



# The National Reform Programme

Denmark  
2015



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# 1. Introduction

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The Danish economy is gradually recovering, with rising GDP and employment growth. Recent years' reform effort has contributed to making Denmark well-prepared to latch on to the international recovery as it takes hold. The competitiveness of Danish businesses has been strengthened and household finances are healthier. Economic policy has been designed to support activity and employment as much as possible within the framework of responsible fiscal policy, as set out by both the Stability and Growth Pact and the Budget Law.

Every spring, in the context of the European Semester, the individual EU member states forward their national reform programmes, which account for the countries' structural reforms. Likewise, annual stability and convergence programs are forwarded, which account for fiscal policy.

The Danish national reform programme accounts for the measures that Denmark has taken to comply with the country-specific recommendations following the national reform and convergence programmes of 2014. It also describes the Danish implementation of EU's growth strategy (Europe 2020). Furthermore, the overall economic framework for the Danish economy is presented, which is based on the convergence programme for 2015. In this year's national reform programme, there will be a special focus on the implementation and preliminary impact assessments of recent years' reform efforts.

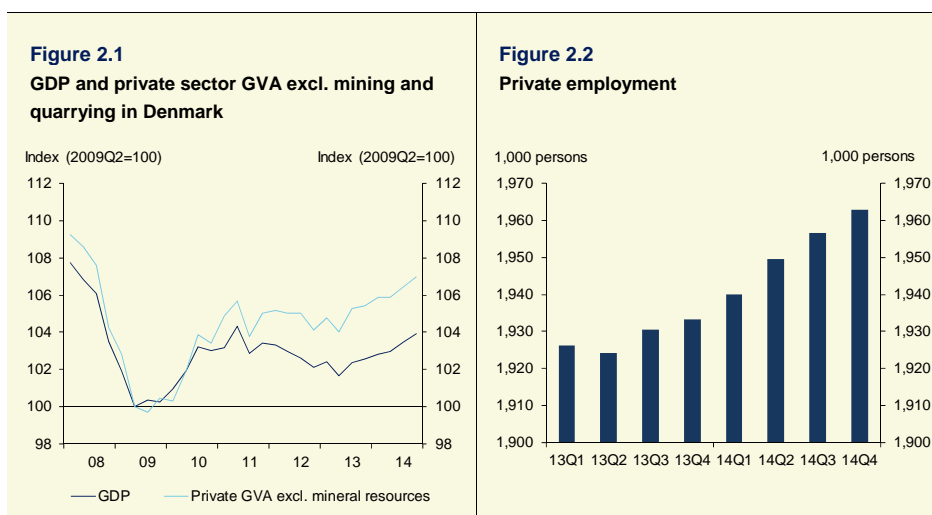
The structure of the National Reform Programme for Denmark 2015 is as follows:

- Chapter 2 describes the overall economic framework for Denmark.
- Chapter 3 accounts for the initiatives that Denmark has undertaken and will undertake, in order to comply with the country-specific recommendations for Denmark from 2014.
- Chapter 4 regards the initiatives that Denmark has undertaken and will undertake to contribute to the fulfilment of the five main goals of the Europe 2020 strategy.
- Chapter 5 accounts for the Danish strategy for green, economic, and social sustainability.
- Chapter 6 describes the involvement of parliament and non-governmental organisations.



## 2. The Economic Framework

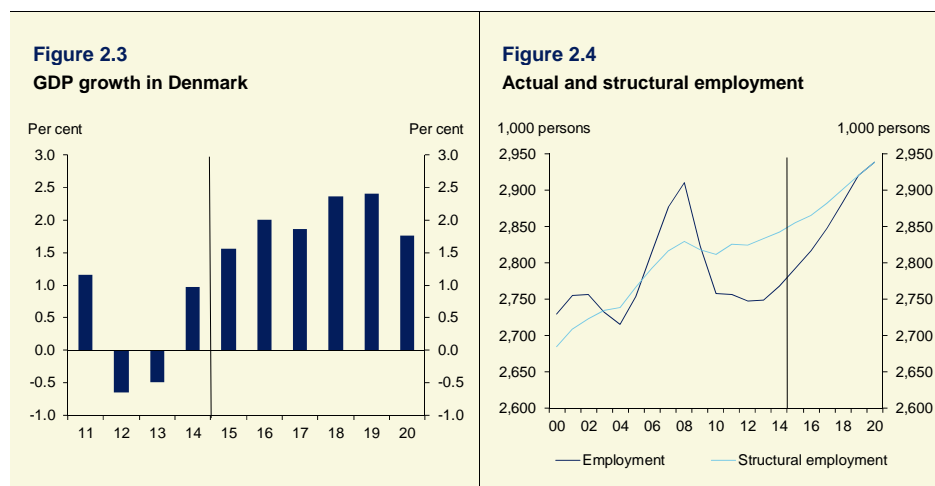
The business cycle recovery of the Danish economy is well underway with increasing GDP over the last 1½ years. Output grew steadily during 2014, and for the year as whole GDP grew by 1 per cent, *cf. figure 2.1*. Progress has been stronger in the private sector (excl. mining and quarrying), where GVA rose by 1.4 per cent during 2014. This has led to a clear improvement in the labour market. In the private sector over 38,000 persons more were employed in the fourth quarter of 2014 than in the second quarter of 2014 when the trend reversed, *cf. figure 2.2*. This corresponds to an increase of 2 per cent. Furthermore, unemployment has fallen from 5.8 per cent in mid-2013 to 4.9 at the beginning of 2015.



Note: Employment in figure 1 has been determined without persons on leave.  
Source: Statistics Denmark and own calculations.

The recovery is expected to pick up speed during this year and the next. Over the turn of the year and into 2015 interest rates and oil prices have declined extraordinary which provides a basis for further growth in household consumption and consequently the outlook for growth in the Danish economy. Overall, GDP-growth of 1.6 per cent is expected this year and 2.0 per cent next year, *cf. figure 2.3*. This is an upward adjustment of 0.2 percentage points compared with the growth forecast in *Economic Survey*, December 2014.

The outlook for the Danish economy must be viewed in light of the general improvement in the global economy, and the continuation of the business cycle recovery in the euro area in particular. Moderate wage increases and favourable productivity developments in recent years support the competitiveness of Danish business. Furthermore, the competitiveness of business is also supported by reductions in taxes and duties and other initiatives to improve business conditions, including *Growth Plan DK and Growth Package 2014*.



Note: The structural level of employment is the level of employment computed in line with normal business cycle conditions.

Source: Convergence Programme Denmark 2015.

However, there continues to be considerable idle resources in the economy, and for 2015 the output gap is estimated to be around 2 per cent of GDP. For 2016 the output gap is projected to be 1½ per cent of GDP. The projection in *Convergence Programme Denmark 2015* assumes a continued gradual economic recovery, so that the output gap is closed around 2019.

In total, the business cycle recovery, underlying demographic trends together with new and earlier reforms will lift employment by around 190,000 persons from 2013 towards 2020, of which approximately 105,000 persons are due to an increase in the structural level of employment, *cf. figure 2.4*.<sup>1</sup>

Economic policy is planned within the framework of the Budget Law and in compliance with the common EU rules, including the 3 per cent of GDP limit for the actual public deficit in the Stability and Growth Pact, *cf. figure 1.3*. Denmark has determined its national medium-term target for public finances (MTO) at -½ per cent of GDP which corresponds to the limit for the structural public deficit in the Budget Law. The limit in the Budget Law has been determined

<sup>1</sup> The increase in employment of 190,000 persons from 2013 towards 2020 is measured as the number of persons according to the national accounts. Measured as the number of full-time persons this corresponds to 166,000 persons, of which 159,000 persons are employed in the private sector, *cf. section 4.1*.



