for Finance and Employment established that this is in fact the case for Malta's NRR estimates, resulting in a situation where the annual income of an unemployed individual, after dispensing of benefits, will be the same irrespective of whether the unemployment spell was 2 months or 6 months. This is drawn out by the assumption that unemployment benefits will be the only income estimated for the individual during the year.

It was further noted that in the scenario where the individual is unemployed for 12 months, the model does not disaggregate between unemployment benefits and unemployment assistance, but assumes that the individual gets unemployment assistance throughout the year. For this reason, the calculated benefit is much higher, which affects the estimates of the NRR. This is one of the limitations of the TaxBEN model that must be borne in mind when interpreting the results of its application.

Gross employee earnings:

The model covers the main components of net family income for working-age families, which is calculated as the sum of household members' gross employment earnings plus government cash transfers received minus taxes and social security contributions paid by employees or benefit recipients. Only gross employee earnings are included in the model. Self-employment income and other market incomes, such as income from capital are excluded. In cases where a former spouse is expected to provide financial support to the selected family, it is assumed that such support is not forthcoming.

Users of the TaxBEN model can select the gross full-time earnings from employment for each working adult family. Possible inputs include the OECD full-time Average wage, the statutory full-time Minimum Wage and different percentages of these earnings measures, e.g., 67.0 per cent of the Average Wage or 150.0 per cent of the Minimum Wage. The standard assumption for calculating average wage earnings is based on Sectors B-N of the International Standard Industrial Classification of all economic activities (ISIC Revision 4,

⁹⁵ Organisation for Economic Co-operation and Development. (2020) TaxBEN: The OECD tax-benefit simulation model. Methodology, user guide and policy applications. OECD Publishing, Paris.

United Nations). The earnings calculation includes all cash remuneration paid to workers in the industries covered taking into account average amounts of overtime, cash supplements such as Christmas bonuses, thirteenth month payments and vacation payments, as well as any regular annual bonuses that do not take the form of dividend payments.⁹⁶

Non-OECD countries follow a similar methodology. For Malta, the average wage for full-time employees is derived from the latest Labour Force Survey, which is then topped up by a factor for overtime earnings and regular and irregular bonuses and allowances. The factors for these additional wage costs are derived from the latest Labour Cost Survey.⁹⁷ In view of this, the average wage used in the OECD TaxBEN calculation is significantly higher than the average wage reported in the LFS, since the latter only covers the basic wage. The average full-time wage used in the OECD TaxBEN model for 2020, as supplied by the National Statistics Office, was €25,902. In contrast, the average basic salary computed by the LFS in 2020 hovered around €18,909. As a result, Maltese NRRs that are computed on average wage earnings are intrinsically lower than the level that would be estimated using the LFS average wage.

This variance in the reference amount used to represent Malta's average wage between the LFS and that featured in the TaxBEN model for Malta must be cautiously, taken into account when using the TaxBEN model to estimate NRRs for Maltese benefits based on an average wage.

This does not apply to the estimation of NRRs for Maltese unemployment benefits based on the minimum wage. TaxBEN expresses minimum wages in annual terms, assuming a full-time full-year worker. The annual minimum wage used by the OECD TaxBEN calculation in 2020 was computed by multiplying the minimum weekly wage (as of January 1, 2020) by 52, estimated at €9,325.16.⁹⁸ This in line with the statutory minimum wage, and therefore Malta's NRRs that take the minimum wage as an input and do not hold the limitations observed for NRR estimates based on the average wage.

As has been discussed in Box 2 above, the European Commission has been a key partner and promoter of the OECD TaxBEN model, proposing it for use as an indicator to analyse and compare earnings replacement rates in unemployment over time and between different Member States. In view of the methodological assumptions and statistical limitations being observed in Box 3, some caution is however advised when interpreting the following OECD results. Any conclusions drawn from the analysis of net replacement rates in unemployment using this model should at best serve as an indicative benchmark of the actual performance.

Following the detailed background on the OECD TaxBEN model being proposed as an indicator for the calculation of net replacement rates in unemployment, the analysis now will focus on these NRRs across the different EU Member States to assess how Malta compares to the EU median.

⁹⁶ Organisation for Economic Co-operation and Development. (2022). OECD. Taxing wages publication: Annex A. Methodology and limitations. OECDiLibrary.

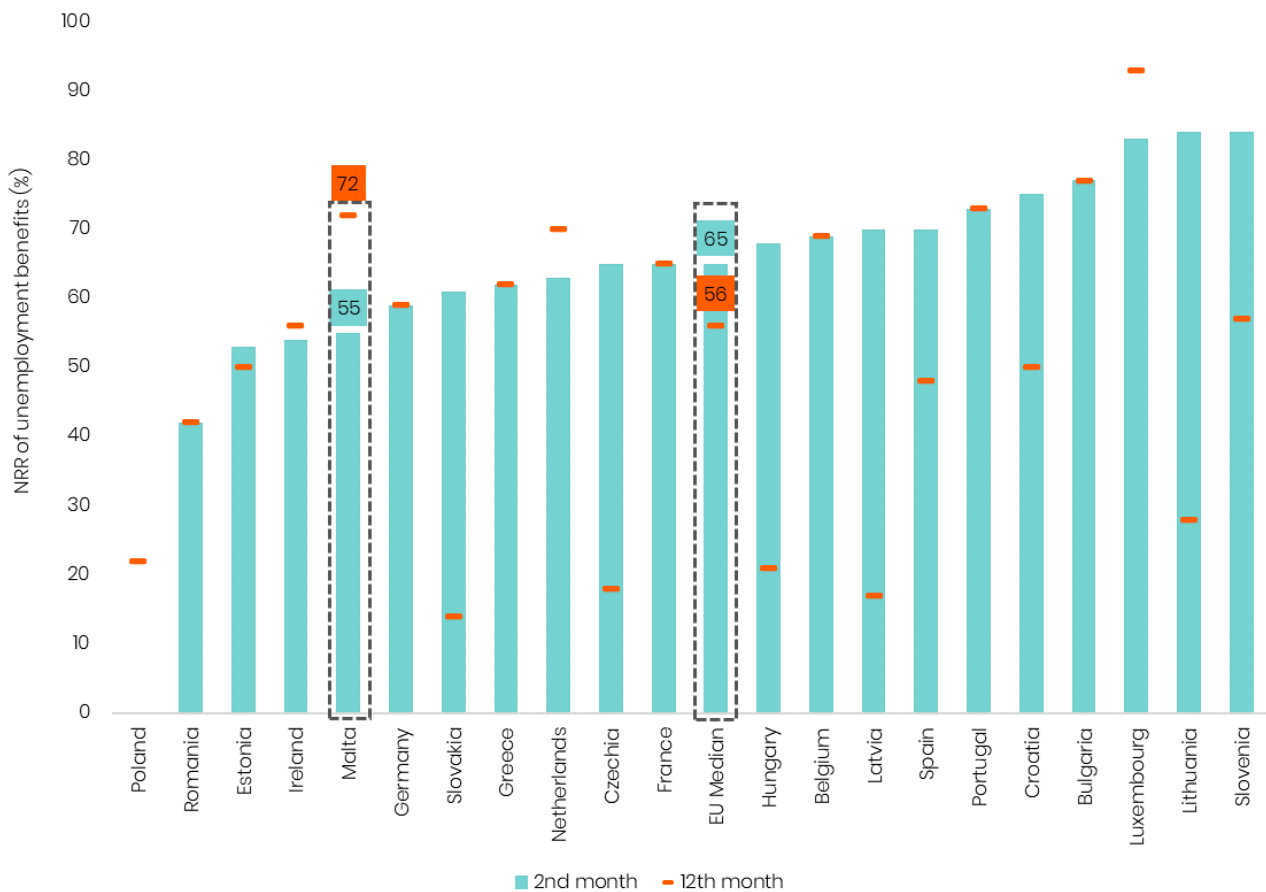
<https://www.oecd-ilibrary.org/sites/adba867f-en/index.html?itemId=/content/component/adba867f-en>

⁹⁷ Organisation for Economic Co-operation and Development. (2020). The OECD Tax-Benefit model for Malta. Description of policy rules for 2020. OECD Publishing, Paris.

⁹⁸ Organisation for Economic Co-operation and Development. (2020). The OECD Tax-Benefit model for Malta. Description of policy rules for 2020. OECD Publishing, Paris.

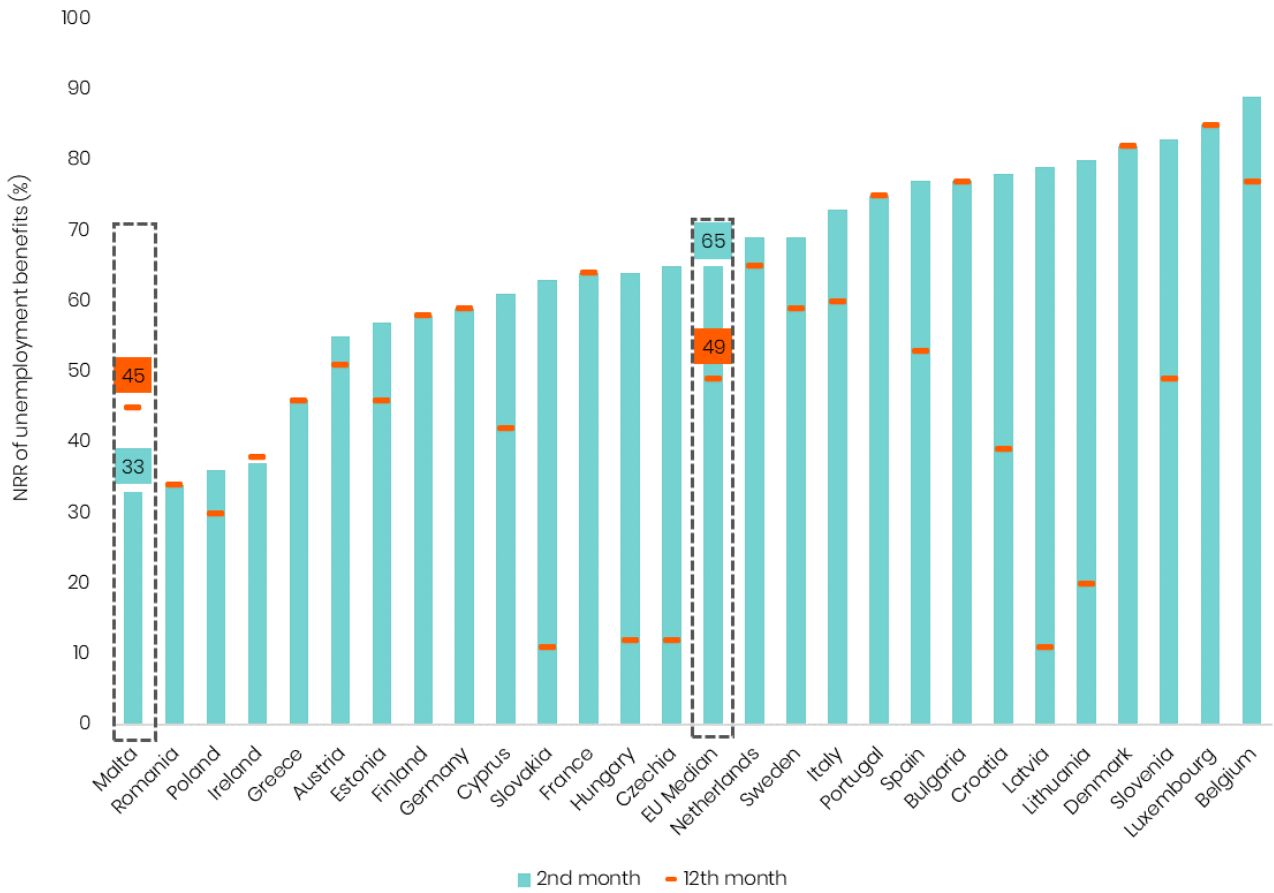
Figures 22 to 24 below show the 2020 NRRs for a single person without children across the different EU Member States after the second month of the unemployment spell and after the twelfth, calculated against three different previous in-work earnings: minimum wage, 67 per cent of average wage, and average wage.

Figure 22: Net Replacement Rates of unemployment benefits for a single person without children as a percentage of the national minimum wage (2020)



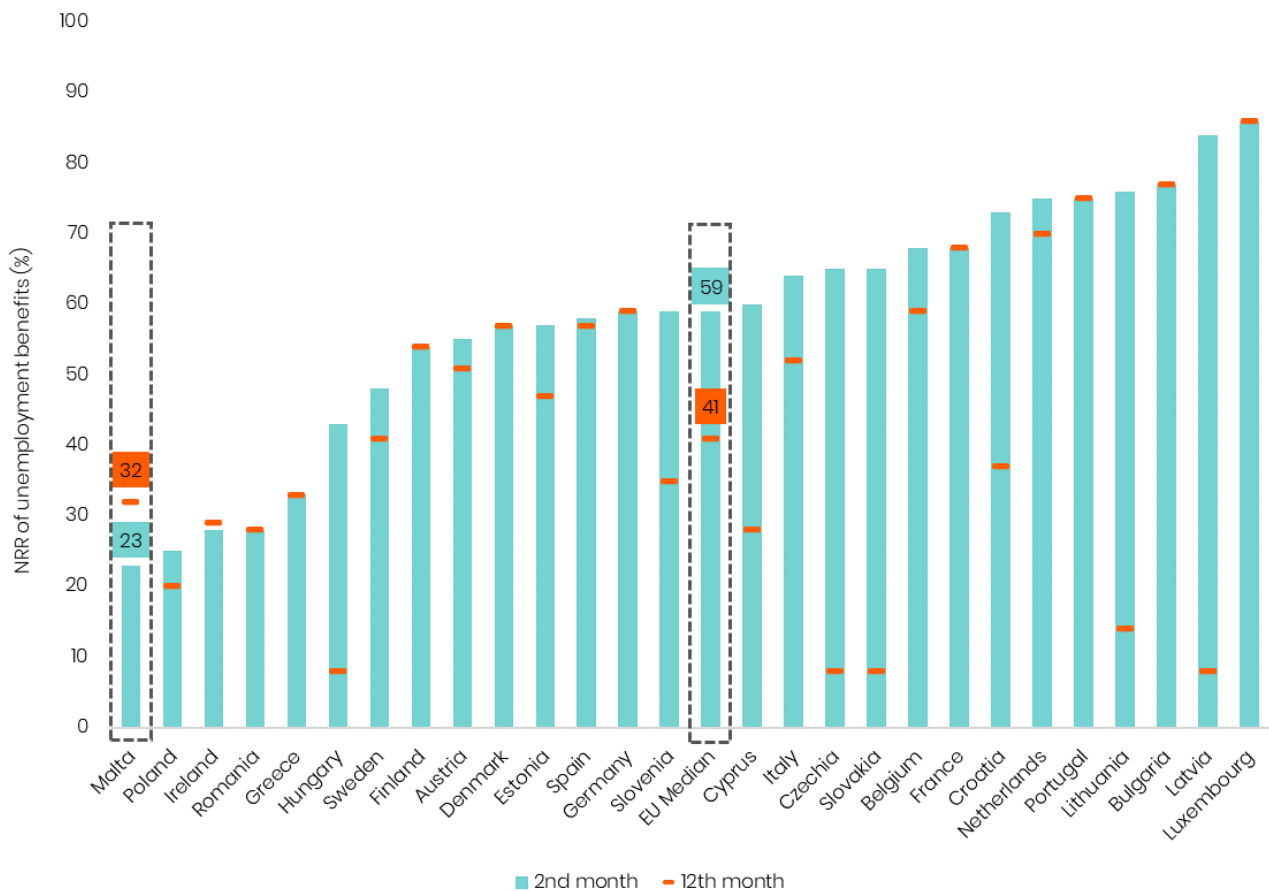
Source: OECD tax-benefit calculator

Figure 23: Net Replacement Rates of unemployment benefits for a single person without children at 67.0 per cent of the national average wage (2020)



Source: OECD tax-benefit calculator

Figure 24: Net Replacement Rates of unemployment benefits for a single person without children as a percentage of the national average wage (2020)



Source: OECD tax-benefit calculator

Observations:

- After the second month of receiving unemployment benefits, Malta's NRR relative to the National Minimum Wage (NMW) is the fifth lowest in the EU. It falls to the lowest when compared to the EU median in the case of beneficiaries with previous in-work earnings that were higher than the NMW – this results from a calculation of the NRR relative to 67.0 per cent of the national average wage as well as to 100 per cent of national average wage.
- This suggests that the contributory unemployment benefits are inadequate on a monetary level, particularly for those who previously earned more than the national minimum wage. This implies that the unemployment benefit is failing to provide sufficient income support, increasing the risk of unemployment-related poverty (as discussed in 8.4.1 above).