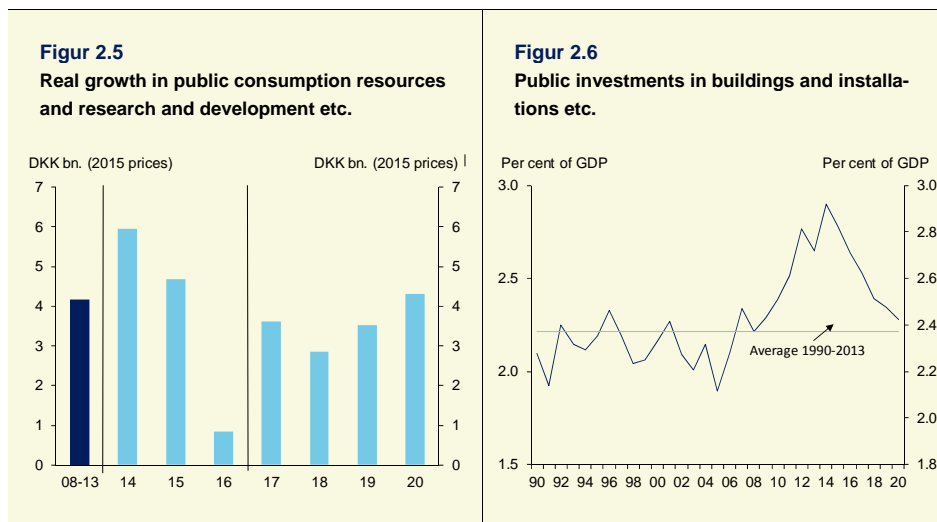
at a level which ensures that the actual public deficit in a normal business cycle downturn will remain within the limit of 3 per cent of GDP with a high probability.

The central medium-term for fiscal policy are at least structural public budget balance in 2020 and that public debt maintains a clear safe margin to the 60 per cent of GDP limit of the Stability and Growth Pact. As economic growth picks up it will be necessary to gradually withdraw the fiscal policy stimulus and thereby ensure a symmetric fiscal policy stance over the course of the business cycle. Fiscal policy is planned so that the distance towards deficit limit in the Budget Law is increased moving forward towards the objective of a structural fiscal budget balance in 2020.

Within the fiscal policy framework balanced growth in public sector resources is ensured, and implemented reforms provides a basis for expenditures on public consumption, research and development to grow by DKK 3 bn. annually in 2014-20, *cf. figure 2.5*.

The level of public investment has been extraordinarily high during the economic downturn, which in itself has supported growth and employment. Towards 2020 the investment level is projected to continue to be high, although the level is gradually reduced as a share of GDP as economic growth picks up, *cf. figure 2.6*.

Expenditure ceilings underpin that the overall targets for fiscal policy are met. The ceilings are adopted by Parliament and set legally binding limits for the expenditures in central government, municipalities and regions. Measures to improve financial management and economic sanctions support compliance with the ceilings. The Danish Economic Council is to continually assess whether economic policy adheres to the target for the structural budget balance, complies with the expenditure ceilings and whether the adopted expenditure ceilings comply with the medium term fiscal projections for public finances.



Source: Convergence Programme Denmark 2015.

In addition to ensuring long-term fiscal sustainability economic policy is focused towards increasing productivity and private sector employment through improved framework conditions for the private sector and increased competition. On that basis, *Growth Plan DK* set out a target to increase GDP growth towards 2020 through policy initiatives contributing to an increase in GDP by DKK 40 bn. corresponding to a lift of 2 per cent. In addition, the objective is to modernize the public sector, thereby freeing up DKK 12 bn. to develop public services (approximately 0.6 per cent of GDP) towards 2020. With the already implemented reforms the government is well underway towards achieving the growth target, cf. *Convergence Programme Denmark 2015*, and the government intends to continually implement new initiatives in the coming years.





## 3. The Country-Specific Recommendations

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On 8 July 2014, Denmark received the Council opinion on the economic policy in Denmark as part of the European Semester. The opinion was formed on the basis of the National Reform Programme and Convergence Programme for 2014. Denmark received three recommendations, *cf. box 3.1*.

### **Box 3.1**

#### **The country-specific recommendations for Denmark**

The Council recommends that Denmark take action within the period 2014-15 in order to:

1. Following the correction of the excessive deficit, continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective continues to be adhered to throughout the period covered by the Convergence Programme.
2. Take further measures to improve the employability of people at the margins of the labour market. Improve educational outcomes, in particular for young people with a migrant background, and the effectiveness of vocational training. Facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships.
3. Increase efforts to remove barriers to entry and reduce regulatory burden with a view to increasing competition in the domestic services sector, in particular in retail and construction, as recommended by the Productivity Commission.

Denmark has made overall progress in terms of following up on the Council's recommendations. This is confirmed by the Country Report for Denmark by the European Commission, published in February 2015. The report shows that the Commission finds that Denmark is pursuing a responsible fiscal policy. At the same time they find that Denmark has made some progress in improving the employability of persons on the fringe of the labour market. Regarding the third recommendation, the Commission finds that only limited progress has been made.

Overall, the recommendations are largely in line with the objectives of government policy. Fiscal policy contributes to a stable economic development and ensures sound public finances within the framework of the Budget Law. Labour market reforms and initiatives on education aims to (amongst other things) improve employment opportunities for persons on the margins of the labour market, and to get higher returns in the education system. A number of specific initiatives are also taken to increase competition in the service sector.

## 3.1 Fiscal Policy and Expenditure Control

During the economic crisis fiscal policy has been planned in order to support growth and employment as much as possible within the framework given by the Stability and Growth Pact, the Fiscal Compact and the Budget Law. The responsible and balanced fiscal policy contributes to the high degree of confidence in Danish economy and thereby the low interest rates that benefit growth and employment.

Denmark's EU-recommendation was lifted at the ECOFIN meeting in June 2014 after consolidating public finances during 2011-13. Denmark received the recommendation in July 2010 because of the prospect of "excessive deficits". The repeal reflects that the European Commission in their Spring forecast (2014) assessed that Denmark has brought the deficit sustainable below the 3 per cent of GDP-limit in 2013, which was the main requirement of the recommendation.

In the Council's statement based on Denmark's National Reform Programme for 2014 and Denmark's Convergence Programme for 2014 it is recommended that "*Following the correction of the excessive deficit, continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective continues to be adhered to throughout the period covered by the Convergence Programme.*"

### **Fiscal policy is consistent with the business cycle stance**

Although the Danish economy is in progress, there are still idle resources. During the economic crisis fiscal and expenditure policy has been expansionary in a historical perspective. This is still the case with the planned policy for 2015, which is designed to support the economy as much as possible within the fiscal framework. As the recovery is expected to accelerate further, it will be necessary to gradually normalize the expansionary fiscal policy. It is mainly due to implemented reforms and a gradual normalization of the high level of public investment, that progress is made towards at least structural balance in 2020, which is consistent with fiscal sustainability.

### **Development in the actual budget balance**

Based on the latest estimates for public finances, Denmark is expected in the years to come to comply with the 3 per cent of GDP deficit limit of the Stability and Growth Pact, *cf. table 3.1 and Denmark's Convergence Programme 2015.*

**Table 3.1**  
**Actual and structural government budget balance, 2011-16**

Per cent of GDP	2011	2012	2013	2014	2015	2016
Actual budget balance	-2.1	-3.7	-1.1	1.3	-1.6	-2.6
Actual balance excl. temporary measures <sup>1)</sup>	-2.1	-2.1	-3.0	-2.1	-2.3	-2.5
Structural budget balance	-0.4	-0.8	-0.3	-0.8	-0.7	-0.5

1) The temporary measures include impact of the repayment of the VERP-contributions in 2012 and temporary revenue measures in 2013-15, mainly due to the restructuring of capital pension.

Source: Denmark's Convergence Programme, March 2015.

Currently a budget surplus of 1.8 per cent of GDP is expected for 2014, while deficits of approx. 1¼ per cent of GDP in 2015 and approx. 2½ per cent of GDP in 2016 are expected. The estimated budget deficits in 2015 and 2016 thus entail a safety distance to the 3 per cent of GDP-limit of the Stability and Growth Pact. The actual public balance in 2013-15 is affected by a number of temporary revenues, including revenues stemming from the restructuring of the taxation of existing capital pensions. The temporary revenues improve public finances by 1.9 per cent of GDP in 2013, 3.4 per cent of GDP in 2014 and 0.7 per cent of GDP in 2015<sup>2</sup>.