- The situation for beneficiaries who previously earned the NMW is somewhat different. In these cases, although the NRR for a single person with no children is among the lowest in the EU, in relative terms the situation for such low-income earners is closer to the EU median, standing at 10 percentage points below the median of 65 per cent.
- On the other hand, however, the NRR for a single person without children in Malta who's previous in-work income was 67 per cent of the national average wage is 32 percentage points less than the EU median. The situation is slightly worse for those who previously earned at least the average national wage, with a NRR of just 23 per cent compared to at least 59 per cent calculated for the EU median.
- A more positive assessment can be made for the same cohort of income earners after twelve months of unemployment, at which point non-contributory benefits (such as unemployment assistance) would have kicked-in once the maximum duration of the unemployment benefits have elapsed. In these cases, the NRR is either higher than the EU median, particularly when compared to the NMW, or at par with it, when expressed at 67 per cent and 100 per cent of the NAW.

Overall conclusion:

Based on the analysis carried out, unemployment benefits under the contributory scheme are lower than the EU median, particularly for those beneficiaries previously earning more than the minimum wage. However, as explained above, the non-contributory schemes are similar, and in some cases better than, the EU median.

This situation appears to have been static over the past decade, with the NRRs for unemployment benefits in Malta remaining mostly unchanged. This reflects the application of a flat rate as a core component of Malta's unemployment benefit design. In some years, the NRR has even decreased. This suggests that the incremental annual increases in the flat rate, calculated on the percentage increase in the National Minimum Wage, have at some points over the last decade fallen behind the overall increase in the national average wage, resulting in a lower effective NRR in unemployment benefit.

8.5 Activity-related eligibility conditions

As previously discussed, the 'mutual obligation' principle is driven by the integration of unemployment benefits and assistance with activation strategies and measures. This has become the norm across emerging and advanced economies, although the policy configurations applied may differ.⁹⁹

⁹⁹ International Labour Organisation. (2019). Unemployment insurance schemes around the world: Evidence and policy options. Working Paper No. 49. Geneva.

There are fundamental similarities in the application of this principle through unemployment protection schemes by various countries: beneficiaries are normally required to register with their national or regional public employment services agency to unlock access to a range of activation services during the unemployment spell. Registration and receipt of benefits is usually dependent on the beneficiary indicating that he or she is available for work and actively seeking out employment. This standard configuration mirrors the current set-up in Malta.

The extent to which unemployment benefits and/or assistance can provide adequate income smoothing while incentivising employment rests on a set of central design features. These include the level and maximum duration of payments, as well as activity-related eligibility criteria such as job-search and reporting requirements, individual action plans, the definition of suitable work, and sanctions for non-compliance.¹⁰⁰

8.5.1 Relevant policy indicators related to activity-related eligibility criteria

There are considerable advantages and disadvantages of inserting activity-based eligibility criteria, that is, activation requirements that beneficiaries need to meet to continue receiving benefits in unemployment protection schemes.

On the one hand, there is considerable evidence that tougher job-search requirements, a wider definition of suitable work, and a stringent enforcement of sanctions can increase the rate at which the unemployed person transitions into employment and ceases to depend on benefits.¹⁰¹ On the other hand, the imposition of harsher sanction rules in isolation, do not necessarily produce higher employment rates.¹⁰² Reiterating a point made in the introduction to this section, several studies indicate that benefit claimants who return to work after being sanctioned may experience a poor job match and a deterioration in working conditions and job quality.¹⁰³

A 2020 OECD report¹⁰⁴ presents updated data on activity-related eligibility criteria based on survey responses from benefit administrators and related institutions in EU¹⁰⁵ and OECD member countries, with reference to a set of indicators and underlying conditions well sourced in

¹⁰⁰ Fredriksson, P. and B. Holmlund. (2006). Improving incentives in unemployment insurance. A review of recent research. *Journal of Economic Surveys*, Vol. 20/3, pp. 357-386.

¹⁰¹ Van den Berg, G. and B. van der Klaauw. (2014). Counselling and monitoring of unemployed workers: Theory and evidence from a controlled social experiment. *International Economic Review*, Vol. 47/3, pp. 895-936.

¹⁰² Knotz, C. (2020). Does demanding activation work? A comparative analysis of the effects of unemployment benefit conditionality on employment in 21 advanced economies, 1980–2012. *European Sociological Review*, Vol. 36/1, pp. 121-135.

¹⁰³ Van den Berg, G. and J. Vikström. (2014). Monitoring job offer decisions, punishments, exit to work, and job quality. *The Scandinavian Journal of Economics*, Vol. 116/2, pp. 284-334.

¹⁰⁴ Organisation for Economic Co-operation and Development. (2020). Activity-related eligibility conditions for receiving unemployment benefits. OECD Publishing, Paris.

¹⁰⁵ This document was produced with the financial assistance of the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020).

literature.¹⁰⁶ These indicators are constructed by scoring the strictness of different eligibility conditions on numerical scales. The resulting scores for all conditions are then aggregated into a synthetic indicator of the overall strictness of eligibility criteria. The report follows the scoring procedures used by Immervoll and Knotz in a 2018 paper.¹⁰⁷ It considers the following eligibility indicators:

- Requirements regarding claimants' availability for employment;
- Job search requirements and related monitoring procedures; and
- Sanctions for non-compliance with any requirements.

It is relevant to note at this point that the scores are assigned to measure the strictness of statutory rules concerning eligibility criteria, and not the strictness of enforcement practice. In essence, there can be deviations between the formal rules and their actual enforcement in day-to-day practice (Grubb, 2000).¹⁰⁸ Enforcement can vary even between countries with the same or very similar rules, between different time periods (and despite similar statutory rules), as well as between different claimant groups. That being said, statutory rules still define the boundaries within which enforcement is legally allowed to vary, and thus provide by themselves important information about the experiences of both the unemployed and caseworkers on the ground.

The above three indicators were selected for the purposes of this National Study given that the OECD report on which they are based was guided and funded by the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). Furthermore, it was noted that in the absence of data for many branches of social protection the European Commission collaborates with the OECD to fill in these data gaps, one example being the measurement of the NRR as recommended by version 0 of the monitoring framework, which is based on the OECD TaxBEN model. It was therefore decided to take a similar approach, using the activity-related eligibility criteria data submitted by Malta to the OECD to benchmark Malta's performance against the other EU Member States under this dimension.

The following sections will outline each of these indicators and indicate Malta's performance in each case, using the scoring method referenced above.

¹⁰⁶ Arni, P., R. Lalive and J. van Ours. (2013). How effective are unemployment benefit sanctions? Looking beyond unemployment exit. *Journal of Applied Econometrics*, Vol. 28/7, pp. 1153-1178.

¹⁰⁷ Immervoll, H. and Knotz, C. (2018). How demanding are activation requirements for jobseekers. *OECD Social, Employment and Migration Working Papers*, No. 215, OECD Publishing, Paris.

¹⁰⁸ Grubb, D. (2000). Eligibility criteria for unemployment benefits. *OECD Economic Studies*, Vol. 31. 2000/II.

8.5.2 Availability requirements

This determines the level of selection flexibility granted to beneficiaries when presented with available job offers set against any risk to their benefit eligibility. This indicator is measured against four conditions:

- **Availability during active labour market programmes participation:** some countries allow claimants to restrict their availability for employment while they participate in ALMPs, while others require continuous availability.
- **Requirements for occupational mobility:** Some countries allow unemployed workers to restrict their availability to work within their previous or normal occupation for at least some time, arguably to avoid mismatches in the labour market. Increasingly, however, countries require the unemployed to accept work in other occupations from the outset.
- **Requirements for geographical mobility:** Unemployed workers may also be required to be geographically mobile in order to find work, for instance by commuting or even relocating.
- **Other valid reasons for refusing job offers:** Next to the mentioned reasons for refusing job offers, countries typically provide a list of other reasons for which unemployed workers can refuse work. These can include ethical or religious reasons as well as caring responsibilities for dependent children or relatives.

The following table summarises the results underlying the strictness of availability requirements in Malta based on scores assigned to each of the conditions that make up this indicator.

Table 18: The strictness of availability requirements – Malta scorecard

Availability requirements				
Condition	Availability during ALMP participation	Requirements for occupational mobility	Requirements for geographical mobility	Other valid reasons for refusing job offers
	(1) No demands on availability for work during participation in ALMPs	(1) The unemployed can refuse job offers in other occupational areas or with lower wages indefinitely	(1) No demands on geographical mobility	(1) Five valid other types of reasons for refusing jobs
	(2) Participation in some ALMPs requires availability for work	(2) The unemployed can refuse job offers in other occupational areas or with lower wages for a limited period of 6 months or more	(2) The unemployed must accept a daily commuting time of up to 2 hours per day	-----
Score & description	(3) Participation in most ALMPs requires availability for work	(3) The unemployed can refuse job offers in other occupational areas or with lower wages for a period of less than 6 months	(3) The unemployed must accept a daily commuting time of up to 4 hours per day	(3) Three or four valid other types of reasons for refusing jobs
	(4) The unemployed should always be available for work while participating in ALMPs, but are not required to actively search for work	(4) No explicit reservations, but the unemployed person's qualifications, previous remuneration and the length of their unemployment spell are taken into account	(4) The unemployed must accept a daily commuting time of 4+ hours per day	-----
	(5) The unemployed should always be available and actively searching for work while participating in ALMPs	(5) The unemployed must accept all job offers that he/she is capable of doing	(5) The unemployed must be willing to move	(5) Two or less valid other types of reasons for refusing jobs

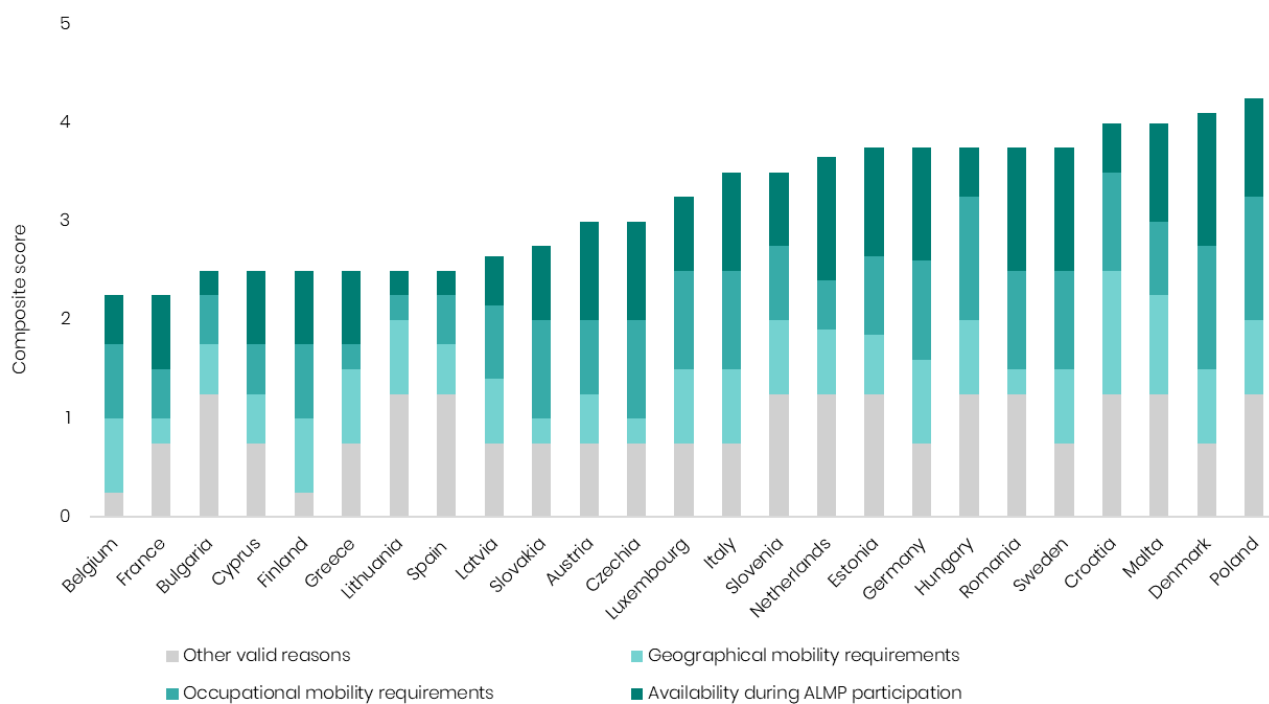
Source: OECD – Strictness of activation requirements scorecard

Statistical note: Malta score grades are shown in orange

On a scale from one to five, 'one' being most lenient and 'five' being most strict, Malta scores a 'four' with reference to the availability requirements during ALMP participation, as well as requirements for geographical mobility. It scores highest for other valid reasons, as it limits the number of other reasons for refusing job offers to two or less. It gives an average scoring of 'three' with respect to the condition concerning occupational mobility.

Figure 25 compare Malta's performance against this indicator to the other EU Member States.

Figure 25: The strictness of availability requirements (2020)



Source: OECD – Activity-related eligibility conditions for receiving unemployment benefits (2020)

Statistical note: No information was received from Ireland and Portugal

Figure 25 above indicates that Malta, together with Poland and Denmark, is among the group of EU countries with the strictest availability requirements. This bears out the stronger emphasis on activation interventions in Malta’s unemployment strategy established over the past decade, particularly since the implementation of the 2014–2020 National Employment Strategy. These interventions are also factored into the design and application of contributory unemployment benefits, including the withdrawal of benefits in cases where beneficiaries do not cooperate sufficiently in the process, such as a failure (without justification) to attend job interviews, sessions with employment advisers or training sessions. This also applies to the acceptance of job offers, where, after a period of three months has elapsed, beneficiaries are required to accept reasonable offers, even in cases where these may be pegged at salaries lower than previous earnings and call for a lower or different skills level.

The middle-ranking segment includes countries such as Italy, Luxembourg and Austria. The group with the lowest strictness scores on this indicator includes Belgium, France, Bulgaria, and Cyprus.

In overall terms, it therefore emerges from this assessment that, relative to other Member States, Malta opts for a strict approach with respect to most eligibility conditions under this indicator.

8.5.3 Job-search requirements and monitoring procedures

Countries often require beneficiaries to comply with specific job-search actions within set timeframes, with these actions being closely monitored to ensure completion. The aim is to ensure that beneficiaries fulfil their 'availability to work' obligation and maintain a satisfactory level of job-search activity. This indicator is measured against two conditions:

- **Frequency of job-search activities:** Many countries specify set intervals within which unemployed workers must report their job-search activities while others do such checks on an ad-hoc basis. Few countries perform no checks.
- **Documentation of job-search activities:** Some countries only require unemployed workers to confirm that they have been looking for work, if at all, whereas others require extensive documentation, including confirmation from employers that they have engaged with the jobseeker.

The following table summarises the results underlying the strictness of job-search requirements and monitoring procedures in Malta based on scores assigned to each of the conditions that make up this indicator.

Table 19: The strictness of job-search requirements and monitoring procedures – Malta scorecard

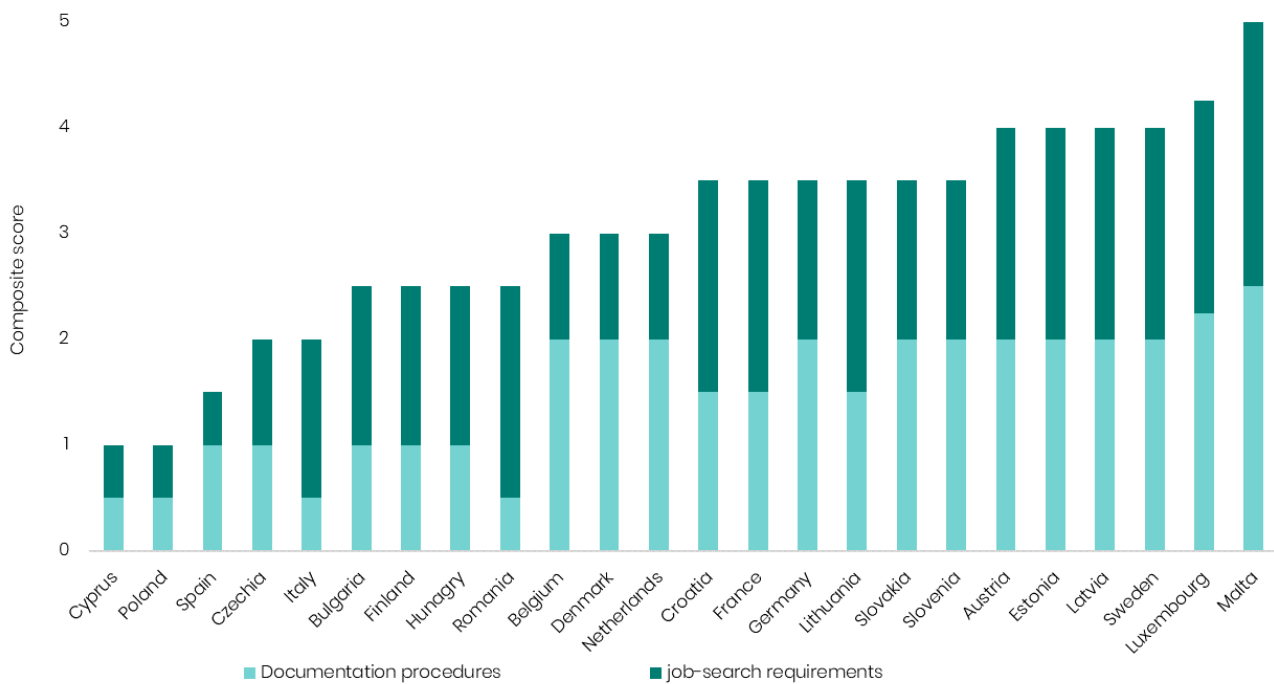
Job-search requirements and monitoring procedures		
Condition	Frequency of job-search monitoring	Documentation of job-search activities
Score & description	(1) No checks of job-search activities	(1) No formal requirement
	(2) Infrequent or ad-hoc checks	(2) The person must regularly affirm that he or she has undertaken some actions to find work without specifying what these were
	(3) Frequency of checks varies between unemployed persons and/or over the unemployment spell (on average less than quarterly)	(3) The person must regularly affirm that he or she has undertaken some actions to find work and specify what these were
	(4) Regular checks of job-search activities, monthly or quarterly	(4) The person must regularly supply the name and address (or equivalent documentation) of employers that he or she has contacted
	(5) Weekly or fortnightly checks of job-search activities	(5) The person must regularly produce declarations by employers that he or she has applied to them for work

Source: OECD – Strictness of activation requirements scorecard

Statistical note: Malta score grades are shown in orange

Applying the same 5-point Likert score scale, Malta assigns the highest score to both conditions under this indicator, signaling a very strict approach towards job-search requirements and monitoring procedures. Figure 26 captures these assigned scores by comparing Malta's performance against this indicator to the other EU Member States.

Figure 26: The strictness of job-search requirements and monitoring procedures (2020)



Source: OECD – Activity-related eligibility conditions for receiving unemployment benefits (2020)
 Statistical note: No information was received from Greece, Ireland and Portugal

Contrary to some countries, such as Poland, which has the strictest availability requirements, but is then one of the countries with the most lenient job-search requirements and monitoring procedures, Malta combines strict availability and job-search requirements. The overall scores for this indicator again hides cross-country variation in the strictness of specific rules. Some, including Romania or Italy, require frequent checks of job-search activities but operate lenient monitoring procedures. Rules in Belgium or Denmark, by contrast, are more lenient with respect to the frequency of checks but they do ask for extensive job-search documentation. However, rules are consistently strict in Malta, Luxembourg and in broader group of countries including Estonia, Latvia and Sweden.

8.5.4 Application of sanctions

Under a number of unemployment benefit schemes reviewed, in cases where beneficiaries fail to comply with any of the above-mentioned activation criteria and requirements, for example, when they refuse a suitable offer of employment, they can receive a sanction. These typically take the form of temporary disqualifications from benefit receipt. In some cases, claimants lose only a part of their payments. In others, however, claimants can also lose their eligibility to benefits entirely. This indicator is measured against five conditions:

- **Sanctions for voluntary resignation from employment:** Unemployed persons who resigned voluntarily from their previous job or were dismissed on grounds of misconduct and seek to claim unemployment benefits normally receive some type of penalty. In many countries, they lose a part of their benefit payments, often multiple weeks, but many others disqualify voluntarily unemployed workers completely from receiving benefits (being involuntary unemployed is typically specified as a precondition for benefit eligibility).
- **Sanctions for refusal of job offers:** Since being available for work is a condition for eligibility to unemployment benefits in all countries, unemployed workers who fail to comply with this by refusing a suitable offer of work are typically handed down a sanction. Refusing an offer of work is generally punished less harshly than voluntary unemployment, but penalties can still range from temporary to complete disqualification from benefit receipt.
- **Sanctions for repeated refusals of job offers:** Repeated refusals of suitable job offers often result in increasingly severe penalties.
- **Sanctions for refusals to participate in ALMPs:** Unemployed jobseekers are normally required to not only look for work but also to participate in interventions that may increase their employability, typically in collaboration with their employment service providers. Where they fail to cooperate and refuse to participate in a labour market programme that has been identified as appropriate for them, they often also risk being sanctioned. Sanctions for refusals to participate in ALMPs tend to mirror those for refusals of job offers but can also be somewhat milder.
- **Sanctions for repeated refusals to participate in ALMPs:** Just as in the case of repeated refusals of job offers, repeated failures to participate in ALMPs typically result in increasingly severe sanctions being imposed.

The following table summarises the results underlying the strictness of sanctions rules in Malta based on scores assigned to each of the conditions constituting this indicator.

Table 20: The strictness of sanctions rules – Malta scorecard

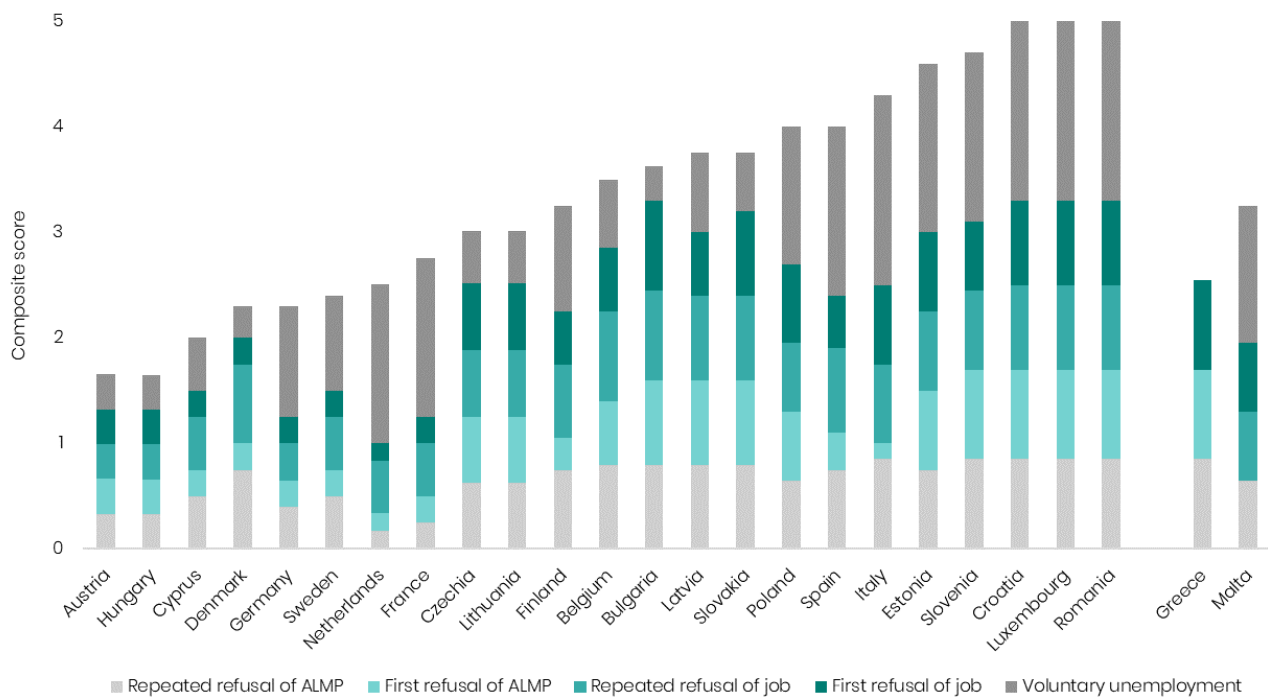
Condition	Sanctions				
	Sanctions for voluntary unemployment	Sanctions for refusing job offers	Sanctions for repeated refusals of job offers	Sanctions for failures to participate in counselling interviews or ALMPs	Sanctions for repeated failures to participate in counselling interviews or ALMPs
	(1) 0-4 weeks (incl benefit reductions)	(1) 0-4 weeks (incl benefit reductions)	(1) 0-4 weeks (incl benefit reductions)	(1) 0-4 weeks (incl benefit reductions or non-payment until compliance)	(1) 0-4 weeks (incl benefit reductions or non-payment until compliance)
	(2) 5-9 weeks	(2) 5-9 weeks	(2) 5-9 weeks	(2) 5-9 weeks	(2) 5-9 weeks
	(3) 10-14 weeks	(3) 10-14 weeks	(3) 10-14 weeks	(3) 10-14 weeks	(3) 10-14 weeks
	(4) More than 14 weeks	(4) More than 14 weeks	(4) More than 14 weeks	(4) More than 14 weeks	(4) More than 14 weeks
	(5) Loss of eligibility	(5) Loss of eligibility	(5) Loss of eligibility	(5) Loss of eligibility	(5) Loss of eligibility
Score & description					

Source: OECD – Strictness of activation requirements scorecard

Statistical note: Malta score grades are shown in orange. No score was assigned for the 'Sanctions for refusals to participate in ALMPs' condition

Consistent with the results of the other two indicators, Malta assigns the highest scores on the 5-point Likert scale implying that sanctions could result in the disqualification of benefit receipt for more than fourteen weeks or the entire benefit eligibility in the case of voluntary unemployment. Figure 27 shows Malta's composite score for all the conditions under this indicator and compares its performance to the other EU Member States.

Figure 27: The strictness of sanction rules (2020)



Source: OECD – Activity-related eligibility conditions for receiving unemployment benefits (2020)

Statistical note: No information was received from Ireland and Portugal. Partial information was received for Malta and Greece.

In line with the trend identified for the two other indicators, Malta adopts a strict sanction approach for any violations of conditions that govern unemployment benefits. A closer inspection of the different types of sanctions shows that countries tend to provide for tougher penalties for voluntary unemployment than for other types of infractions. This is also the case for Malta, as whilst it provides some leeway for the other rules, the voluntary unemployed are statutorily not eligible for unemployment benefits.

Overall conclusion:

Based on this assessment, it is evident that Malta has the strictest activity-related eligibility conditions for unemployment benefits, at least as far as statutory powers are concerned. Malta is not the exception here, and as has already been mentioned, eligibility criteria have undergone significant changes in essentially all advanced economies, generally in the direction of greater strictness. The experiences of past economic downturns suggest that this trend towards stricter eligibility conditions and sanctions will continue as fiscal constraints become more pressing, and likely trigger a search for budgetary savings, including in the unemployment benefit system.

When it comes to actual enforcement, administrative data provided by Jobsplus shows that Malta effectively ‘enforces’ eligibility conditions. Table 21 below represents the absolute number of registered unemployed that have been struck-off from the Part 1 unemployment register, and were thus disqualified from receiving unemployment benefits, during each of the years between 2011 and 2021. The main reasons given by Jobsplus for these sanctions include refusal of training opportunities, refusal of job opportunities or related activities, and working while also registering as unemployed.

Table 21: Number of registered unemployed struck-off from the Part 1 register

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total number of strike-offs	1,366	814	249	518	986	922	843	635	559	669	884

Source: Jobsplus

It should be pointed out however that stakeholder consultations with Jobsplus indicated that this ‘strictness’ is applied with due care and consideration to the individual circumstances of each beneficiary. It was also very evident that services are highly personalised and tailored to individual job search and training requirements (outlined further in sub-Section 6.2.4.3). On this basis, each unemployed person is assigned a Personal Employment Adviser who works with the beneficiary to draw up a Personal Action Plan identifying individual training and job search priorities. Targeted training services are also offered. Therefore, the key take-away here is that while Malta’s system veers towards the stricter end of the spectrum, beneficiaries are offered effective support to engage meaningfully with the process. It was also determined that disadvantaged job seekers are supported by dedicated schemes, programmes and resources to ensure that they are given every chance to improve their employability and secure employment, indicating that the agency adopts an inclusive approach in their unemployment services.

8.6 The effects of unemployment benefits on activation

This stage of the research focused on the outcomes of unemployment benefits for the individuals receiving them. It is evident that the overarching policy objective of these benefits in most economies (emerging and advanced) is to provide temporary relief while simultaneously promoting a transition back to the workforce in the shortest possible time. This objective is achieved primarily through a series of ALMPs built into the benefit process.

A core preoccupation of most countries is the avoidance of a widespread pattern of benefit dependence which may reduce the incentive to return to work. Traditionally, this risk is associated with the availability of high unemployment benefits received over an extended period and with limited job search conditionality, which may reduce the incentive to return to work. The fear in this

context is the creation of unemployment traps and benefit dependence which can lead to long-term unemployment.

Below are the definitions of related terms extracted from the European Commission's economic paper on the benchmarking of unemployment benefit systems¹⁰⁹:

- **Unemployment traps.** Unemployment traps can be defined as cases of low net income gain from taking up work from unemployment. The traps stem from an inappropriately designed tax and benefits system and are usually associated with high net replacement rates. Large unemployment traps may entrench unemployment primarily of low wage persons who tend to have higher net replacement rates and low-wage job prospects. As low-wage persons are generally at higher risk of unemployment than high wage persons and concern a larger share of unemployed the negative impact on incentives is likely to be more pervasive. Therefore, the negative repercussions on effective labour supply and potential output could be large.
- **Inactivity traps.** Inactivity traps can be defined as cases of low net income gain from taking up work from inactivity. In this case, means-tested social assistance provides income replacement typically to the unemployed with an insufficient contribution period, long-term unemployed and hardly employable persons. Large inactivity traps raise a risk of reducing attachment of persons from the labour market and boost structural unemployment.
- **Benefit dependence.** A risk of benefit dependence increases with the benefit duration and is stronger when replacement rates do not fall over the unemployment spell and when job search and availability requirements (valid reasons for refusing job offers, availability to participate in active labour market policy programmes etc) are absent or insufficient.

The previous analysis, comparing NRRs amongst EU Member States, has shown that the design configuration of Malta's unemployment benefits under the contributory scheme presents a somewhat inadequate level of net replacement income relative to previous in-work earnings. The risk of unemployment traps or inactivity traps is therefore not a major concern in the local context, as there is evidently no incentive to remain on unemployment benefits, especially for those earning more than the national minimum wage.

However, a different situation may apply to the non-contributory and means-tested unemployment assistance. The analysis of the net replacement rates under this scheme indicates that this is closer, and in some cases better, than the EU median. Given that this assistance is typically offered over the long-term provided that means-testing criteria are met, this triggers risks of inactivity traps and benefit dependence. This situation was particularly evident in the years leading up to, and immediately following, Malta's accession to the EU. Female participation was consistently and significantly lower than the EU average (see Section 5.1.2); a feature of this low participation rate was a relatively high rate of dependence on social assistance support.

¹⁰⁹ Stovicek, K., Turini, A. (2012). Benchmarking unemployment benefit systems. Brussels. European Commission Directorate-General for Economic and Financial Affairs. Economic Papers 454.

The ALMPs referred to above, namely the Tapering of Benefits Scheme, the In-Work Benefit Scheme, and the Free Childcare Scheme have been key in addressing these challenges. The following are the main highlights resulting from each one of these schemes.