With the budget proposal for 2015 the fiscal room for manoeuvre was fully exploited since the structural deficit was estimated at ½ per cent of GDP corresponding to the limit given by the Budget Law, which coincides with Denmark's national medium-term objective (MTO). At the same time the actual budget deficit was estimated at 3 per cent of GDP in 2015. Following the presentation of the budget proposal (in August 2014) a number of key economic indicators pointed in the direction of weakened growth prospect and hence higher actual deficit. In October 2014, the government reached an agreement on a pension package, in order to secure a safety margin in 2015 to the deficit limit of the Stability and Growth Pact. The agreement is in isolation expected to improve the actual budget balance by approximately DKK 15 bn. (equivalent to ¼ per cent of GDP) and will not dampen economic activity. The temporary revenues from the pension package can be attributed to the prolongation of the possibility to restructure capital pensions, and that all aged over 60 can have their pension funds in LD paid out with a tax rebate in 2015.

<sup>2</sup> The actual balance in 2013-15 is affected by extraordinary revenue, consisting of temporary earnings from the restructuring of existing capital pensions (DKK 28½ bn. in 2013, DKK 60 bn. in 2014 and DKK 6 bn. in 2015) and the advancement of ordinary revenue from the capital pension tax (DKK 5¼ bn. in 2013 and DKK 2¼ bn. in 2014), due to persons over 60 being more likely to choose to withdraw their capital pension in 2013 and 2014, where the tax rate is lower. The advancement is expected to take place evenly from 2015-19. In addition, further revenue is expected from the taxation of funds distributed from the LD foundation of almost DKK 9 bn. in 2015. In 2013 and 2014 temporary earnings of DKK 2 bn. from the pension yield tax linked to the restructuring of average interest rate products

In 2016 – where a deficit of 2.6 per cent of GDP is estimated – one-off measures hardly affect the actual public balance. Fiscal policy in 2016 is not finalized until the budget bill for 2016 has been approved. Thus, the assessment of public finances in 2016 is still based on technical assumptions.

**Structural budget balance and medium term objective**

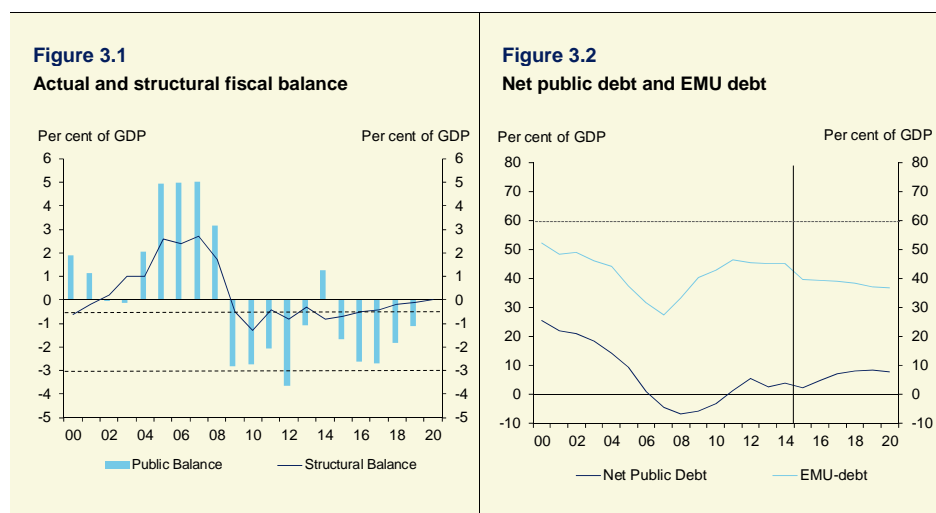
In 2014, the structural deficit is expected at 0.8 per cent of GDP, while the current estimates for 2015 and 2016 imply structural deficits of 0.7 and 0.5 per cent of GDP. Fiscal policy is planned within the framework of the Danish Budget Law, including the limit for structural deficits of ½ per cent of GDP. This deficit limit corresponds to the estimated structural deficit based on the budget proposal for a given fiscal year. However, this does not mean that it is possible to implement policy decisions that can weaken the structural balance beyond the limit of the Budget Law, after the presentation of the budget proposal.

The structural deficit in 2015 was estimated to be in line with the requirements of the Budget Law at the time of the budget proposal for 2015 (in August 2014). The current slightly higher estimate of the structural deficit in 2015 is not caused by discretionary policy changes implemented after the budget proposal for 2015. The upward revision reflects updated expenditure estimates, which are not a consequence of policy decisions, and should furthermore be seen in light of the uncertainty associated with the estimation of the structural balance,

In the period 2017-20 the medium term projection entails a margin relative to the structural deficit limit of the Budget Law, cf. *Convergence Programme Denmark 2015*. Furthermore, the assumed normalisation of the output gap is expected to gradually reduce the actual budget deficit towards 2020, cf. *figure 3.1*.

The assumed fiscal policy also implies that the EMU debt keeps a wide safety margin against the Stability and Growth Pact debt limit of 60 per cent of GDP, cf. *figure 3.2*.





Note: The horizontal dotted lines in figure 3.1 show the limit for structural deficits of  $\frac{1}{2}$  per cent of GDP according to the Budget Law (coinciding with Denmark's MTO) and the limit for actual deficits in the Stability and Growth Pact of 3 per cent of GDP. The dotted line in figure 3.2 shows the EMU-debt limit of 60 per cent of GDP according to the Stability and Growth Pact.

Source: Convergence Programme Denmark, March 2015.

### Budget law and expenditure ceilings

A responsible economic policy is essential in order to maintain confidence in the fiscal policy and to establish balance and future growth in the Danish economy. With the Budget Law, which was adopted by a large majority in Parliament in 2012, the fiscal policy framework in Denmark is strengthened.

The Budget Law introduces a balanced budget rule, which implies that the annual structural deficit must not exceed  $\frac{1}{2}$  percent of the GDP, which coincides with Denmark's MTO. The Budget Law deficit limit applies, when submitting the budget proposal for a given year. Based on the considerations, underlying the provisions of the Budget Law, there must not in the period after the submission of the budget proposal be implemented initiatives with significant negative impact on the structural balance in the given fiscal year.

The Budget Law also involves a strengthening of the expenditure control, since starting from 2014 mandatory and multi-annual expenditure ceilings for the central government, municipalities and regions are introduced. This contributes to ensure credible funding of public spending. At present the statutory expenditure ceilings cover the period 2014-18.

Compliance with the expenditure ceilings are supported by financial sanctions, which for municipalities and regions include a reduction in the state block grant if the annual economic agreements (with the central government) and the approved budgets are not respected. At the same time, if the central government expenditure ceiling is exceeded in a given year, the ceiling for the following year should be reduced accordingly, cf. *Convergence Programme Denmark 2014* (Box 6.2).

Budget overruns in the municipalities was one of the main reasons for higher than planned growth in public consumption in the 90s and 00s. In recent years the tendency to overspend at the municipal level has stopped. This suggests that the new governance mechanisms – including economic sanctions – have had a supportive effect on budget compliance.

Based on the latest estimates for central government expenditures in 2014 and preliminary information on spending in municipalities and regions compliance with the expenditure ceilings for 2014 is expected.

Compliance with the expenditure ceilings for 2015 is also foreseen based on the central government budget bill for 2015 and the current information on municipal and regional budgets for 2015.

## 3.2 Promoting an Inclusive Labour Market and Education Reforms

In the Council's statement on Denmark's National Reform Programme of 2014 and the Convergence Programme of 2014, it is recommended that Denmark in the 2014-15 *"Take further measures to improve the employability of people at the margins of the labour market. Improve educational outcomes, in particular for young people with a migrant background, and the effectiveness of vocational training. Facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships."*

The employment effort supports Denmark having a well-functioning and flexible labour market with low structural unemployment and a high level of employment. Therefore, the basis for the government's employment policy is that the unemployed must be faced with an employment system, which puts the individual at the centre and prepares the unemployed for jobs and lasting employment. At the same time, businesses must be ensured access to qualified labour, with the employment system focusing on companies' labour needs and job matching.

Knowledge and education form the basis of future prosperity, and progress is being made towards achieving the targets of a high educational level. The government seeks to ensure high-quality education and training programmes, as well as relevant programmes in relation to subsequent employment, in order for the education and training programmes to contribute actively to growth, productivity, and prosperity in Denmark. Therefore, the government has launched a reform of public primary and lower secondary education, which is set to improve the academic standards of all students. It has also initiated a reform of vocational education and training (VET) in order to ensure that more young people choose VET programmes, including through improving the quality of the VET programmes. The government has also presented a proposal regarding general upper secondary education, the aim of which is to make young people better prepared for attending higher education.

### 3.2.1 Labour Market Initiatives

#### **The Reform of the Disability Pension and Flexi-job Scheme**

The fundamental objective of the reform of the disability pension and flexi-jobs scheme is for as many people as possible to work and support themselves. Access to disability pensions is limited for persons less than 40 years old, and there is an increased focus on citizens receiving the necessary help to enter a life of education and employment rather than being awarded permanent disability pension.

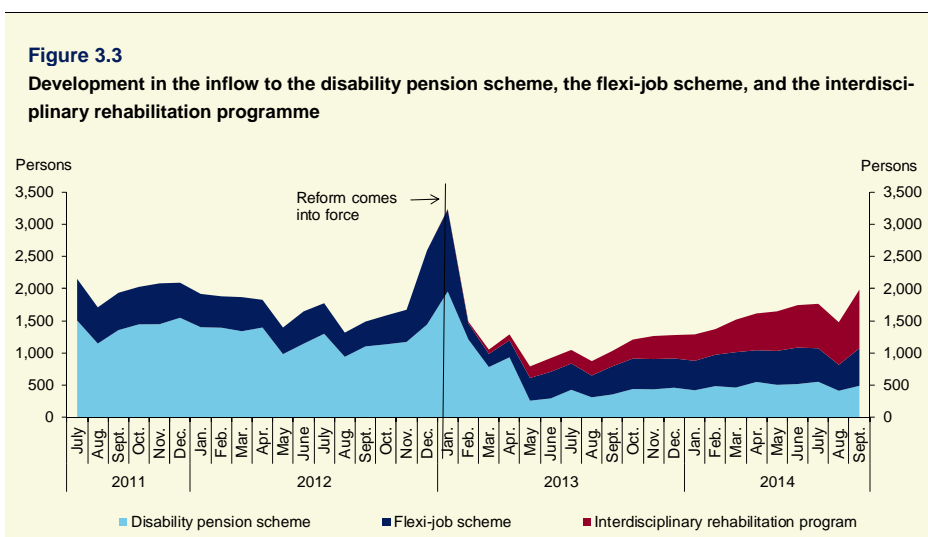
The target group for the reform is persons with complex problems, where social, employment, and health related challenges create barriers to entering the labour market, and where lack of an interdisciplinary effort implies that they are at risk of ending up receiving disability pension. The reform also includes the establishment of rehabilitation teams in each of the Danish municipalities, consisting of an interdisciplinary group of social workers. The teams are to ensure that citizens who are at risk of ending up as disability pensioners will get an individual, interdisciplinary rehabilitation programme. In the interdisciplinary rehabilitation programme focus is on strengthening the working capacity of the individual, and to enable the individual to address possible social, employment or health-related challenges, with the aim of gaining employment.

At the same time, the flexi-job scheme has been made more inclusive and targeted to persons with very limited working capacity. The way subsidies are awarded in the scheme has been restructured and generally flexi-jobs are now more temporary.

The reform of the disability pension and the flexi-job scheme came into force on 1 January 2013. The municipalities are working in line with the reform and the intentions behind it. Hence, the organisational framework behind the reform is in place, and all municipalities have set up rehabilitation teams. Furthermore, the cooperation between the municipalities and the regional health care system, with regards to health assessments and counselling connected to the rehabilitation teams appears to be well-functioning. From the central government, focus is on supporting the municipalities in their work with developing the interdisciplinary cooperation, which is central to the effort in the rehabilitation programmes.

Entry into the disability pension scheme has declined significantly since the reform of the disability pension and the flexi-job scheme came into force, and now only around 450 new persons are awarded benefits a month. Hence, new entries are about half the level seen before the reform.

Entry into the flexi-job scheme is marginally larger than before the reform came into force, and was just over 500 persons a month in the second half of 2014. Entry into interdisciplinary rehabilitation programmes has been increasing since the reform came into force. In September 2014, 924 rehabilitation programmes were initiated. Hence, since the reform came into force, there has been a steady movement away from passive income support within the disability pension scheme towards more active efforts through the flexi-job scheme and the interdisciplinary rehabilitation programmes.



Source: Jobindsats.dk.

In September 2014 almost 17,000 persons were employed in a flexi-job under the new regime. The reform has resulted in the creation of many flexi-jobs of only a few hours a week (mini-flexi-jobs). Six out of ten flexi-jobs, created after the reform entered into force, are of ten hours a week or less. Hence, around 10,000 persons are employed in the new “mini-flexi-jobs”. Since January 2013 there are around 5,000 more full-time persons in flexi-jobs.

As a result of the reform of the disability pension and flexi-job scheme many new flexi-jobs of only a few hours a week have been created. This particularly allows more people with a limited work capacity, including persons with disabilities, to better gain a foothold in the labour market, *cf. box 3.2*.

At the same time, there has been established a better and more active effort through a coordinated interdisciplinary intervention for persons with challenges beyond unemployment, which hinders their way into jobs or training. This was established through the introduction of coordinating caseworkers, and through a systematic interdisciplinary review of the citizen by the rehabilitation teams, who also propose which combined effort the citizen should be offered. Furthermore, a common feature of the reforms is an increased use of mentoring support as part of the employment effort.

**Box 3.2****The efforts relating to persons with disabilities**

The proportion of persons with a disability that are employed is significantly below the employment level for persons without disabilities. Around 43 per cent of persons with a disability (16-64 year olds) were in employment in 2014, whereas more than 75 per cent of the overall population (20-64 year olds) were employed, as presented in section 4.1. The employment share is particularly low for persons with major disabilities and persons with mental disorders as their main disability. The difference in employment share has remained fairly stable in recent years. Hence, between 2002 and 2014 there has been no clear difference between the evolution in the employment share between persons with and persons without disabilities, cf. *SFI, Handicap og Beskæftigelse*, February 2015.

The government's disability policy action plan – *One Society for All* from 2013 is based on a notion that an active work life helps to support inclusion, equality and autonomy for all people. At the same time, a diverse and inclusive labour market contributes to creating more equal communities and hereby supports the respect for diversity and equal treatment in society as a whole. For persons with disabilities, employment is an important means to participating in and contributing to society on an equal basis. This remains true for persons with limited working capacity, of one reason or another, as even a limited working capacity is of value for both society and the individual. Therefore, the government wants to increase labour market participation among persons with disabilities.

This objective is supported by the government's labour market reforms. As part of the reform of disability pensions and the flexi-jobs scheme municipal rehabilitation teams have been established, in order to ensure a better coordination of the municipal efforts. This particularly benefits persons with complex issues, including persons with disabilities. At the reform has also enabled the creation of flexi-jobs of only a few hours a week. Furthermore, there have been allocated funds to support the labour market affiliation of persons with disabilities, including to develop and test methods that help persons with reading and writing difficulties into employment.

Source: SFI, *Handicap og Beskæftigelse*, Februar 2015 and government's disability policy action plan – *One Society for All*, 2013.

**Reform of the Cash Benefit System**

The objective of the cash benefit reform is that young persons under 30 years without any professional training or education, who receive public income support, should enter education as quickly as possible. Meanwhile, youths with professional training or education and adults (persons older than 30 years), who receive cash benefits should obtain employment. Through the reform, youths will no longer receive cash benefits, but rather a lower benefit rate – education aid – which corresponds to the level of assistance offered under the state education grant. This supports the overall objective of education.