- According to data provided by the Ministry for Social Policy and Children’s Rights, the take-up of the Tapering of Benefits Scheme has been significant, rising from 587 beneficiaries in 2014 to 1,626 in 2021. A very high percentage of these beneficiaries – 87 per cent – remain in employment after exhausting the three-year period of the scheme.
- Similarly, the In-Work Benefit Scheme, introduced in 2015, exhibited a rising participation rate, increasing from 1,359 in that year to 7,206 in 2021.
- This strong trend also applies to the Free Childcare Scheme. Data supplied by Jobsplus indicates that the number of children receiving the service stood at 7,509 last year, compared to 5,335 in 2016 when it was first launched.
- Over the same period that these three schemes were introduced (2015 –2021), Ministry data records a drop in the number of beneficiaries of social assistance from 19,237 in 2014 to 7,945 in 2021.
- These trends may also be a factor in the drastic reduction in the number of long-term unemployed referred to above over the same period, whereby Jobsplus reports a steady decrease from 2,944 in 2014 to 361 in 2021.

Developments on the take-up of each scheme are summarised in Table 22 below.

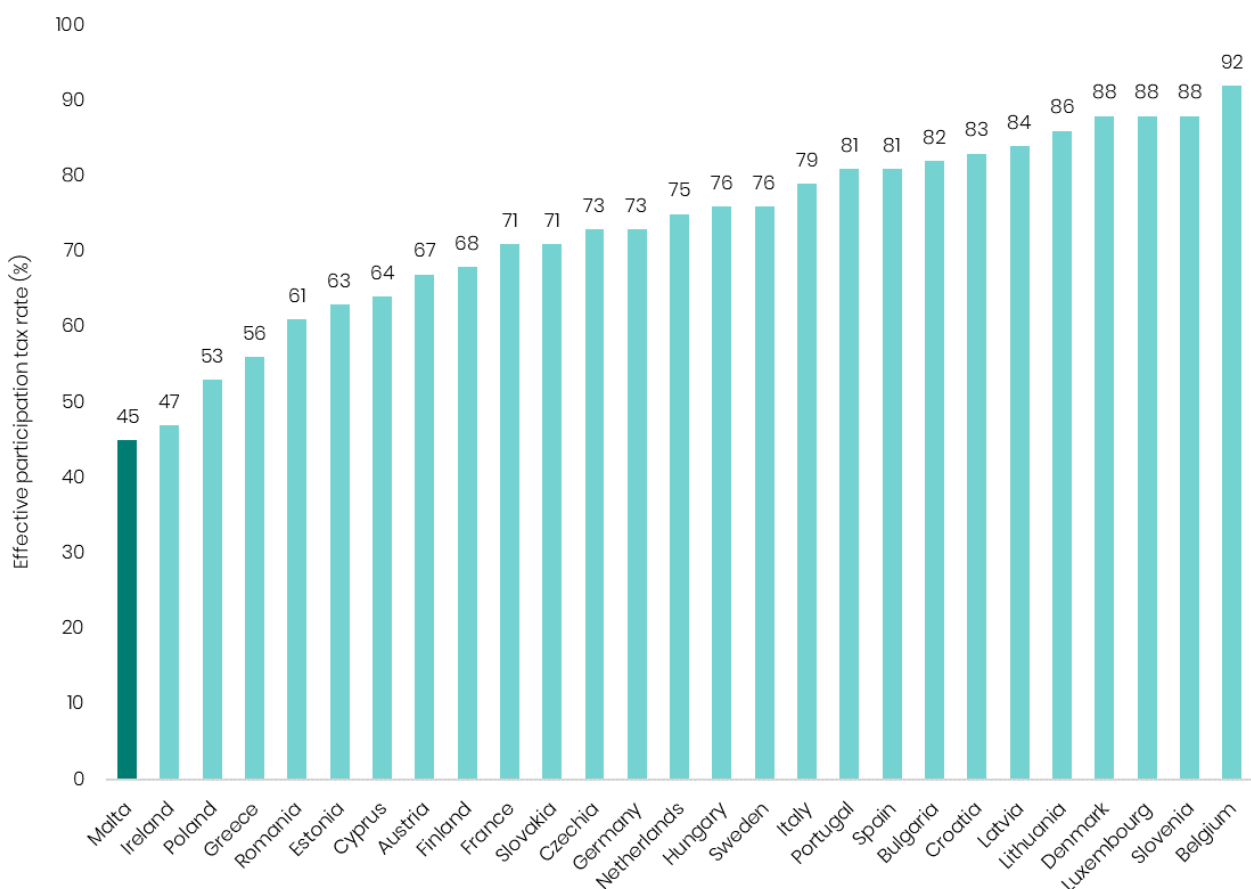
Table 22: Take-up of ALMP schemes

Description	2014	2015	2016	2017	2018	2019	2020	2021
Number of tapering beneficiaries	587	2,101	3,062	3,604	3,474	2,708	2,005	1,626
Number of in-work beneficiaries		1,359	2,112	3,350	4,463	5,093	5,309	7,206
Number of children enrolled in free childcare			5,335	5,939	6,737	7,341	6,702	7,509
Number of social assistance beneficiaries (SA/SUP/UA)	19,237	15,691	13,246	11,154	9,857	8,788	8,295	7,945

Source: Jobsplus, Ministry for Social Policy and Children's Rights

In addition to the above, Malta's effective participation tax rates (PTRs) for claimants of unemployment benefits is the lowest when compared to all the other EU Member States (OECD Tax-Benefit calculator). This indicator which captures the financial disincentives to participate in the labour market, calculates the proportion of earnings in the new job that are lost to either higher taxes or lower benefit entitlements when a jobless person takes up employment. Higher values mean higher financial disincentives. In Malta's case the PTR on entering employment from a state of unemployment, which in 2020 stood at 45 per cent, incentivises work and counters the risks of having high unemployment and / or inactivity traps (Figure 28).

Figure 28: Effective participation tax rates for claimants of unemployment benefits taking up full-time employment at 67.0 per cent of the average wage (2020)

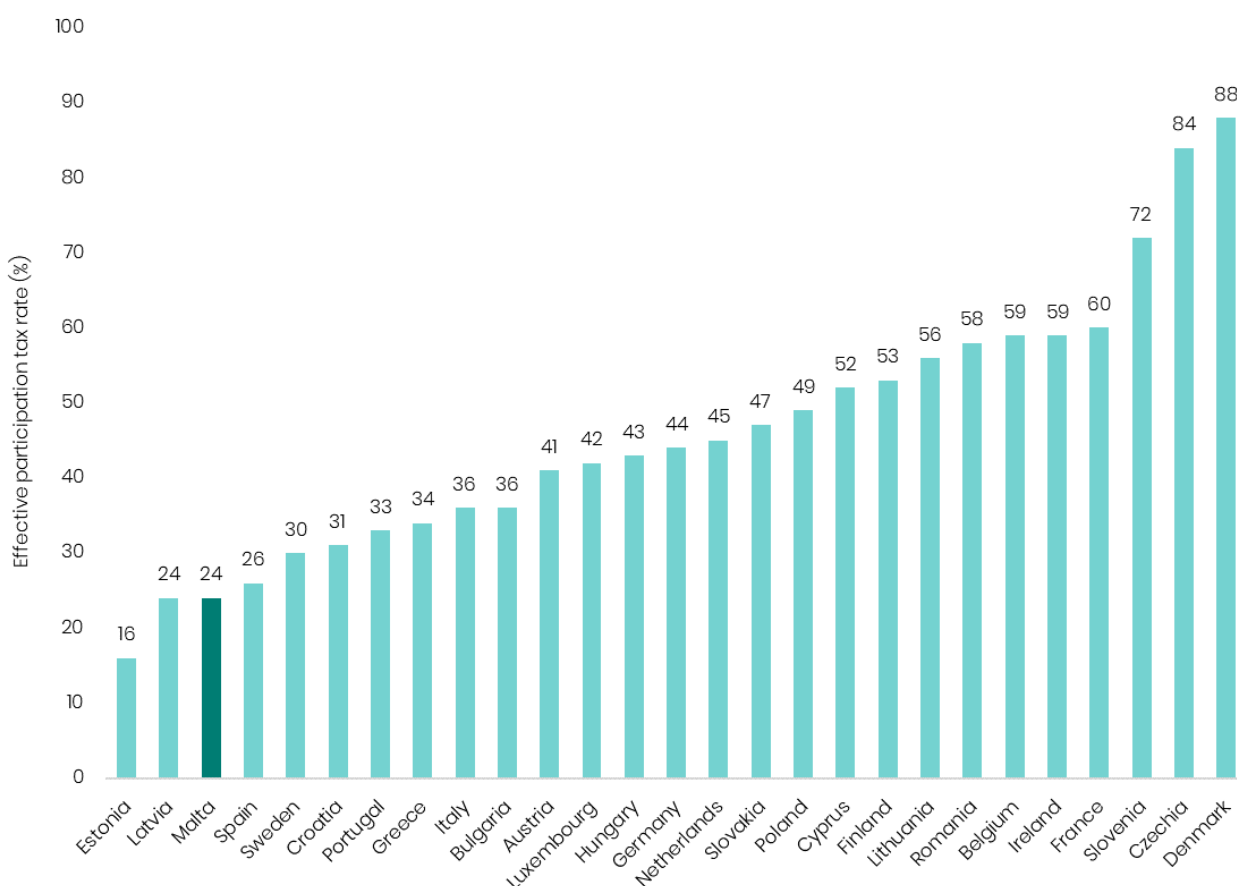


Source: OECD tax-benefit calculator

¹¹⁰ Number of social assistance beneficiaries includes all those receiving social assistance, special unemployment benefits and unemployment assistance.

Similar conclusions can be drawn when analysing the effective tax rate on entering employment for parents using childcare services. In this case, the indicator captures the financial disincentives of parents to participate in the labour market, by calculating the proportion of earnings that are lost to either higher tax, lower benefits, and net childcare costs when a parent with young children takes up full-time employment and uses full-time centre-based childcare services. Malta, once again stands out among the lowest in the EU with a PTR of 24 per cent (Figure 29), suggesting that parents have very little incentive to stay inactive, particularly when the net costs of using childcare services in Malta are zero on account that the service up to the age of three is free.

Figure 29: Effective participation tax rates on entering employment for parents using childcare services (2020)



Source: OECD tax-benefit calculator

Statistical note: Family type – couple with 2 children and partner's earnings are 67.0 per cent of the average wage.

Earnings for parent in new job also at 67.0 per cent of the average wage.

Overall conclusion:

The strong decline in the unemployment rate registered over the period under review has been driven to a significant degree by the increased focus on labour market activation policy after 2014 to make work pay. This is borne out by some key indicators which include the decline in the long-term unemployment rate and the downward trend in the number of social assistance beneficiaries. It is evident from the analysis presented above, that these activation measures have been convincingly successful in facilitating a swifter transition to employment and in incentivising work over benefit dependency. The participation tax rate indicators calculated by the OECD further confirm this direction in policy, with results showing that Malta's effective PTR is amongst the lowest in the EU, and thus implying that Malta's tax-benefit system is designed to ensure that work is financially more attractive than benefit dependency.

9.0 Impact

As proposed in the Inception Report, the research and analysis undertaken for this project was developed within an overarching research framework to provide a comprehensive and coherent assessment process.

Working back from this National Study's core objective, that of assessing the adequacy and effectiveness of Malta's unemployment benefits, the framework is structured around five key components. These components, together with the related research topic they cover, are listed below.

Input	>>>	Unemployment realities
Process	>>>	Social protection system
Output	>>>	Benefit entitlement
Outcome	>>>	Provision of benefit and/or assistance
Impact	>>>	Adequacy of benefit and/or assistance

Working within this framework, this final section consolidates the main findings of the analysis that relate to the key impacts of Malta's unemployment protection system on beneficiaries.

Where applicable, recommendations are then put forward to address any gaps identified in these findings.

9.1 Policy context for the National Study's findings and recommendations

As per the terms of reference, the overall objective of this National Study is to assess the 'adequacy' and 'efficacy' of Malta's unemployment support framework.

The desk research carried out in the preparation of this report included a review of the latest policy trends relating to unemployment protection. This review therefore covered the most recent recommendations issued by the European Commission, the ILO and the OECD.

The aim was to obtain a clear understanding of the evolving policy direction for this branch of social protection, ensuring a robust foundation for the conclusions presented in this section. Aspects of this policy review are detailed in the previous sections of this report as they relate to particular aspects of Malta's system. However, this concluding section focuses on the evolving and overarching definition of 'adequacy' and 'efficacy' of unemployment benefits, to better frame the overall findings and recommendations on Malta's system presented below.

9.1.1 High-level external policy context

This overview is based on a review of three documents:

- The Council Recommendation adopted on 8 November 2019 on access to social protection for workers and the self-employed, which aims to ensure better access to social protection to people in non-standard forms of employment and self-employment. The policy recommendations advanced by the European Commission through the European Semester Framework were also considered.¹¹¹
- A Technical Note issued by the ILO in September 2021 to review and update the Organisation’s current unemployment protection, mainly in view of two important developments:
 - the labour market disruptions caused by the impact of the COVID-19 pandemic on employment; and,
 - the arrival of the ‘future of work,’ which will increasingly make job transition a major characteristic of labour markets in developed and developing countries.¹¹²
- The OECD’s 2018 flagship report on the future of work, which highlighted new approaches to unemployment protection and activation.¹¹³

These sources converge on the following points related to the adequacy of unemployment benefits:

- The income levels of unemployment benefits continue to be a key policy feature and are considered key to any assessment of their adequacy. The consensus remains that the fundamental purpose of unemployment protection schemes is to provide *“appropriate income replacement”* while also preventing beneficiaries *“from falling into poverty”* (Council Recommendation of 8 November 2019). The COVID-19 crisis has underlined the importance of this purpose.
- Within this context, there is a broad consensus that income support during unemployment should not be high enough to disincentivise re-employment and encourage benefits dependence. Linking benefits with job-search and availability to work requirements is also

¹¹¹ European Commission. (2017). European semester thematic factsheet: Unemployment benefits,

¹¹² International Labour Organisation. (2021). Examination of instruments concerning unemployment benefits, comprehensive sectoral standards, medical care and sickness benefits. Technical Note 1: Instruments concerning unemployment benefit.

¹¹³ Organisation for Economic Co-operation and Development. (2018). Good jobs for all in a changing world of work. OECD Publishing, Paris.

a key feature *"to ensure that recipients remain engaged and do not become inactive"* (Thematic Factsheet on Unemployment Benefits 2017).

- In terms of the replacement rate, the ILO reiterates the recommendation defined in Convention 102, which calls for a minimum replacement rate of 45.0 per cent of previous earnings for at least 26 weeks within a period of 12 months in scenarios where protection covers all residents with financial means that do not exceed the prescribed limits (as is the case with Malta).¹¹⁴ It also promotes the later recommendation issued through Convention No. 168, which set a higher standard, at 50.0 per cent of earnings for 26 weeks during each spell of unemployment.¹¹⁵
- In terms of duration a minimum of 26 weeks for each spell of unemployment is recommended as per ILO Convention No. 168.
- Setting a minimum benefit level is important for protecting lower wage earners as opposed to a system wholly based on a uniform percentage of previous earnings. On this point the ILO recently restated its policy based on Convention No. 168 which recommends a minimum benefit set at no less than 50.0 per cent of the statutory minimum wage.
- All three organisations highlight the need to ‘maintain benefits in the future’ and promote the design of an automatic indexation mechanism to adjust the ceiling of insurable earnings. If this is not in place, they argue, benefits will become inadequate over time as thresholds fall out of step with rises in inflation. The ILO recommends indexing to increases in the national average wage as being preferable to increases in inflation, since earnings usually rise at a higher rate than inflation. The risk in having the minimum benefit indexed to the inflation rate is therefore an overall decrease of the replacement rate of unemployment benefits for low earners.
- The linkage of schemes with active labour market policies *"such as job-matching, support, counselling and advice, as well as facilities for enhancing, updating and developing skills"* is assuming greater importance given the ‘future of work’ realities referred to above. This aspect could increasingly be considered key to the efficacy or otherwise of unemployment protection.
- There is a shared view on the contributing factors to the low effective coverage ratio. These include the fact that many existing unemployment benefit programmes are contributory and better suited to workers in formal employment. These therefore may be less accessible to the long-term unemployed, disadvantaged jobseekers, and workers in informal

¹¹⁴ C102 - Social Security (Minimum Standards) Convention, 1952 (No. 102)

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312247:NO

¹¹⁵ C168 - Employment promotion and protection against unemployment Convention, 1988 (No. 168)

https://www.ilo.org/dyn/normlex/en/f?p=1000:12100::NO:12100:P12100_INSTRUMENT_ID:31231

employment. This is the main concern behind the Council Recommendation of 8 November 2019. Apart from the self-employed, the Recommendation also refers to other employment relationships and non-standard forms of self-employment which should also be catered for in social protection policy (Art. 11). These include new forms of work associated with digitalisation and globalization, such as on-demand, voucher-based and platform work.