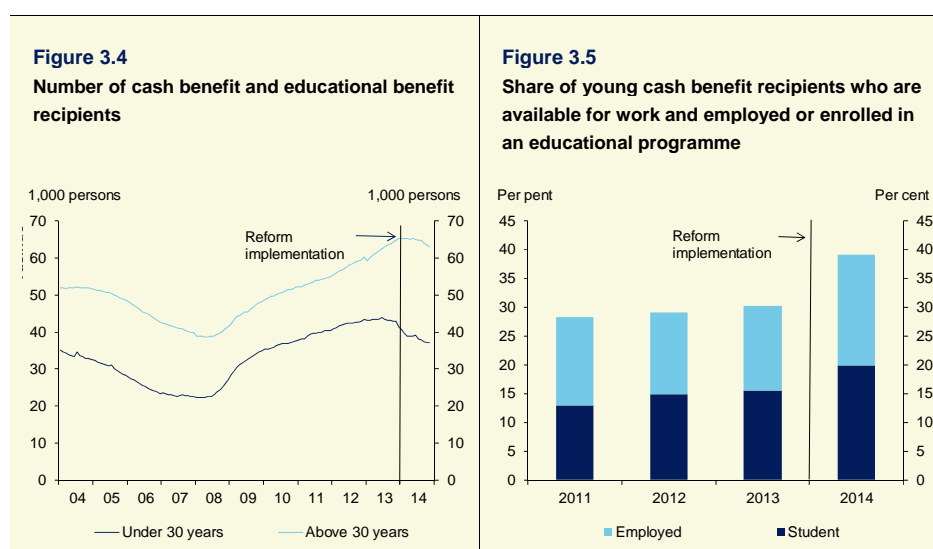
With the reform of the cash benefit system, the employment effort will be initiated sooner. Meanwhile, it must be continuous, and based on the challenges and resources of the individual. For resourceful recipients of education aid or cash benefits, the so called "usefulness effort" is introduced, where socially useful tasks are to be carried out for public employers. Education-ready youths could for instance be offered a pre-course at an educational institution (bridge-building to education), wage subsidies, or job training in private businesses. The more vulnerable youths and adults (i.e. those who may not readily be able to start an educa-

tion or a job because of, for example, health problems, etc.) must receive a holistic effort, which could include job training or mentoring.

Parts of the cash benefit reform came into force on 1 January 2014. The municipalities are working in line with the intentions of the reform, and are establishing programmes that support a targeted, early and continuous effort for the individual. The Ministry of Employment has initiated a number of trials and projects that aim to support the implementation of the cash benefit reform in the municipalities. The municipalities are showing interest in applying for funds to participate in trials and projects that can develop the right offers for recipients of education aid or cash benefits.

No outright impact analysis of the cash benefit reform has been conducted yet. The Ministry of Employment has initiated an evaluation of the implementation of the reform, which is expected to be completed by April 2015.

The number of cash benefit and education aid recipients has been stagnant, and has since decreased in the period after the reform came into effect, *cf. figure 3.4*.



Note: Figure 3.5 shows the share of young, unemployed cash benefit recipients between the ages of 16 to 29 years, who are employed and available for work in December the previous year but were unemployed and available for work in December the previous year. Among other things, uncertainty in the dating of employment within months introduces a degree of uncertainty in the statistics. The statistics are based on the employment status of individuals in a specific week in April. If a more restrictive departure criterion is used, which requires 5 successive weeks of employment or receipt of state education grants, the departure rate still clearly appears to be higher in 2014 than in previous years.

Source: Jobindsats.dk and in-house calculations based on the DREAM database.

Comparing how many of the persons, who were either employed or undergoing education in week 25 while having received cash benefits during the last week of the previous year (that is, 2011, 2012, and 2013), it appears that more people have started training/education or a job after the reform came into effect, *cf. figure 3.5*. The comparison does not take into account the variation in the business cycle stance between the specific years. However, the comparison does paint a preliminary picture of the central political intention of the reform, which is that young people should obtain an education or employment rather than passive income support, having been a success.

The Ministry of Employment has prepared a preliminary impact evaluation of the youth initiatives in the cash benefit reform based on data from the phasing-in period (January 2014 to May 2014). The results indicate that the cash benefit reform has a positive effect on the flow into education and employment among the under-thirties, *cf. box 3.3*.

### Box 3.3

#### The preliminary efficiency analysis of the Cash Benefit Reform for young people under the age of 30

The preliminary efficiency analysis of new cash benefit recipients in January 2013 compared with new educational aid and cash benefit recipients in January 2014 indicates that the Cash Benefit Reform has had a significant and positive effect on both the education and employment rates of young people (25- to 29-year-olds), who entered the educational aid and cash benefit system in January 2014, *cf. table a*. The efficiency estimates take business cycle fluctuations over the period and different background variables among the recipients into account.

The efficiency analysis also shows a significant and positive effect on both the education and employment rates of all (both new and existing) educational aid and cash benefit recipients in January 2014, *cf. table a*. Among other things, the analysis shows an effect of 3.38 percentage points on the employment rate and 4.67 percentage points on the education rate of new recipients 5 months after the start of the benefit period. This should be viewed in the light of the education and employment rates, both of which was 13 per cent for people between the ages of 25 and 29 who started receiving cash benefits in January 2014. That is, the efficiency analysis shows that the reform alone accounted for an increase in both the average education and employment rates of roughly one third.

#### Table a

##### The effects of the Cash Benefit Reform on the basis of educational aid and cash benefit recipients in January 2014

	Employment rate	Level of education	Level of self-support
<b>pct.</b>			
New young recipients	<i>3.38</i>	<i>4.67</i>	<i>0.93</i>
All young recipients	<i>1.85</i>	<i>4.08</i>	<i>0.99</i>

Note: Significant variables are in italics. The rates are calculated from entries into the cash benefit system up to and including the month of May.

Source: DREAM, UNI-C and own calculations.

**Reform of the Sickness Benefit Scheme**

The main objective of the reform of the sickness benefit scheme is that persons who are on sick leave should return to the labour market quicker by means of an earlier, and more business-oriented, effort, and hereby avoiding prolonged absence and unemployment. It is also central to the reform that no one on sick leave risks finding themselves without public support.

The reform of the sickness benefit scheme has entered into force in two phases.

The first phase took effect on 1 July 2014. It includes the following elements: The date of the assessment of whether sickness benefits can be prolonged is brought forward to 22 weeks into the spell of sickness rather than 52 weeks under the previous regime. With the sickness benefit reform, persons on sick leave, who cannot get their sickness benefits extended, have the possibility of entering into a job clarifying programme with an interdisciplinary effort. In the job clarification programme, the person on sick leave receives an income (the interdisciplinary rehabilitation programme benefit), which is lower than the sickness benefit rate. In the first part of the reform there is also introduced a new extension rule in case of life-threatening, serious illness.

The second phase of the reform took effect on 5 January 2015. It includes a significant restructuring of the effort on sickness benefits. A new model for visitation and monitoring of persons of sickness benefits is introduced. This implies that, among other things, persons on sick leave with complex problems and in need of an interdisciplinary effort must have their case handled by the municipal rehabilitation teams. The second phase of the reform also includes a strengthening of the company-related effort for the recipients of sickness benefits. This also introduces the possibility of fast tracking, where companies and the persons on sick leave can request the municipality to launch an extraordinarily early effort in sickness benefit cases where the expected period of sickness leave is longer than eight weeks. Furthermore, it is an important part of the reform that there will be an early and systematic inclusion of the sick person's own doctor, in all cases with an expected leave period of more than eight weeks.

The reform of the sickness benefit system is still being phased in. Hence, it is still too early to evaluate the effects of the reform.

Furthermore, an agreement was reached in February 2015 on the restructuring of the refund system of public benefits between the central government and municipalities. This is described in more detail in section 4.1.