9.2 Key findings – Malta’s unemployment protection system

This section will gather the key findings of the quantitative and qualitative analysis structured in line with the research framework. The aim is to provide a discussion of the main research results as they relate to the adequacy and effectiveness of Malta’s unemployment protection schemes.

9.2.1 Input – Unemployment realities

9.2.1.1 A restructured and buoyant labour market characterised by strong job mobility

Section 5 of this report details how Malta’s strong economic performance in recent years, particularly between 2015 and 2018, resulted in fast employment growth at rates that far exceeded the EU 27 averages during that period. The transformation of the occupational structure of the labour market was also consolidated during this period, with a decisive shift towards a diversified base of services sectors and the growth of a digital economy. A sharp rise in female participation was a key factor in employment growth, while the fast rate of economic growth and the diversification it entailed resulted in a high demand for labour which exceeded local supply and leading to a significant influx of foreign workers.

As employment reached these record highs, unemployment consistently dropped to historically low levels. This is associated with job mobility increasingly becoming a defining characteristic of Malta’s employment landscape. Such swift transitions from one employment to another without the need to register for unemployment and claim benefits can in fact reasonably be assumed to be a factor in the low number of registered unemployed.¹¹⁶ A temporary and low rise in unemployment due to COVID-19 was recorded in 2020 and into 2021, however this was held in check by the effective wage supplement measures rolled out by the Government. By 2021 unemployment rates were lower than pre-pandemic levels.

The research into the local unemployment realities carried out in the initial phase of this study, therefore indicates that Malta’s labour market is resilient with ever-decreasing levels of unemployment. Based on this time-based review, it is evident that such resilience was tested twice, in the aftermath of the 2009 financial crisis and during the COVID-19 pandemic, and in both cases unemployment levels remained low.

¹¹⁶ As indicated by the difference in the number of unemployed persons captured in the Labour Force Survey compared to the number of unemployed persons registered with Jobsplus.

As cited in Section 5.1.1, Malta's post-pandemic economic recovery is on track with a positive outlook, although challenges such as persistent supply chain disruptions and the impact of the Russian invasion of Ukraine may pose risks, particularly in terms of inflation.

On this basis, the number of unemployed persons as a share of the workforce is likely to remain low due to sustained job mobility, with the number of registered unemployed persons claiming benefits maintaining its downward trend.

9.2.1.2 A more diverse workforce, with a growing segment of temporary workers

The research has highlighted the rapid rise in the number of foreign nationals in the Maltese workforce, with this share of the labour force exhibiting the faster average annual growth rates between 2017 and 2021. In this same period, the number of non-EU nationals started to significantly outpace that of EU nationals. Despite a lull in cross-border migration in 2020 and the first half of 2021, the number of foreign workers is now higher than before the pandemic. At the end of 2021, the number of EU nationals (34,400) had decreased slightly compared to 2019 (35,637) primarily due to the reclassification of UK nationals from EU to non-EU following Brexit, while the number of non-EU nationals had increased significantly to 43,525, against the 32,399 registered in 2019.

Desk research and stakeholder consultation has highlighted some anecdotal information pointing to a rising number of non-EU nationals engaged in temporary or informal work, particularly related to the platform economy.¹¹⁷

In terms of unemployment benefits, there are some key findings related to foreign workers:

- Eligibility of EU nationals for contributory unemployment benefits and non-contributory unemployment assistance as required by the four main principles of the EU's coordination rules (Regulations 883/2004 and 987/2009)¹¹⁸.
- Non-EU foreign nationals are eligible for unemployment benefits provided they meet contributory requirements and are long-term residents. Residency is also a condition for access to unemployment assistance.
- The increase of platform workers, as well as other workers in informal working arrangements, is likely to intensify over the next few years as concerns regarding potential exploitation grows. These concerns are flagged in Malta's new Employment Policy 2021 – 2030, and reference is also made in the Council Recommendation of 8 November 2019 specifically in terms of access to social protection. In Malta, under the current system most platform, temporary and casual workers would be ineligible for contributory benefits or

¹¹⁷ Times of Malta. Editorial. The growth of an underclass. April 28, 2022.

¹¹⁸ European Commission. Your social security rights in Malta. pp.29-30. July 2021.

non-contributory assistance. In line with para. 17 of the Council Recommendation's objective and scope, it would be helpful at this stage to gather and maintain data on this category of workers to facilitate future policy formulation.

9.2.1.3 An evolving unemployed population

As discussed in Section 5 of this report, Malta's registered unemployed population is characterised by a higher share of older workers (aged 45+). Over the last decade, males have consistently outnumbered females, with the latter numbering only 28.9 per cent of the total unemployed in 2021. There is a higher proportion of unemployed persons in 2021 with a lower level of educational attainment (ISCED 0-2)¹¹⁹ – 47.6 per cent – compared to a decade earlier, when this cohort made up 34.0 per cent of the total unemployed population. This may indicate the increasing employability challenges faced by unskilled or low skilled workers in Malta's restructured, digital economy.

The number of long-term unemployed persons has also shown a steady decrease over the last decade, dropping from 60.3 per cent of total unemployed in 2011 to 27.1 per cent in 2021. The research findings indicate that the intensive activation measures introduced by the Maltese Government from 2014 onwards were a key contributing factor to this overall decrease in the rate of unemployment and long-term unemployment. The three core measures were the Tapering of Benefits Scheme, the In-Work Benefit Scheme, and the Free Childcare Scheme. All three measures, the Free Childcare Scheme in particular, were effective in incentivising female activation and were pivotal in driving up the female participation rate that had lagged behind the EU average since Malta's accession in 2004. Across the unemployed population, the introduction of these schemes created the right conditions to wean beneficiaries off benefit dependency. The data discussed in Section 8.6 bears out this steadily declining trend in parallel with the roll out of these measures.

9.2.2 Process – Social protection system

9.2.2.1 Effectiveness, transparency and accountability

The second component of the research framework consisted of a detailed review of the contributory and non-contributory unemployment schemes administered by the DSS under the Social Security Act (Cap 318). The aim was to map out the process to obtain a clear and accurate understanding of how the schemes work, the engagement with beneficiaries, the rates and conditionalities applied, and the different roles and responsibilities involved. Apart from the key role played by the DSS, the function of Jobsplus, as Malta's public employment services agency, was also reviewed.

¹¹⁹ Educational attainment levels are grouped into three categories: Less than primary, primary and lower secondary education (ISCED 0 – 2), upper secondary and post-secondary non-tertiary education (levels 3 and 4) and tertiary education (levels 5 – 8).

The ISSA Guidelines for Social Security Administration provided a frame of reference for this review. These guidelines promote five principles of good governance as “*central to the effective delivery of social security.*”¹²⁰ These principles together with the ISSA definition are listed in Table 23 below, together with brief observations gathered through the research in terms of their application to the Maltese social security process.

Table 23: ISSA Principles of Good Governance

Principle	ISSA definition	Observation
Accountability	The ability to hold legally responsible the officials who are in charge of the institution.	The Department of Social Security is the institution responsible for the administration of Social Security legislation under the Social Security Act (Cap 318). Accountability is championed by the Department as one of its core values. It is put into practice through the Office of the Umpire, through which persons can appeal decisions made by the DSS in their regard. As per Art. 107 of the SSA, the Office is mandated to change decisions made by DSS officials (including at Director General level) if these are found to be wrong. Art. 105 of the same Act specifies questions arising from unemployment benefit claims that are covered by this procedure. These include the insurability or otherwise of employment, issues relating to the payment of contributions, as well as the ‘class’ of the claimant, i.e., self-employed, self-occupied or employed. Art. 109 of the Act further provides for an appeal process in terms of decisions taken by the Umpire, which may be lodged at the Court of Appeal (Inferior Jurisdiction).
Transparency	The availability and accessibility of accurate, essential, and timely information to ensure that stakeholders are well informed of the true state of the social security programme and how it is being managed.	The DSS has a strong online presence with its official website providing information on all services and benefits. ¹²¹ This website provides clear information on the rules and conditions for all social protection schemes. Furthermore, this information is presented in a manner that is in line with the definition of transparency provided in the Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed, which calls

¹²⁰ International Social Security Association. (2013). ISSA guidelines: Good Governance. Geneva.

¹²¹ Official website of the Department of Social Security. Information and Applications for Benefits and Services. Retrieved on 18 June 2022. <https://socialsecurity.gov.mt/en/information-and-applications-for-benefits-and-services/>.

		<p>on Member States to ensure that the public has access to <i>“updated, comprehensive, accessible, user-friendly and clearly understandable information about their individual entitlements and obligations free of charge.”</i></p> <p>In terms of public visibility of the social security system and how it is managed, the DSS rigorously maintains its administrative data and publishes a detailed report each year with information and statistics on social security service delivery.</p>
Predictability	The consistent application of the law and its supporting policies, rules, and regulations. For social security programmes, the rights and duties of members and beneficiaries must be well defined, protected and consistently enforced.	Malta’s social security system is enshrined in the Social Security Act (Cap. 318) which clearly defines the contributory and non-contributory pillars of social security system. Programmes and benefits are implemented and regulated within this comprehensive legal framework. Malta also conforms to the EU Social Security Coordination Rules under EU Regulations (EC) Nos. 883/2004 ¹²² and 987/2009, ¹²³ with established cross-border procedures in place.
Participation	The active education, engagement, and effective involvement of stakeholders to ensure the protection of their interests. The meaningful participation of stakeholders depends on their access to information about the institution and their capacity to understand and act on such information.	<p>The DSS website referred to above includes different contact options, including a user-friendly contact form. A freephone customer care service and a mobile app are also available.</p> <p>The DSS also maintains effective offline resources at community level through a network of 22 servizz.gov regional hubs in Malta and three district offices in Gozo.</p> <p>Apart from these online and offline resources the Department also regularly engages in public information campaigns using different communication channels.</p>

¹²² Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems.

¹²³ Regulation (EC) No 987/2009 of the European Parliament and of the Council of 16 September 2009 laying down the procedure for implementing Regulation (EC) No 883/2004 on the coordination of social security systems.

Dynamism	The element of positive change in governance, specifically in terms of changing and improving on the existing system, and by responding to the evolving needs of programme members and beneficiaries, thereby creating new value.	<p>Social protection policy in Malta is dynamic and responsive to changing realities and needs. Reforms and enhancements are implemented periodically in all branches of social protection. Examples related to unemployment protection include the roll-out of active labour market initiatives in 2015 as well as the provision of contributory unemployment benefits to self-employed persons.</p> <p>This year the Ministry for Social Policy and Children’s Rights issued a comprehensive policy document laying out a new social vision for Malta that responds to the country’s changing social and economic realities. In terms of unemployment benefits, this document includes reference to the growing issue of temporary or informal workers (often third country nationals).</p>
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9.2.2.2 Linkage of unemployment benefits with activation measures

The design of Malta’s unemployment benefits is closely aligned with the policy recommendations discussed in Section 9.1.1 above in terms of their integration with a robust activation programme.

As per these recommendations, a range of activation services is offered to unemployed persons registering with Jobsplus as involuntarily unemployed and fit, able, and available for work (and therefore eligible for unemployment benefits). The hallmark of these services is their personalisation: a Personal Employment Advisor is appointed for each beneficiary and training and job matching services are targeted to the individual’s needs and profile through a Personal Action Plan. Specific programmes are also in place to boost the activation of unemployed persons, including incentives aimed at employers. A typical programme is the Work Exposure, Traineeship, and Work Placement Initiative which facilitates the transition into employment by providing jobseekers with hands-on training that will help them acquire the skills and competencies required to find and retain employment.

This personalised approach was refined further in 2020 when Jobsplus restructured its jobseeker advisory services to offer a more targeted approach to different categories of jobseekers. Four key categories were identified: registered youth jobseekers, the long-term unemployed, migrants and job changers. The first two categories in particular are likely to include a large share of the beneficiaries of unemployment benefits or assistance.

Inclusive employment interventions also appear to be factored into the employment services approach. The Inclusive Employment Services Unit is specifically designed to assist persons with disability, former substance abusers, former prison inmates, and individuals with socio-economic difficulties to integrate into the labour market. This effort is supported by tailored training and work exposure schemes, such as the VASTE Programme, which provide training and work exposure opportunities.

The overall finding is therefore that Malta's unemployment benefits scheme is effectively integrated with activation measures which provide sufficient flexibility and personalization to maximise re-employment opportunities. A decisive development has been the introduction of the three flagship activation measures referred to in the previous section, that is, Tapering of Benefits, In-Work Benefits and Free Childcare. These work together to reinforce the financial rewards for re-employment and for remaining in employment.

As a qualitative measure of adequacy in this area, it was in fact interesting to note that Malta's unemployment system is very closely aligned to the OECD's recommendations in this area which call for a comprehensive activation strategy that *"makes work more accessible by dealing with all barriers simultaneously by combining measures to ensure that jobless people have the motivation to search actively and accept suitable jobs with actions to expand opportunities and interventions to increase the employability of the least employable."*¹²⁴

Recommended actions which are already embedded into the Maltese system include:

- effective profiling tools early in the jobless spell so that intensive counselling and tailored case-management are targeted to harder-to-place jobless individuals;
- making work pay through tax-benefit reforms and by providing targeted in-work benefits.

The steady downward trend in registered unemployment, particularly long-term unemployment, is an indicator of the effectiveness of linking these activation policies to unemployment support.

9.2.3 Output – Benefit entitlement

9.2.3.1 A declining trend in the take-up of unemployment benefits

A core objective of this National Study has been to scope out the coverage and take-up level of Malta's unemployment benefits and assistance given that these are important indicators of adequacy and efficacy.

¹²⁴ Organisation for Economic Co-operation and Development. (2018). Good jobs for all in a changing world of work. OECD Publishing, Paris.

The assessment first focused on formal coverage. As discussed above in Section 7.2.1, Malta's labour force is formally covered for unemployment protection through a mandatory contributory and non-contributory scheme provided for by the Social Security Act (CAP 318 of the Laws of Malta). This Act specifies that every person who is in insurable employment between the age of 16 and 65 is to be insured and therefore liable to pay social security contributions. On this basis such persons are then eligible to claim and receive benefits, including unemployment benefits, subject to satisfying the minimum conditions. Therefore, persons claiming social security benefits (irrespective of their form of work) who are in employment or self-employment and are paying social security contributions according to the Social Security Act, and satisfy the minimum requirements established by the same Act, would qualify for the benefits being claimed.

These formal coverage parameters are in line with the Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed, although the status of workers in informal working arrangements who are not considered to be insurable employment is an emerging issue.

This situation is more complex in the case of effective coverage, as per the analysis presented in Section 7.2.2. The assessment of effective coverage and take-up rates factored in the duration of benefits as well as eligibility conditions, including a comparison of these features with systems in place in other EU Member States. The following conclusions were drawn:

- In terms of eligibility for contributory benefits – the payment of 50 contributions, of which at least 20 have been paid or credited in the previous two years – Malta is similar to the majority of Member States, falling within a group of 14 countries with qualifying periods ranging from 50 to 52 weeks (Section 7.2.3.1).
- In terms of benefit duration, Malta's maximum period of 26 weeks (calculated as 156 days) is lower than most EU Member States, although it is aligned with the standard duration advocated in ILO Convention No. 168. This said, analysis of data provided by the Ministry for Social Policy and Children's Rights between 2011 and 2021 also indicated that the average duration of actual benefit receipt was in fact significantly lower than the maximum entitlement period. Including two periods of relative economic slowdown (the years of recovery following the 2009 financial crisis and the COVID-19 pandemic in 2020), between 2011 and 2021 the highest average duration was 11 weeks. This increased to 13 weeks in 2020 before decreasing again to 10 weeks in 2021. Although the prospect of economic destabilisation and increasing unemployment must always be factored into policymaking in this area, the analysis referred to above in terms of benefit duration runs over the last ten years, including in periods of significant labour market disruption, indicating that the current duration of unemployment benefits is generally aligned with Malta's economic and labour market realities.

Effective coverage was then measured between 2011 and 2021. Two data sources were analysed: the Labour Force Survey which captures the total unemployed population at a given point in time, and the registered unemployed population recorded in the administrative data maintained by Jobsplus. As is the norm in other EU countries, the number of registered unemployed (administrative data) is consistently lower than the number of unemployed captured by LFS data.

As referenced in Section 7.3.1, the share of registered unemployed as a percentage of total unemployed captured by the LFS exhibited a steady downward trend over the period reviewed – falling from 55.9 per cent in 2014 to 17.2 per cent in 2019. This trend reflects a falling take-up rate of unemployment benefits.

Having ascertained that a lack of transparency or public information is not a contributing factor (see 9.2.2.1), and that particularly with the inclusion of self-employed persons in 2019 Malta has a robust legal framework for formal coverage, the reasonable inference is that this trend is due to the buoyant labour market dynamics characterised by smooth job transition. In fact, it is very indicative that registration rose markedly in 2020 amidst the COVID-19 economic slowdown, although it sank once again to pre-pandemic levels the following year.

9.2.3.2 A similarly declining trend in effective coverage

Given the consistent year-on-year decline in the number of registered unemployed between 2011 and 2021 outlined above, the number of unemployed persons receiving unemployment benefits or assistance follows a similarly declining trend. Measuring the effective coverage of unemployment benefits (contributory) and unemployment assistance (means-tested), using the number of registered unemployed recorded in the administrative data maintained by Jobsplus, the following points were observed in Section 7.4 of this report:

- Unemployment assistance has historically been the most prevalent unemployment protection scheme since entitlement and duration conditions are less rigid than the contributory benefits. However, the share of unemployed receiving assistance as a percentage of the total number of beneficiaries has fallen from 83.6 per cent in 2011 to 59.4 per cent in 2021. This reflects the intensive policy effort to decrease benefit dependency and ‘make work pay,’ primarily through the activation and in-work schemes described in 9.2.2.2 above.
- In contrast, the share of unemployed receiving unemployment benefits as a percentage of the total number of beneficiaries has risen from 12.6 per cent in 2011 to 37.3 per cent in 2021.
- In overall terms, when measured as a percentage of the total unemployed population registering under Part I of the Unemployment Register, the effective coverage rate of Malta’s combined unemployment protection schemes, that is, benefits and assistance, amounted to 60.9 per cent in 2021 (compared to 85.0 per cent in 2011).

The effective coverage rate of Malta's contributory and non-contributory unemployment benefits when measured as a percentage of the unemployed population registering under Part 1 of the Jobseekers Register is somewhat low. This is considered a key take-away of the research, particularly since this metric is obtained against a population that should, as registrants under Part 1 of the Register, meet most of the eligibility criteria for either the unemployment benefit or the unemployment assistance.

Unlike most of the other indicators analysed in this study, it is not possible to compare Malta's effective coverage rate with that of other Member States, given cross-border differences in taxonomy and data collection methods to measure this indicator. However, it can be noted that a declining trend in effective coverage rates is borne out by an analysis of local effective coverage rates over the last ten years. This indicates a downward trend for both unemployment benefits and unemployment assistance. It should be noted however that this trend is not restricted to Malta and does align with a global trend of falling benefit coverage over the last decade.¹²⁵

An analysis of the administrative data on the take-up rates of unemployment benefits and unemployment assistance is presented in Section 7.4 above. Although the take-up of unemployment assistance has consistently been higher than that of benefits, the gap between the two narrowed steadily over this period. It is notable that the share of unemployed beneficiaries receiving contributory benefits increased by a significant 24.7 percentage points while the share of those receiving unemployment assistance declined by a similar margin of 24.1 percentage points. The reasons for these shifts may be varied and may be affected by different policy factors.

These factors may include:

- The policy drive to increase the activation focus of benefit and assistance eligibility may be a factor behind the declining coverage rate. Unemployed persons unable or unwilling to meet the tightening activation requirements may have lost their entitlement for this reason. It is relevant to note here that Malta's level of strictness in this regard is amongst the highest in the EU (see Section 8.5).
- The declining share of unemployment assistance in overall unemployment protection may be tied to the positive impacts of the activation measures introduced after 2015, which resulted in a swift and significant transition of a number of beneficiaries into employment due mainly to the financial incentives and support provided.
- A number of unemployed persons who were receiving the contributory benefit but remain unemployed once this benefit lapses are not assessed as being eligible to shift to receiving

¹²⁵ Organisation for Economic Co-operation and Development. (2018). Unemployment benefit coverage: Recent trends and drivers. Employment outlook 2018. OECD Publishing, Paris.

unemployment assistance at that point and therefore cease to be effectively covered by any form of unemployment protection.

9.2.4 Outcome - Provision of benefit and/or assistance

Assessing the direct outcomes of unemployment support on beneficiaries was the concluding phase of the research and integral to overall conclusions on the adequacy of the current system. This assessment was based primarily on measuring three features of both the contributory and non-contributory schemes:

- The level of income support provided, expressed as the Net Replacement Rate in line with the internationally recognised standard measuring adequacy in terms of income smoothing;
- The inclusion of activity-related eligibility conditions; and,
- The impact of activation incentives.

9.2.4.1 Varying levels of adequacy in income support

The income support dimension of Malta's unemployment benefits and unemployment assistance was analysed based on three indicators: the at-risk-of-poverty rate among the unemployed population; the long-term unemployment rate; and the Net Replacement Rate of previous earnings.

Key findings:

- As discussed in Section 8.4.1, Malta's at-risk-of-poverty rate across the unemployed population fluctuated heavily over the period under review (2010-2020) and tended to be higher than the EU 27 average, which maintained a far steadier trend. In fact, the EU 27 rate in 2010 stood at 45.7 per cent, rising minimally to 46.5 per cent in 2020 with very little movement over the decade. By contrast, Malta's at-risk of poverty rate among the unemployed population was lower than the EU 27 average in 2010 (43.7 per cent), but started an upward trend from 2011 onwards, rising sharply between 2014 and 2015 to just under 58.0 per cent, and rising once again between 2017 and 2019 to 57,6 per cent. A downward trend was then noted between 2019 and 2020, when the rate declined slightly to 51.0 per cent.
- On the other hand, the rate of long-term unemployment as a percentage of total unemployment has declined heavily over the same period. It is evident from the analysis captured in Section 8.4.2 above, that this downward trajectory mirrors similar trends across the EU, although Malta's current rate is significantly lower than the EU average (by 12.1

percentage points). As discussed above, the effective activation schemes introduced since 2014 are a contributing factor to this decrease.

- As per international evaluation standards, the Net Replacement Rate of Malta's unemployment benefit and assistance was analysed in relation to the national minimum wage, 67.0 per cent of the national average wage and the national average wage. Two spells of unemployment were considered: the second month of and the twelfth month of unemployment. The relative EU median was used as a benchmark in each case. Although more detailed observations are presented in Section 8.4.3, the overall finding is that unemployment benefits under the contributory scheme are inadequate and significantly lower than the EU median, particularly for those beneficiaries previously earning more the minimum wage. The non-contributory schemes, on the other hand, are in line with, and in some cases better than, the EU median.
- The use of a fairly static flat rate further compromises the adequacy of unemployment benefits over time. Currently this is only adjusted in line with incremental increases in the national minimum wage without reflecting increases in the national average wage, which has risen in line with Malta's strong economic growth. This has resulted in an NRR that is out of step with Malta's national average wage and salary structure.

9.2.4.2 Strict availability to work conditions may have negative impacts

A finding of the research is that Malta's availability to work and active job search conditions, rated using the scorecard method detailed in Section 8.5, are among the strictest in the EU. Over the period under review, the receipt of unemployment benefits has been increasingly dependent on a strict enforcement of these conditions.

Malta is not the exception in this regard and international trends, particularly in advanced economies, have been in the direction of "a notable tightening of job search and reporting requirements."¹²⁶ This has affected eligibility criteria which have become increasingly demanding, with Malta at the stricter end of the spectrum in this regard. This was borne out in stakeholder consultations with Jobsplus, which provided some insight into how this strictness regarding availability conditions plays out in practice. Although it emerged clearly that Jobsplus takes a very individualised approach when dealing with beneficiaries who may be failing to meet the imposed conditions and apply a degree of discretion in certain cases that may warrant this, an unjustifiable failure to meet these conditions does result in sanctions, including the withdrawal of benefits or assistance.

This situation mirrors that in several other countries. In fact, a 2019 ILO global policy review of unemployment insurance schemes analysed the national schemes of 48 advanced and

¹²⁶ Immervoll, H. and Knotz, C. (2018). How demanding are activation requirements for jobseekers. OECD Social, Employment and Migration Working Papers, No. 215, OECD Publishing, Paris.

emerging economies and found that only two of these have no job-search requirement built into this design, including registration with the PES concerned.¹²⁷

Desk research indicated a consensus that activity-related eligibility conditions can have a generally positive impact, increasing the rate at which the unemployed transition into employment and thus cease to depend on benefits. However, as discussed earlier in this report, this same research also highlighted the counterargument that stringent job-search requirements and an insistence on the early acceptance of job offers could undermine the beneficiary's prospects of decent work and possibly also create a cycle of short-term employment for the individual. The latest results issued by the OECD on activity-related eligibility conditions for receiving unemployment benefits, which analysed this dimension across 40 countries (including the EU 27), reiterates this point.¹²⁸ This same OECD report references a statistical study undertaken in the UK which analysed data on British job seekers between 2001 and 2014 which found that the increased use of sanctions had negative impacts on disadvantaged jobseekers who, the study concluded, are "*disproportionately more likely to be sanctioned*."¹²⁹

On balance, although at the stricter end of the spectrum, Malta's strict availability to work conditions are generally aligned with international policy norms and practices and are therefore not being identified as a major issue in this study, especially when considering the individualised approach taken to dealing with beneficiaries in conjunction with the declining rate of long-term unemployment. However, this individualised approach should continue to identify disadvantaged jobseekers and provide the targeted support they need to effectively look for work.

9.2.4.3 Flagship activation measures striking an optimal balance between adequate income support measures and effective work incentives

As required in the terms of reference, this study assessed the role of Malta's strong activation measures implemented on the platform of the 2014 National Employment Policy. These included three flagship measures – Tapering of Benefits, In-Work Benefits, and Free Childcare – which are now into their fifth year of implementation. The first two schemes have proved instrumental in incentivising unemployed persons to seek employment in preference to benefit dependency, largely by topping up wages to ensure an appreciable increase in income that encourages recipients to stay in employment rather than lapse back into benefits after a short employment spell. Similarly, the Free Childcare Scheme provides a financial incentive by means of eliminating the childcare costs that would previously have been faced by parents of pre-school age children seeking employment, while also providing practical support in cases where these parents could not previously consider employment due to their care-giving responsibilities.

¹²⁷ International Labour Office. (2019). Unemployment insurance schemes around the world: Evidence and policy options. Working Paper No. 49.

¹²⁸ Organisation for Economic Co-operation and Development. (2020). Activity-related eligibility conditions for receiving unemployment benefits. OECD Publishing, Paris.

¹²⁹ Taulbut, M., Mackay, D., McCartney, G. (2018). Job seeker's allowance benefit sanctions and labour market outcomes in Britain, 2001–2014. Cambridge Journal of Economics, Volume 42, Issue 5, pp. 1417–1434.

All three schemes are exhibiting high participation rates and results are encouraging. The drop in the number of social assistance and unemployment assistance beneficiaries, as well as a decline in the number of long-term unemployed was significant during this same period, a trend that may be linked to accessibility to these schemes.

In addition to the above, Malta's effective participation tax rates (PTRs) for claimants of unemployment benefits is the lowest when compared to all the other EU Member States.

10.0 Recommendations

The following recommendations and measures are proposed to address gaps that have emerged from the assessment of Malta's unemployment benefits framework. This National Study finds that the overall rules of Malta's unemployment benefits and unemployment assistance systems are effective and already ensure benefit accessibility. Therefore, such entitlement criteria do not require any wide-ranging changes at this time. However, three key areas of potential improvement have been identified, and recommendations for relevant policy and organisational interventions are provided below.

Proposed reforms in this regard need to continue carefully balancing social protection, incentives for the unemployed and fiscal costs, more so now in the current climate of a fragile economy emerging from the COVID-19 crisis and going into a new crisis propelled by the evidently protracted war in Ukraine and the rising costs that this is creating. Based on the findings of this National Study three interventions are therefore being proposed

10.1 Disadvantaged unemployed persons may require targeted policy action

The steep decline in unemployment over the past decade (2011 to 2021) has been a significant achievement for Malta's economic and employment policy. Based on the analysis carried out, strong economic growth, dynamic labour market conditions and focused activation measures all contributed to this decline. However, it is important to note that, while unemployment rates have indeed reached unprecedented lows, a number of persons do remain unemployed for long spells, increasing the risk of social and economic exclusion. Two key findings presented above are relevant to this issue.

The first finding is the declining trend in the effective coverage rate of the involuntarily unemployed persons registering under Part 1 of the Jobseekers Register. As indicated in Section 7.4, it was determined that the effective coverage rate of Malta's combined unemployment protection schemes (contributory and non-contributory) for persons registering under Part 1 of the Jobseeker's Register was 60.9 per cent in 2021, compared to 85.0 per cent in 2011.

As presented in Section 7.2.2 above, and further discussed in Section 9.2.3.2, this effective coverage rate was analysed based on the qualifying conditions applied and the duration of benefit entitlement. These indicators were selected in line with the approach recommended by the European Commission in the 2016 Working Paper on the measurement of the coverage rate of income support measures, including unemployment benefits.¹³⁰ Further analysis was provided through comparison of these components with the rules in force in other EU Member States, based

¹³⁰ Maquet, A., Maestru, V., Thevenot, C. (2016). The coverage rate of income support measures in the EU: measurement and challenges. Brussels. European Commission Directorate-General for Employment, Social Affairs and Inclusion. Working Paper 2/2016.

on MISSOC data. In both cases, i.e., the qualifying conditions applied in Malta, as well as the duration of benefits, were found to be similar to the systems in place in other Member States.

The second finding is the strictness of Malta's availability to work conditions in terms of eligibility to receive, or continue to receive, unemployment benefits. Here, Malta's availability to work and job search conditions were assessed using the European Commission-endorsed OECD scorecard methodology and were found to be amongst the strictest within the EU. As discussed in section 9.2.2.2 above, the integration of activation measures with benefit eligibility conforms with policy trends within the EU and beyond and, based on the research findings to date, there is insufficient evidence to suggest that Malta's current conditions should be revised.

Notwithstanding these conclusions, these two findings, which overlap to some degree, imply the existence of a segment of Malta's registered unemployed population that is not effectively covered by unemployment protection. As per the analysis presented in Section 5.1.3 above, different factors are contributing to this: age (the share of older workers (45+) in the total registered unemployed population has risen from 38.9 per cent in 2011 to 45.8 per cent in 2021) and lower skills levels (the proportion of unemployed persons with a basic level of educational attainment (ISCED 0-2) has risen from 34.0 per cent of the total unemployed population in 2011 to 47.6 per cent in 2021).

The combined factors of age and lower skill levels point to a segment of the registered unemployed with reduced capacity to transition easily into employment. This observation is also borne out by a recent analysis undertaken by the Central Bank of Malta into the characteristics of short-term versus long-term unemployment in Malta.¹³¹ This analysis based on LFS data found that older unemployed persons tend to have a higher job search duration, with the same finding for unemployed persons with basic levels of educational attainment. As activation policies continue to gain traction, this cohort may be increasingly alienated as well as more prone to ineligibility for unemployment benefits or assistance due to their inability to comply with activation conditions, particularly with regards to availability to work and job search requirements.