**The Employment Reform**

The purpose of the employment reform is to ensure that resources are utilised in a better and more effective way, such that more unemployed gain lasting employment as soon as possible. The reform aims to secure that the employment effort, to a greater extent than today, is based on individual needs and allows room for the fact that all unemployed are different, and therefore have different needs for support and guidance in order to obtain employment. Therefore, the municipalities and the unemployment insurance funds gain more freedom in organising an individually tailored effort for the unemployed. Also, the unemployed get a re-



sponsibility for, the individual effort. This can contribute to increasing the ownership of the process among the unemployed, and hereby increasing the opportunities of the unemployed to get back into the labour market.

A main focus of the reform is to ensure an overall boost of the education level of those unemployed with the fewest skills through a series of targeted initiatives. For example, the unskilled unemployed and unemployed with outdated educations will have better opportunities for getting an education boost. Meanwhile, there is a strengthening of the opportunities for those unemployed with the least education to receive short courses that target specific labour market needs.

The reform also ensures support for those unemployed, who are at risk of having a weak attachment to the labour market. Another consequence of the reform is that the young and seniors receive a right-and-duty offer earlier. Meanwhile, new graduates from higher education will have greater opportunities of gaining a foothold in the labour market, for example through the possibility of vocational traineeships of a longer duration. At the same time, the long-term unemployed will receive a more intensive and individually tailored effort. There will also be conducted development work, aimed at strengthening the quality of the effort for those unemployed who are at risk of long-term unemployment. The reform changes the employment effort for all unemployed, including those unemployed with disabilities or impairments.

The bulk of the unemployment reform comes into force on 1 July 2015, with the exception of some elements that are already in force from 1 January 2015. In addition, a number of ICT-tools will be implemented from 2016 and onwards.

**Box 3.4****The effects on immigrants of non-western background of the reforms of the disability pension and flexi-jobs scheme, sickness benefits and the cash benefit scheme**

The recent labour market reforms constitute significant initiatives with regard to increasing the employment rate of immigrants and their descendants, since immigrants of non-western origin are over-represented among cash benefit recipients and disability pensioners.

A number of unemployed refugees and immigrants with complex issues that require support from different parts of the municipal administrations might benefit from a comprehensive and interdisciplinary approach, facilitated by *the Reform of Disability Pensions and the Flexi-Jobs Scheme*. In 2013, 13 per cent of all disability pension beneficiaries were immigrants of non-western background. This implies that there are nearly twice as many immigrants of non-Western background receiving disability pensions compared to their share of the working age population.

*The Cash Benefit Reform* supports both an interdisciplinary, holistic- and individual effort that can help them move forward. In 2013, non-western immigrants made up about 7 per cent of the working age population; however, they made up 22 percent of the 147,000 recipients of full-time cash benefits. Among women the share was even higher. Women with non-western immigrant background accounted for one quarter of all women receiving cash benefits in 2013. In conclusion, non-western immigrants are clearly over-represented in the cash benefit system.

*The Sickness Benefit Reform*, like the reform of the disability pension and flexi-job scheme, seeks to achieve an increased employment rate among immigrants and their descendants. People with complex problems and persons on sick leave, who are not entitled to an extension of sickness benefits after five months under the current extension rules, will receive a holistic, individually tailored effort that supports the advancement of the employability of the individual. Overall, this should ensure that more persons on sick leave, including immigrants, return to the workforce. In 2013 around 2.5 per cent (about 6,000 full-time recipients) of non-western background received sickness benefits, while the number of persons of Danish origin, who received sickness benefits, were 2 per cent (75.600 full time recipients) out of the total share of the working-age population.

**The second Carsten Koch Expert Group and Focus on Persons with Foreign Background**

In February 2013 the government formed an independent group of experts led by the former minister for taxation, Carsten Koch, who was tasked to analyse the active labour market effort, and make recommendations for a new and better system, aimed at permanently raising the employment rate. The analysis consists of two phases: An analysis of the active labour market effort for the insured unemployed, and an elucidation of the active labour market effort for the unemployed who are not ready for a job.

In February 2014 the expert group published their first findings and made a number of recommendations regarding the effort for the insured unemployed. The government used these findings as the basis for the aforementioned employment reform.

In January 2015 the expert group published their first report under the second phase of the analysis, with recommendations regarding the integration effort for newly arrived refugees and reunified families. The recommendations have been a part of the government's work on designing the integration proposal described below.

In March 2015, the expert group published its final report under the second phase of the analysis concerning the other part of the active employment effort, which deals with the non-job ready unemployed. The report makes recommendations on the effort for persons receiving public income benefits, who often have other problems in addition to unemployment and are thus further away from the labour market. With their recommendations, the group of experts envisages a new and far more business oriented effort. At the same time, the group highlights the need for more quality and content in the interdisciplinary effort and an increased focus on ensuring that vulnerable citizens get more training.

The work of the expert group are in direct extension of the three large reforms that the government have implemented for vulnerable citizens – the reform of disability pension and the flexi-jobs scheme, the cash benefit reform and the reform of sickness benefits – which ended the vertical approach in municipalities and introduced interdisciplinary rehabilitation programmes and teams as well as job clarification programmes. Hereby, the reforms have created a framework for an interdisciplinary and coherent effort, which is often necessary in helping the most vulnerable citizens to move closer to the labour market. The government agrees with the experts that an important part of the future effort is a more business oriented focus, where vulnerable citizens are helped into training in the work place. Further work should be done to strengthen and improve quality of the interdisciplinary efforts.

#### **New integration initiative**

On 15 March 2015, the government presented a proposal for new integration initiatives. The main aim of the initiatives is that refugees and immigrants should obtain employment as soon as possible. A jobs oriented integration programme should therefore replace the current integration programme, where the effects have not been good enough. Going forward, as a part of the programme, requirements must be made for newly arrived refugees and reunified families to take a job if possible. If it is not possible, they must turn in a greater effort for the benefits they receive, by regularly attending a jobs oriented effort at a workplace.

Efforts must always be combined with Danish courses and must to the greatest possible extent be organised based on the individual's training and experience from their home country.

Furthermore, the government will make an extra effort regarding refugees and immigrants that have been in the country for several years, but continue to receive cash benefits and are not able to support themselves financially. In the proposal, the government suggests that all third-country nationals who have received cash benefits for at least six months should start working. This could be in job training, subsidised employment or in the so-called usefulness jobs.

### **3.2.2. Government Initiatives on Education**

#### **Improvement of standards in the public primary and lower secondary school system**

A reform of public primary and lower secondary education (the Folkeskole) took effect from the start of the school year in August 2014. The reform has three principal objectives: (1) the public school system must challenge all students to reach their full potential, (2) the public school system must lower the significance of social background on academic results, and (3) trust in the school and student well-being must be enhanced through respect for professional knowledge and practice.

A longer and more varied school day with diversified and inspiring teaching methods, strengthened teaching of the subjects, and more time for assisted learning activities, all contribute to improving the framework for ensuring that all students reach their full potential.

All students in the Folkeskole have a right to receive an education that meets their preconditions and needs. If for instance a student with migrant background needs special support, municipalities and schools are obliged to take steps, varying in scope and duration corresponding to the needs of the student.

The implementation of the reform of the Folkeskole is progressing as planned, but implementing a reform of this magnitude takes time. It is too soon to draw conclusions as to the effect of the reform. The Ministry of Education supports and follows the implementation through a number of initiatives, *cf. box 3.5*.

### Box 3.5

#### Examples of initiatives to support, evaluate and monitor the implementation of the reform of the Folkeskole.

##### Supportive initiatives:

- Learning consultancy unit: The learning consultants offer individual guidance to municipalities, schools as well as nationwide guidance programmes. The Ministry of Education's *Bilingual Taskforce*, a temporary project running from 2009-15, contributes by helping teachers to better include bilingual children in their teaching. The Bilingual Taskforce is part of the learning consultancy unit.
- The Resource Centre for the Folkeskole: The Resource Centre was established as part of the reform to support the Ministry of Education's efforts to develop new knowledge, use knowledge more interactively and strengthen the interaction between the various stakeholders in the Folkeskole.
- The modernisation and expansion of the "Knowledge Portal" (EMU.dk): The portal is to provide an overview of evidence-based information, methods and tools.

##### Evaluation and follow-up initiatives:

- Evaluation of student learning and well-being: The evaluation of the overall objectives of the reform is monitored annually through national tests and a new survey on well-being.
- Annual status report: The Ministry of Education publishes an annual report on the development of the Folkeskole, which will form the basis for discussions with key stakeholders. The first status report will be published in the spring of 2015.
- Evaluation and research programme: The programme will contribute to the documentation of the status of the implementation and effects of the reform of the Folkeskole. This ensures increased knowledge on school management, teaching and learning, along with experiences and results of the reform.
- Partnership for the Folkeskole, which is a partnership for the development of the school system between key stakeholders in the field.
- Report to the parliament: Within five years after the enactment of the law, the Minister for Education will give an account to the parliament concerning the effects of the law and the possible need for changes.

Source: The Ministry of Education.

### **Agreement on better vocational education and training programmes and a strengthened education guarantee**

As part of the budget agreement of 2013, the government reached an *agreement on better vocational education and training (VET) and a strengthened education guarantee*. The agreement aims to reduce drop-out rates in VET-programmes and increase the number of students who obtain an apprenticeship. The agreement entails a prioritisation of DKK 3.1 bn. for the period 2013-16. The initiatives of the agreement are described in Denmark's National Reform Programme 2013. The agreement was the first phase of the effort to improve VET programmes.

The implementation of the initiatives follows the plan from 2013, including the establishment of 50 placement centres nationwide. These are responsible for cooperating with the local business community on establishing apprenticeships, as well as offering school-based practical training for students who do not conclude a training agreement with a company. Two initiatives are included in the government's reform of VET programmes, see below, and will not take effect until August 2015. Follow-up on and stock-taking of the initiatives is ongoing.

As of now, it is too early to conclude on the effects of the new initiatives on drop-out rates and the prospects for apprenticeships, among other things. At the same time, a number of other factors also contribute to the availability of apprenticeships. Data for the development from 2013 to 2014 (based on Q3 2013/14) shows that the number of apprenticeships remains unchanged and the number of students in school-based practical training has increased. This indicates that more students are expected to complete a VET programme. Currently there is no data for drop-out/completion rates for 2014.

### **Better and more attractive vocational education and training programmes**

The government has of June 2014 adopted a VET reform, resulting from a broad political agreement (from February 2014), and following the *agreement on better vocational education and training (VET) and a strengthened education guarantee*. The reform, which takes effect in August 2015, has four specific objectives: (1) More students must choose a VET programme directly following the ninth or tenth grade, (2) more students must complete a VET programme, (3) the VET programmes must challenge all students to become as competent as possible, (4) confidence in and well-being at vocational schools must be strengthened.

The objectives of the reform will be achieved through, among other things, a new one-year basic course for the youngest students, focus on strengthening attractive learning environments, a new tenth grade in lower secondary education targeted at VET programmes, admission requirements in Danish and maths, better availability of higher-level courses, and more programmes that provide both access to higher education and vocational skills. With the reform, teaching of Danish is improved, and the students are ensured a minimum of 26 hours of teaching per week in the basic course from 2016, corresponding to almost 35 lessons per week. Furthermore, a new two-year combined youth education is established targeting persons under 25, who do not possess the qualifications for completing a vocational or general upper secondary education. This programme is aimed at obtaining employment and further education. In addition, further training for teachers in order to enhance the quality of teaching is appropriated. See also the description in the National Reform Programme 2014.

The reform will, together with the already launched initiatives from 2013, contribute to a more effective vocational education and training system. Among other things, this relates to the reduction of drop-out rates and increased completion of VET programmes. The implementation of the reform is progressing as planned and is expected to be fully implemented in the period 2015-16. The fulfilment of the specific objectives of the reform will be followed closely through ongoing monitoring, measurement, and evaluation of progress and results.

### Box 3.6

#### Major initiatives launched to support the VET reform

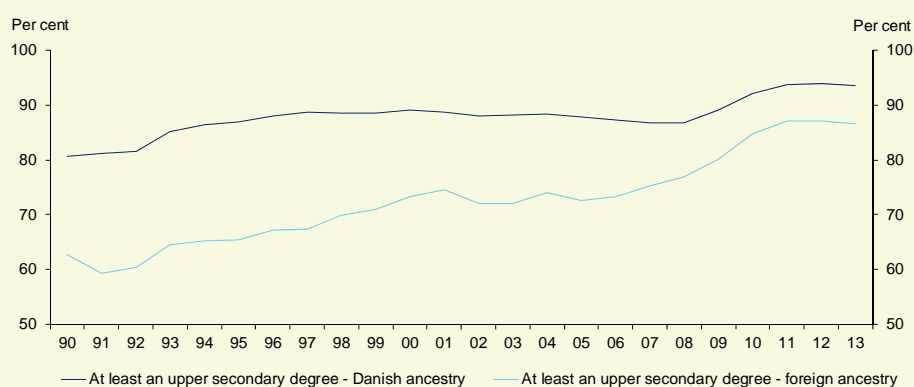
- Learning consultancy unit: The learning consultancy unit offers guidance and support to the vocational education and training institutions implementing the VET reform.
- Continuing training of teachers and management: The realisation of DKK 400 million for a strategic competence lift, as well as courses on "School Development in Practice" at all VET schools that support the improvement of quality and a more attractive learning environment.
- Development of courses and programmes: The Ministry of Education and the vocational training committees prepare frameworks and educational content, as well as guidance and inspirational material.
- Monitoring the reform objectives: Developing new indicators and evaluation tools that together with existing monitoring tools may provide information on the fulfilment of the reform's objectives.

Source: Ministry of Education.

The governments initiatives in the field of education are generally expected to support the positive trend of young persons with migrant background achieving better educational results, including a larger share getting at least an upper secondary education, *cf. figure 3.6*.

**Figure 3.6**

#### Share of a 9th grade cohort expected to complete at least an upper secondary education programme



Source: The Danish Ministry of Education, *the profile model 2013*.

### 3.3 Removing Barriers to Competition and Reducing Regulatory Requirements

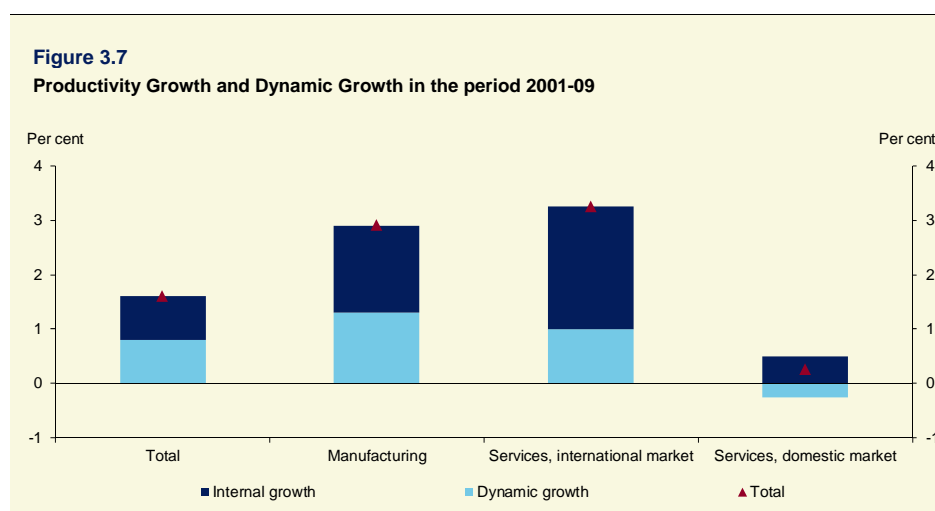
The Council has recommended that Denmark in 2014-15 should “*Increase efforts to remove barriers to entry and reduce regulatory burden with a view to increasing competition in the domestic services sector, in particular in retail and construction, as recommended by the Productivity Commission.*”

#### Reducing regulatory requirements

In order to reduce regulatory requirements, the government has established Business Forums for Simpler Rules, which has been tasked to make concrete proposals for simplification of rules, which may alleviate the burden to enterprises and hereby free up resources.