For this reason, it is recommended that further assessments are made of this segment of the registered unemployed population. Desk research revealed little in the way of recent, in-depth quantitative and/or qualitative research into the registered unemployed population by age or level of educational attainment with the aim of identifying the main barriers that may be inhibiting activation. This particular concern should also be factored into the unemployment benefit evaluation and monitoring tool that will result from this national study.

10.2 Data gaps related to new forms of work

Malta's labour market structure has been transformed over the past decade in step with the country's rapid economic growth. Globalisation and digitalisation have been key to this growth,

¹³¹ Central Bank of Malta. (2022). The characteristics associated with the short and long-term unemployed in the Maltese labour market. Article in the Quarterly Review 2022:2, pp.39-45. 2022.

reinforced by the diversification into a largely services-based economy and rapid population growth driven by the influx of expatriate workers. These factors have resulted in the rise of new forms of work in Malta's employment landscape, alongside the self-employment and full or part-time open-ended employment contracts that have, to date, been the standard employment arrangements around which employment and social protection policy has been designed.

As emphasised in the Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed, this growing trend is a pressing reality that Member States must acknowledge and address. In this context the Council Recommendation in fact highlights platform work, on-demand work, and voucher-based work as 'future forms of work' that should be catered for in terms of access to social protection, including the branch of unemployment protection. The Recommendation further acknowledges that most Member States have not yet implemented the necessary reforms to provide for this.

In conducting desk research for this National Study, it was ascertained that there is a current data gap related to non-standard forms of work. It is therefore recommended that this data requirement is addressed, including at the level of administrative data relating to persons registering for unemployment under Parts 1 and 2 of the Jobseeker's Register. Securing this data is the essential first step towards taking the necessary policy decisions on access to social protection for these new forms of work.

10.3 The monetary level of unemployment benefits under the contributory scheme in Malta has been assessed to be inadequate

As has already been detailed in Section 6 of this National Study, there are currently two unemployment benefit flat rates¹³² under the Maltese contributory scheme, differentiating between married and single beneficiaries as follows:

- A daily single rate of €8.66 payable to a single head of household; and,
- A daily married rate of €13.25 payable to lone parents or married heads of household whose spouse is inactive or in part-time employment.

Beneficiaries may also be eligible to receive a topped-up rate under the Special Unemployment Benefit scheme to supplement the household's income, subject to a financial means test. The SUB rates currently in place also differentiate between:

- A daily single rate of €14.68; and
- A daily married rate of €22.25.

¹³² Increases annually by the percentage increase in the National Minimum Wage (NMW), which is calculated using the following formula $([COLA \text{ year } x] / [NMW \text{ year } x-1] \times 100)$

Furthermore, in cases where the maximum period of the unemployment benefit lapses without the beneficiary having secured employment and is still registering under Part 1 of the Unemployment Register, he or she may apply for Unemployment Assistance under the Non-Contributory Scheme. This is paid as per the rates below:

- Weekly flat rate of €111.18 for the head of household; and
- Weekly additional amount of €8.15 for any additional person in the household.

Meanwhile, the analysis carried out in Section 8 of this report analysed in detail how the replacement rates of unemployment benefits under the contributory scheme, expressed as a percentage of previous in-work earnings, using the OECD Tax-Benefit methodology, appear to be inadequate and significantly lower than the EU median, particularly for those beneficiaries previously earning more than the minimum wage. Although the NRR for a single person with no children who previously earned the national minimum wage is among the lowest in the EU, in relative terms the situation for such low-income earners is closer to the EU median, standing at 10.0 percentage points below the median of 65.0 per cent. On the other hand, however, the NRR for a single person without children in Malta whose previous in-work income was 67.0 per cent of the national average wage is 32.0 percentage points less than the EU median. The situation is further exacerbated for those who previously earned at least the average national wage, with a NRR of just 23.0 per cent compared to at least 59.0 per cent calculated for the EU median.

This observation is further reinforced by the international policy direction described in Section 9.1.1 above, specifically the ILO's recommendation defined in Article 67 of Convention 102, which calls for a minimum replacement rate of 45.0 per cent of previous earnings for at least 26 weeks within a period of 12 months in scenarios where protection covers all residents with financial means that do not exceed the prescribed limits (as is the case with Malta).¹³³ To ensure the protection of lower wage earners, Convention No. 168 (Article 15) sets an even higher standard by recommending a minimum benefit set at no less than 50.0 per cent of the statutory minimum wage for 26 weeks during each spell of unemployment.¹³⁴

In summary, the net replacement rates of unemployment benefits, using the OECD TaxBen calculator, was estimated at 55.7 per cent for a single individual whose in-work income was equivalent to the minimum wage. The NRR falls sharply to 34.4 per cent for someone who earned 67.0 per cent of the average wage and to 24.7 per cent for someone earning the equivalent of an average wage. As expected, the current special unemployment benefit rates yield higher estimated NRRs, particularly for minimum wage earners. However, these SUB rates would still result in a replacement rate which is lower than the EU median and the ILO definition of adequacy, when expressed as a percentage of the average wage or even at 67.0 per cent of that same average

¹³³ C102 - Social Security (Minimum Standards) Convention, 1952 (No. 102)

¹³⁴ C168 - Employment promotion and protection against unemployment Convention, 1988 (No. 168)

wage.¹³⁵ As summarised in Table 24 below, the NRR of SUB rates expressed at 67.0 per cent of the average wage is 40.9 per cent, which falls to 29.3 per cent when expressed as a percentage of the average wage.

Table 24: Net replacement rates of current unemployment benefits and special unemployment benefits compared to the EU median and ILO definition

Net replacement rates using OECD TaxBEN calculator & average wage				
Malta				
Previous in-work earnings	UB	SUB	EU Median	ILO
Minimum wage	55.7%	66.2%	65.0%	50.0%
Average wage	24.7%	29.3%	59.0%	45.0%
67% of average wage	34.4%	40.9%	65.0%	45.0%

Source: Seed's calculations based on output from the OECD tax-benefit model. Model version 2.4.0

The analysis presented in Section 8.4.3 also touched upon the adequacy of Unemployment Assistance under the Non-Contributory Scheme and concluded a more positive assessment for the same cohort of income earners after twelve months of unemployment. At that point non-contributory benefits (such as unemployment assistance) would have kicked-in once the maximum duration of the unemployment benefits have elapsed. In these cases, the NRR is either higher than the EU median, particularly when compared to the national minimum wage, or at par with it, when expressed at 67.0 per cent and 100.0 per cent of the average wage.

In view of these results, this National Study is therefore recommending improvements in the monetary level of unemployment benefits under the contributory scheme. The Unemployment Assistance under the non-contributory scheme has been established to be adequate, when compared to the EU median net replacement rate, and therefore no changes are called for.

10.3.1 Proposed changes in the unemployment benefit rates

Unemployment benefits are a key instrument to deal with labour market risks, intended to sustain individual incomes during temporary unemployment periods. Low benefit levels are therefore likely to translate into a weakening of the living standards of unemployed people, heightening the risks of poverty during the unemployment spell, with all its negative spin-off effects. An effective unemployment benefit system should however evolve within the 'mutual obligation' framework, described earlier, in which governments have the duty to provide jobseekers with benefits and effective services to find work and in turn, beneficiaries must take active steps to find work at the

¹³⁵ The reference average wage used to estimate NRRs is derived from the 2020 OECD TaxBEN model which calculated an average wage for Malta of €25,902 (see Section 8.4.3 Box 3).

earliest opportunity. For this reason, any proposed changes to the design of unemployment benefit systems must maintain a balance between the objective of sustaining jobseekers' incomes during unemployment spells and the need to ensure incentives to work.

The principle of proportionality also plays an important consideration when proposing changes to the monetary level of unemployment benefits under the contributory system. Desk research undertaken for this National Study and presented in Section 8.4.3 (Box 1) of this report, provided an evidence-based insight into the proportionality of Malta's unemployment benefits to the social security contributions paid by Maltese employees and employers, by comparing them to other EU Member States. In conclusion, it has been observed that Malta's employee social security contribution rates are very much in line with employee rates paid in most of the EU Member State. On the contrary, employer social contribution rates in Malta are significantly lower than the EU median. This arrangement can be expected to provide the respective governments with more capacity to finance social protection and is likely to permit more generous benefit levels. It is therefore important to keep this state of play in mind when recommending proposed changes to the current monetary levels of unemployment benefits under the contributory scheme. This is likewise relevant to ensure the sustainability of financing social protection into the longer term, particularly in times of global economic uncertainty as the one facing today.

With the above considerations in mind, the National Study will be exploring four different options of proposed changes to the monetary level of unemployment benefit under the contributory scheme.

Using the OECD TaxBEN calculator¹³⁶ to compute different unemployment benefit rates, all four options represent a stepped approach to increasing the current rates with reference to the EU median and the ILO definition of adequacy as follows:

- Option 1 proposes the most conservative range of rates;
- Option 2 proposes a mid-range solution that lies somewhere in between Option 1 and Option 3;
- Option 3, on the far end of the spectrum, proposes rates that are closest to the EU median, in terms of replacement to previous in-work earnings; and

¹³⁶ The different unemployment benefit rates being proposed under each of the four options have been estimated using the OECD TaxBEN calculator. Calculations assumed a maximum duration of unemployment benefits of 26 weeks, with benefits paid on a six-day week basis. The proposed rates under each of the four options are assumed to taper-off after the 10th week of the unemployment duration. For this reason, Tier 1 rates are assumed to apply for ten weeks with the tapering-off rates applying for the remaining 16 weeks. The estimated NRRs are the product of Tier 1 rates paid out over six days a week for the first ten weeks and the Tapering-off rates paid over six days a week for the remaining 16 weeks, and expressed as a percentage of three different previous in-work earnings: minimum wage, 67.0 per cent of average wage, and average wage. Previous in-work earnings are not based on the LFS but are estimated using the OECD methodology described in Box 3 of this report.

- Option 4 proposes rates that meet the ILO definition of adequacy and thus achieving a minimum replacement rate of 45.0 per cent of previous earnings and at least 50.0 per cent for minimum wage earners, for at least 26 weeks.

The following table presents the estimated rates being proposed under the different options considered. More detail on each of these options is discussed further down while assessing the cost estimates and the key characteristics of each option proposed.

Table 25: Proposed options to increase the contributory unemployment benefit rates, benchmarked against the EU median and ILO definition

→ EU Median									
Option 1 - Minimum				Option 2 - Mid-range			Option 3 - Maximum		
Previous in-work earnings	Tier 1 rate	Tapering-off rate	NRR	Tier 1 rate	Tapering-off rate	NRR	Tier 1 rate	Tapering-off rate	NRR
Minimum wage	<i>Current rate already achieving this NRR</i>		54%	€ 13.25	€ 9.25	60%	€ 15.25	€ 12.50	65%
Average wage	€ 26.25	€ 18.25	35%	€ 35.50	€ 31.00	44%	€ 56.75	€ 48.50	59%
67% of average wage	€ 22.75	€ 15.00	45%	€ 28.75	€ 23.00	53%	€ 40.75	€ 33.00	65%

Option 4 - ILO			
Previous in-work earnings	Tier 1 rate	Tapering-off rate	NRR
Minimum wage	<i>Current rate already achieving this NRR</i>		50%
Average wage	€ 38.00	€ 31.50	45%
67% of average wage	€ 22.75	€ 15.00	45%

Source: Seed's calculations based on output from the OECD tax-benefit model. Model version 2.4.0

It is important to underline, that the proposed rates under each of the four options have been estimated on the basis of previous in-work earnings. The current contributory unemployment benefit is however designed around two different flat rates that distinguish between a single and a married claimant, and not based on previous in-work earnings. In essence, employee contributions, that go towards financing benefits in the event of unemployment, are not based on marital status but on the individual's age and level of declared income. For this reason, it is being recommended that contributory unemployment benefits should, by design, be calculated on the basis of previous in-work earnings. Moreover, when comparing the contributory and non-contributory sides of the current unemployment benefit structure, it shall be noted that the current benefit structure is not justly compensating workers actively contributing to the Maltese economy when they become unemployed. This said, any improvements to the current level of unemployment benefits should not come at the expense of any particular beneficiary cohort.

For instance, under the proposed Option 2, a minimum wage earner would stand to receive a daily rate of €13.25 for the first 10 weeks, which would then taper down to €9.25 per day. If under the current benefit system this claimant were eligible for the SUB married rate, he or she would be entitled to receive a daily rate of €22.25 for the whole duration of the unemployment spell. Therefore, in this case, this beneficiary would lose out as a result of the proposed changes. Aware of such anomalies, the National Study will ultimately calibrate and propose an option that goes to improve the overall current monetary level of unemployment benefits – one that is primarily designed on previous in-work earnings, but which also ensures that no cohort ends up worse off as result of the changes made to the current benefit system.

Meanwhile, the proposed rates under each of the four options have also been designed to taper-off after the 10th week of the unemployment duration. It is being proposed that the Tier 1 unemployment benefits rates only apply for the first 10 weeks of the unemployment spell, which is equivalent to the average unemployment duration in Malta over the past ten years. As has already been concluded by this assessment, the maximum duration of unemployment benefits should remain 26 weeks. However, the unemployment benefit rates applicable for the remaining duration up to the 26th week should be less than the estimated rate for the first 10 weeks. After the 10th week, the proposed tapering-off rates should apply. This balanced approach ensures better adequacy in monetary terms without jeopardising past efforts to incentivise work and decrease benefit dependence. Financially, it also renders the proposed changes more sustainable to implement.

10.3.2 Analysis of the underlying data used to estimate the cost of options proposed

To estimate the cost of the proposed increases in the unemployment benefit rates, MSPC provided data on the actual number of people receiving unemployment benefits in 2019. This will serve as the basis for calculating the cost of the different options that can be considered as part of the overall objective to improve the adequacy of contributory unemployment benefits. The data on the number of unemployment benefit recipients has been filtered to include:

- Those whose previous in-work earnings were equivalent to the national minimum wage and those whose previous in-work earnings were higher than the national minimum wage. Previous in-work earnings are based on 2018 earnings.
- Those receiving the unemployment benefit and those receiving the special unemployment benefit.
- Those on a single rate and those on a married rate.

The following are the main data observations that will underpin the cost estimates, and likewise the financial sustainability of each option:

- The total number of unemployed people receiving unemployment benefits or special unemployment benefits in 2019 amounted to 992 individuals, of which 146 (or 14.7 per cent) earned a minimum wage while the remaining majority (85.3 per cent) had previous in-work earnings which were higher than the national minimum wage. The analysis of net replacement rates has revealed that the contributory unemployment benefits are inadequate on a monetary level, particularly for those who previously earned more than the national minimum wage. Having now established that the majority of beneficiaries earn more than the national minimum wage, it follows to assert that the current unemployment benefit rates fail to provide sufficient income support and adequate protection against unemployment-related poverty risks to the significant majority of unemployed beneficiaries. The move towards proposing an unemployment benefit rate structure that is based on previous in-work earnings is therefore in the right direction to address this imbalance.
- Only 6.2 per cent of unemployed beneficiaries who earned a minimum wage qualified to receive the special unemployment benefit rate. This goes up to 10.4 per cent of unemployed beneficiaries, whose previous in-work earnings were higher than the minimum wage.
- Additionally, 70.8 per cent to 74.7 per cent of all beneficiaries were eligible to receive the single unemployment benefit rate while the remaining 25.3 per cent to 29.2 per cent qualified to receive the married unemployment benefit rate.
- These last two observations show, that while the design of the current unemployment benefit framework differentiates between single and married, and also provides for the possibility of a monetary top-up under the special unemployment benefit scheme, the majority of beneficiaries only qualify for the standard daily single rate of €8.66. Put it differently, the differentiating elements of the current unemployment benefit framework are only applying to a minority cohort of the total beneficiaries, while the remaining majority continue to receive a rate which has been assessed to be inadequate, particularly for those who previously earned more than the national minimum wage.

As is being proposed by this National Study, the standard rate will increase under all four options and therefore the majority of beneficiaries will stand to benefit as a result. At the same time, it will however be important to ensure that any proposal will not have an adverse effect on the minority beneficiary cohorts; that is, those receiving a married rate and / or those receiving the special unemployment benefit. In this regard, several transitional measures may be necessary to be adopted to ensure that unemployment beneficiaries are not negatively impacted. These observations will be revisited to inform the final decision on the option that will be proposed for implementation.

Table 26: Data observations on the number of unemployment benefit beneficiaries in 2019

Previous in-work earnings: National Minimum Wage				
	Single rate	Married rate	Total	UB vs SUB mix
Unemployment benefit	100	37	137	93.8%
Special unemployment benefit	9	0	9	6.2%
	109	37	146	
Single vs married mix				
	74.7%	25.3%		
Previous in-work earnings: Higher than the National Minimum Wage				
	Single rate	Married rate	Total	UB vs SUB mix
Unemployment benefit	538	220	758	89.6%
Special unemployment benefit	61	27	88	10.4%
	599	247	846	
Single vs Married mix				
	70.8%	29.2%		
Total number of beneficiaries			992	
Earnings mix				
National minimum wage	14.7%			
Higher than national minimum wage	85.3%			

Source: Ministry for Social Policy and Children's Rights

Furthermore, given that the proposed rates under each of the four options are designed to taper-off after the 10th week of the unemployment spell, the anonymised data provided by the MSPC also gives the number of benefit days claimed by each one of those receiving unemployment benefits or special unemployment benefits in 2019. Section 7.2.3.2 of this National Study has already determined that the average number of weeks, over which unemployment benefits or special unemployment benefits are availed of in Malta, falls within the initial three-month unemployment period. In line with this assertion, the data provided captures a significant concentration of benefit

days in the first 10 weeks of the unemployment spell. A breakdown of the total number of benefit days split between the two periods of unemployment duration, relevant for this study, is organised in Table 27 below.

Table 27: Number of benefit days in 2019

Previous in-work earnings: National Minimum Wage			
	Under 10 weeks	More than 10 weeks	Total
Unemployment benefit - Single	3,801	1,267	5,068
Unemployment benefit - Married	1,427	531	1,958
	5,228	1,798	7,026
Special unemployment benefit - Single	416	139	555
Special unemployment benefit - Marrie	0	0	0
	416	139	555
Previous in-work earnings: Higher than the National Minimum Wage			
	Under 10 weeks	More than 10 weeks	Total
Unemployment benefit - Single	20,523	6,669	27,192
Unemployment benefit - Married	8,936	4,459	13,395
	29,459	11,128	40,587
Special unemployment benefit - Single	2,755	1,313	4,068
Special unemployment benefit - Marrie	1,192	586	1,778
	3,947	1,899	5,846

Source: Ministry for Social Policy and Children's Rights

10.3.3 Cost estimates and key characteristics of all four options proposed

The cost of each of the four options proposed in Section 10.3.1 above was estimated using individual unemployment beneficiary data for 2019. As explained in the previous section this data factored in previous in-work earnings, the type of benefit received (single, married and SUB), as well as duration of benefit discharged in each case.

Using this data as a basis for the calculation, the proposed rates outlined in Table 25 are multiplied by the sum of benefit days falling within one of the two relevant unemployment durations captured in Table 27 – Tier 1 rates multiplied by the sum of benefit days falling in the first ten weeks of the unemployment spell while the tapering-off rates multiplied by the remainder benefit days falling between the 11th and 26th week of the unemployment period.

Box 4. OECD TaxBEN-based calculation method used for the determination of all rates proposed under the four options

The different unemployment benefit rates being proposed under each of the four options as detailed in Table 25 have been estimated using the OECD TaxBEN calculator. Calculations assumed a maximum duration of unemployment benefits of 26 weeks, with benefits paid on a six-day week basis. The proposed rates under each of the four options are assumed to taper-off after the 10th week of the unemployment duration. For this reason, Tier 1 rates are assumed to apply for ten weeks with the tapering-off rates applying for the remaining 16 weeks. The estimated NRRs for each option are the product of Tier 1 rates paid out over six days a week for the first ten weeks and the Tapering-off rates paid over six days a week for the remaining 16 weeks, and expressed as a percentage of three different previous in-work earnings: minimum wage, 67.0 per cent of average wage, and average wage. Previous in-work earnings are not based on the LFS but are estimated using the OECD methodology described in Box 3 of this report.

Calculation method: $[(\text{Tier 1 rates} \times 6 \text{ days} \times 10 \text{ weeks}) + (\text{Tapering-off rates} \times 6 \text{ days} \times 16 \text{ weeks})]$ divided by previous in-work earnings

To examine the sustainability of each of the options proposed, the study also calculated internally the cost of the current unemployment benefit framework by applying the current UB and SUB, single and married rates to the number of unemployment beneficiaries registered in 2019, as provided by the MSPC. For completeness' sake, estimates for the current and proposed rates will also include the cost of unemployment benefit reimbursements to EU Member States for claims lodged by non-Maltese workers under EU Coordination Rules. The calculations assumed the latest reimbursement cost for 2021.

- The proposed unemployment benefit rates under Option 1 are calculated on the basis of previous in-work earnings, differentiating between those who earn a minimum wage and those who in employment earned more than the minimum wage.
 1. For minimum wage earners, Option 1 aims to achieve a net replacement rate of 54.0 per cent. The current unemployment benefit rates, however, already achieve this rate and therefore this option proposes to maintain the current rate structure already in place for those earning a minimum wage. Accordingly, the following rates will apply:
 - (a) A daily single rate of €8.66 payable on a six-day week basis to a single head of household; or,
 - (b) A daily married rate of €13.25 payable on a six-day week basis to lone parents or married heads of household whose spouse is inactive or in part-time employment; or,
 - (c) The special unemployment benefit rates, which remain subject to a financial means test and are currently pegged to:

- (i) A daily single rate of €14.68 payable on a six-day week basis; or,
- (ii) A daily married rate of €22.25 payable on a six-day week basis.

2. For those who previously earned more than the minimum wage Option 1 proposes:

- (a) A daily rate of €26.25, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €18.25 per day for the remaining 26-week period, if taking the average wage as the basis for calculation; or
- (b) A daily rate of €22.75, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €15.00 per day for the remaining 26-week period, if taking the 67.0 per cent of the average wage as the basis for calculation.

These rates will achieve a net replacement rate of 35.0 per cent if expressed as a percentage of the average wage and a net replacement rate of 45.0 per cent if expressed at 67.0 per cent of the average wage.

- Under Option 1 everyone will stand to gain. However, those beneficiaries that are currently eligible for the SUB married rate will slightly lose out if they are still on benefits after ten weeks because their rate will fall to €18.25 (if calculated on the average wage) or to €15.00 (if calculated on 67.0 per cent of the average wage) as opposed to the current rate of €22.25. This said, according to the 2019 data provided there are only a few isolated cases where this would apply, amounting to a total of 586 benefit days or 1.1 per cent of the sum of benefit days accrued in 2019.
- The proposed unemployment benefit rates under Option 2 are calculated on the basis of previous in-work earnings, differentiating between those who earn a minimum wage and those who in employment earned more than the minimum wage.

1. For minimum wage earners, Option 2 targets a net replacement rate of 60.0 per cent, achieved by proposing:

- (a) A daily rate of €13.25, payable on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €9.25 per day for the remaining 26-week period.

2. For those who in work earned more than the minimum wage Option 2 proposes:

- (a) A daily rate of €35.50, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €31.00 per day for the remaining 26-week period, if taking the average wage as the basis for calculation; or
- (b) A daily rate of €28.75, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €23.00 per day for the remaining 26-week period, if taking the 67.0 per cent of the average wage as the basis for calculation.

These rates will achieve a net replacement rate of 44.0 per cent if expressed as a percentage of the average wage and a net replacement rate of 53.0 per cent if expressed at 67.0 per cent of the average wage.

- Under Option 2 those earning more than the minimum wage (which constitute 85.3% of the unemployed beneficiaries), whether single or married, will see their unemployment benefit increase generously, surpassing even the current special unemployment benefit rates. Certain minimum wage earner cohorts may however lose out, particularly those currently entitled to the SUB married rate, and those receiving the SUB beyond 10 weeks. In fact, the proposal would see a daily flat rate for minimum wage earners of €13.25 which tapers down to €9.25 per day – both lower than the current SUB married rate of €22.25 per day. The proposed tapering-off rate would also be lower than the current daily married rate of €13.25 and the SUB single rate of €14.68.
- The proposed unemployment benefit rates under Option 3 are calculated on the basis of previous in-work earnings, differentiating between those who earn a minimum wage and those who in employment earned more than the minimum wage.
 - 1. For minimum wage earners, Option 3 targets a net replacement rate of 65.0 per cent, achieved by proposing:
 - (a) A daily rate of €15.25, payable on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €12.50 per day for the remaining 26-week period.
 - 2. For those who previously earned more than the minimum wage Option 3 proposes:

- (a) A daily rate of €56.75, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €48.50 per day for the remaining 26-week period, if taking the average wage as the basis for calculation; or
- (b) A daily rate of €40.75, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €33.00 per day for the remaining 26-week period, if taking the 67.0 per cent of the average wage as the basis for calculation.

These rates will achieve a net replacement rate similar to the EU median of 59.0 per cent if expressed as a percentage of the average wage and 65.0 per cent if expressed at 67.0 per cent of the average wage.

- Under Option 3 those earning more than the minimum wage (which constitute 85.3% of the unemployed beneficiaries), whether single or married, will see their unemployment benefit increase significantly and converging towards the EU median. Certain minimum wage earner cohorts may however lose out, particularly those entitled to the SUB married rate, and those receiving the SUB after 10 weeks.
- Like the other three previous options, the proposed unemployment benefit rates under Option 4 are calculated on the basis of previous in-work earnings, differentiating between those who earn a minimum wage and those who in employment earned more than the minimum wage.
- This option is designed to achieve net replacement rates that meet the ILO definition of adequacy, in that the proposed unemployment benefit rates must return a minimum replacement rate of 45.0 per cent of previous earnings and at least 50.0 per cent for minimum wage earners, for at least 26 weeks.
- Option 4 proposes the same rates as Option 1, except for when taking the average wage as a basis for the calculation. Under this Option, net replacement rates of unemployment benefits must hit at least 45.0 per cent of the average wage, which is 10.0 percentage points higher than the NRR of the average wage achieved under Option 1. For this reason, unemployment benefit rates expressed as a percentage of the average wage are higher under Option 4. The cost of implementation, in this case, is also higher.
- In summary:
 1. For minimum wage earners, Option 4 aims to achieve a net replacement rate of at least 50.0 per cent. The current unemployment benefit rates, however, already achieve this rate and therefore this option proposes to maintain the current rate structure already in place for those earning a minimum wage. Accordingly, the following rates will apply:

- (a) A daily single rate of €8.66 payable on a six-day week basis to a single head of household; or,
- (b) A daily married rate of €13.25 payable on a six-day week basis to lone parents or married heads of household whose spouse is inactive or in part-time employment; or,
- (c) The special unemployment benefit rates, which remain subject to a financial means test and are currently pegged to:
 - (i) A daily single rate of €14.68 payable on a six-day week basis; or,
 - (ii) A daily married rate of €22.25 payable on a six-day week basis.

2. For those in-work earned more than the minimum wage Option 4 proposes:

- (a) A daily rate of €38.00, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €31.50 per day for the remaining 26-week period, if taking the average wage as the basis for calculation; or
- (b) A daily rate of €22.75, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €15.00 per day for the remaining 26-week period, if taking the 67.0 per cent of the average wage as the basis for calculation.

- Under Option 4 everyone will stand to gain. However, as was the case under Option 1, those beneficiaries that are currently eligible for the SUB married rate will slightly lose out if they are still on benefits after ten weeks because their rate will fall to €15.00 (if calculated on 67.0 per cent of the average wage) as opposed to the current rate of €22.25. Contrary to Option 1, this anomaly is resolved under Option 4 when taking the average wage as the basis for calculation, given that the tapering-off rate in this case drops to €31.50 per day which is higher than the current SUB married rate of €22.25.

10.3.4 Final Considerations

With all four options individually costed (internally) and appraised, final deliberations can be made to determine which option can be implemented as part of the overall objective to improve the monetary adequacy level of contributory unemployment benefits. The suggested changes shall at the same time maintain the balance towards the incentive to work, keeping also in mind the proportionality of social security contributions paid and the long-term financial sustainability of social protection reforms.

Box 5: Final recommended rates for the proposed improvements of contributory unemployment benefits

In view of the above assessment, the new recommended rates for the contributory unemployment benefits, differentiating between those who earn a minimum wage and those who in employment earned more than the minimum wage should be designed on the general principles of achieving the 65% NRR as established by the OECD TaxBen Calculator for the Minimum Wage earners, and aiming at the 45% ILO suggested indicator for those earning above the Minimum Wage.

For minimum wage earners, Options 1 and 4 have determined that the current rate structure already in place is adequate in comparison to the ILO definition of adequacy based on Convention No. 168 which recommends a minimum benefit set at no less than 50.0 per cent of the statutory minimum wage. However, it shall be noted that the current unemployment benefit rates would still fall short of the non-contributory unemployment assistance. To rectify this matter, it is therefore recommended that, on the basis of the OECD TaxBEN calculator, the unemployment benefit rates that would apply for those whose previous in-work earnings were equivalent to the national minimum wage would achieve a net replacement rate of 65 per cent as depicted in Option 3 for the Minimum Wage cohort.

Accordingly, the following rates will apply:

- a. A daily rate of €15.25, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €12.50 per day for the remaining 26-week period.

For those who in work earned more than the minimum wage:

- a) A daily rate of €26.25, paid on a six-day week basis for the first 10 weeks of the unemployment spell which tapers down to €18.25 per day for the remaining 26-week period.

Meanwhile, annual adjustments which are indexed to the percentage increase in the national minimum wage have been observed to typically fall out of step with the faster growth rates registered in average wages. This is borne out by the fact that the current adjustment formula used is not keeping up with developments in the average wages, which is as a result outpacing the unemployment benefit flat rates. Maintaining this adjustment mechanism to update unemployment benefit rates on an annual basis once these proposed improvements come into effect could risk rendering the revised unemployment benefit rates inadequate once more in the short term. For this reason, it is being recommended that the annual incremental increases to unemployment benefits for those earning more than the minimum wage are calculated using the OECD TaxBEN calculator and capped at the annual LFS average basic wage in the previous year.

For implementation purposes, in line with evolving economic conditions and labour market strategies, additional tapering-off tiers may be considered. This would provide the required flexibility to phase in reforms in a sustainable manner whilst ensuring that unemployment beneficiaries are not negatively impacted at any stage of the process.

Finally, it is also relevant to note for the proposed framework, that while analysing the 2019 data on the number of unemployed beneficiaries provided by the MSPC, it was determined that roughly 10.0 per cent of those earning more than the minimum wage only had a salary difference of €10 or less a week over the national minimum wage. This creates a bit of an anomaly in the proposed design of contributory unemployment benefit rates as these 10.0 per cent would be eligible to the higher unemployment benefit rates proposed for those earning more than the minimum wage, despite them earning slightly more than the minimum wage. The final design of the proposed unemployment benefit framework could therefore consider extending the minimum wage earners' bracket to include beneficiaries that earn slightly more than the minimum wage, for example minimum wage + 5.0 per cent.

11.0 Next steps

Following the approval of this report by the Contracting Authority, the next phase of the National Study focuses on the development of a monitoring and evaluation tool to assess the adequacy of unemployment benefits and assistance on an ongoing basis.

As per the Inception Report, the scorecard methodology recommended by the International Social Security Association will be the model for this tool since it covers the essential parameters of unemployment benefits. Adopting this model as a framework, individual indicators selected in line with local realities will be evaluated using the scoring method recommended by the Association.

The research and analysis carried out in the preparation of this report was deliberately designed to identify and analyse the above-mentioned indicators in preparation for the development of the monitoring and evaluation tool.

Two key types of indicators have been selected:

- Comparative international indicators, facilitated by the availability of OECD and MISSOC comparative data, which will be carefully selected and incorporated within the scorecard model to provide a benchmarking element.
- Time-based indicators, which will be used primarily for analysing the current unemployment benefits situation.

A proposed framework model based on this methodology will be presented to the Contracting Authority, which can then be designed, tested and modified as per feedback from the Contracting Authority. In designing this monitoring and evaluation tool, efforts will be undertaken not to create unnecessary administrative burdens. Once it is finalised, this framework will be applied in the field to provide a final evaluation report. It is understood that the monitoring framework will be delivered as a tool that can be applied periodically by the Contracting Authority after the conclusion of this project.

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