#### Removing barriers to competition

A well-functioning competitive market ensures an efficient use of resources and increases prosperity. On a series of markets in Denmark, competition is not adequate, a fact both the EU and the OECD has stressed. Danish prices are significantly above the OECD average, also when adjusted for differences in taxes, fees and wealth. Particularly in domestic-oriented industries like construction and retail, productivity growth has been low for a number of years. With regards to productivity growth in domestic-oriented services both internal growth and business dynamics have been low compared to other markets, *cf. figure 3.7.*



Note: The average, real growth in value added per employee is decomposed into two components: (i) internal growth, which is productivity growth within the firm, and (ii) dynamic growth, which is productivity growth as a result of reallocation of resources from firms with low productivity to highly productive firms.

Source: The Danish Productivity Commission.

To address the productivity challenge the government presented *Growth Plan DK* in February 2013 as a comprehensive plan towards 2020. The plan focused on increasing productivity in

the private sector. According to the plan, GDP must, among other things, be increased by DKK 20 bn. towards 2020 through reforms of the conditions for private companies and increased competition.

As part of fulfilling this objective the government entered an agreement in June 2014 on *The Growth Package 2014* with several parties in parliament. As a follow up on the recommendations of the Productivity Commission the agreement focuses, among other things, on increasing competition and productivity in certain domestic-oriented industries, including particularly construction, utilities and other domestic-oriented industries.

Along with *Growth Plan DK* from the spring of 2013 the government has so far fulfilled DKK 11½ bn. of the total objective of DKK 20 bn. The government is continuously working towards this agenda and seeking to meet the rest of the target.

Through the past year, the government has thus passed a series of initiatives which strengthens competitiveness within the domestic-oriented industries. The following section outlines the relevant initiatives.

#### **Increased Competition in Construction**

With the launch of the government's new building policy strategy *Towards a Stronger Construction Sector in Denmark* from November 2014 and *Growth Package 2014* there is, among other things, launched a series of initiatives that support the competition within construction for the benefit of consumers and businesses throughout the economy.

The government's building policy strategy has focuses on fostering competition and efficiency in Danish construction among other things. The strategy contains 34 initiatives covering five broad areas; (1) the quality of construction regulation works, (2) enhanced competition in construction, (3) efficient public construction, (4) growth throughout the value chain and (5) sustainable construction.

The strategy contains a number of initiatives which should ensure simplification of rules and promote a more appropriate legislation by removing inappropriate double regulation in the 22 laws (minimum) the municipalities are required to ensure in connection to processing a building permit. The strategy also includes a number of initiatives which should optimise public procurement processes.

Furthermore, the strategy focuses on increasing trade and the competition for both construction projects and building materials. Harmonisation is thus implemented to match international standards on several areas to ease the barriers of entry within the Danish construction market. It also investigates how trade, both abroad and within the construction value-chain can be strengthened. In the market for electrical installations and power facilities, international electric power rules and standards for workplace lighting are introduced. Furthermore, fire regulation for high-bay warehouses are brought in accordance with the requirements of the Danish neighbouring-countries. This can contribute to making it cheaper to build in Denmark.

It has been agreed to initiate a thorough review of the rules on the fire area, in order to get a better and more coherent fire regulation.



One of the crucial prerequisites for an increase in productivity and competitiveness in the construction sector is a well-functioning, efficient and transparent system of agreements. As a part of the government's building policy strategy a revision of the voluntary standard agreement documents is implemented. The work is expected to be completed in three years and the objective is to ensure a modern system of agreements that enables transparent, cheap and efficient conflict management which minimises transaction costs for different parties in construction and at the same time allows for an increasing inflow of foreign players through a more internationally comparable system of agreements.

The government's new building policy strategy also contains a series of studies and analyses, all designed to increase competition in construction either by simplifying regulations, making existing systems cheaper, allowing easier access to the market or through more efficient public construction. Among other things, it is examined, how specific Danish requirements can be removed and the use of international standards increased, and how construction projects of municipalities can be coordinated and made more efficient. It is also examined how the approval system for structural engineers can be simplified. It looks into how the building insurance scheme and the approval system for construction products in contact with drinking water can be modernised. Likewise, the potential for a more singularity in developer assignment in the central government is analysed. Furthermore, an evaluation of the law for public construction is carried out, as well as initiatives to allow for an overview of major building projects and testing of more flexible forms of public procurement.

The processing time for building permits must be reduced by one third in 2016. To ensure that the construction sector faces a competent and consistent processing of technical applications for building permits different models for professionalising the technical application for building permits will be developed. This can increase the chances for innovative and standardised solutions being approved. Furthermore, central public processing times are shortened in a number of areas. This includes the processing times for authorisation applications for electricity, plumbing and sewage, which is reduced by 15 per cent towards 2016. This happens in line with the introduction of part authorisations on the electricity, plumbing and sewage area as of April 2014, which increased competition by easing access to the market.

#### **Increased Competition in the Retail Sector**

Through the past few years there has been increasing focus on the challenges faced by the retail sector in the coming years. Among other things, The Shops Closing Act has been liberalised several times most recently in 2012, and the effect of this is expected to occur over several years. Furthermore, a change of The Shops Closing Act is planned for 2015. This should make it easier to acquire exemptions for closing days in case of special events.

In December 2014 the government published *Growth Plan for Digitisation in Denmark*. One of the initiatives establishes a partnership for e-commerce and digitization of the retail trade. The initiative should strengthen e-commerce both nationally and across borders. The deployment of e-commerce will strengthen competition and contribute to giving consumers access to a wider selection of goods.

In connection with Agreement on the Economy of the Municipalities in 2015, the government and The Union of Municipalities (KL) agreed on launching a committee on the terms for the

municipalities' physical planning. The committee work is based on a catalogue of barriers to growth in the Planning Act, which KL has presented, and will be completed in the spring of 2015. The committee looks at whether changes to the Planning Act and changes to judgment practices can contribute to growth, without compromising the protection of nature and the environment. Overall, this is a first follow-up to the Productivity Commission's recommendations in the field.

#### **Increased Competition in Other Services**

In order to ensure greater independence and a more efficient treatment of competition issues, the current competition board of The Danish Competition and Consumer Authority is re-organised into a professional board as of the 1 July 2015. The board will consist of seven persons with responsibility for enforcement of The Competition Act. This is an extension of the enhanced competition act from 2013, which introduced the possibility of higher fines and imprisonment for breach of the Competition Act. In order to ensure a higher degree of independence regarding analyses on the competition area conducted by The Competition and Consumer Authority, the authority can refer to the new board, as of 1 July 2015, instead of the Minister of Business and Growth.

Furthermore, simplification of rules within a series of other private service industries has been implemented, and initiatives to lower entry barriers have been taken. With *Growth Package 2014* food companies no longer have to have a so-called nutrition letter in order to legally operate a business. In addition, the agreement included the terminations of some special Danish rules in the food area, for instance, demands on hygiene training and a series Danish labelling rules of food.

On the transport area the total weight for seven-axle combined vehicles has been increased. The experimental scheme with EMS-vehicles is also extended, and the road network for EMS-vehicles is expanded.

In order to support labour mobility between companies the regulation of employment clauses is changed in order to limit the use of them. With few exceptions, employment clauses are banned, and the rules of the use of customer and competition clauses are adjusted.





## 4. The National Targets in the Europe 2020 Strategy

In recent years, a number of reforms and initiatives have been introduced, contributing to the overall targets of the EU 2020 strategy.

Structures in the Danish labour market are generally healthy, and the government's ambition is to maintain a high level of employment and improve the possibilities for persons receiving public income support, to return to the labour market or education. It is through a broad based social, labour market and education oriented effort that the goal of social inclusion may best be achieved. With the implemented reforms the ambitious Danish target of a structural employment rate of 80 per cent may be reached in 2020.

On the research front, Denmark has achieved the target from the EU 2020 strategy. Regarding climate and energy policy a number initiatives have been undertaken, in order to reach the ambitious goals from the strategy of reducing greenhouse gas emissions and increase the share of renewable energy. In education, initiatives that increase the share of a youth cohort that receive a secondary education have been implemented.

The targets for the 2015 National Reform Programme are set out in table 4.1.

**Table 4.1**  
**The national targets**

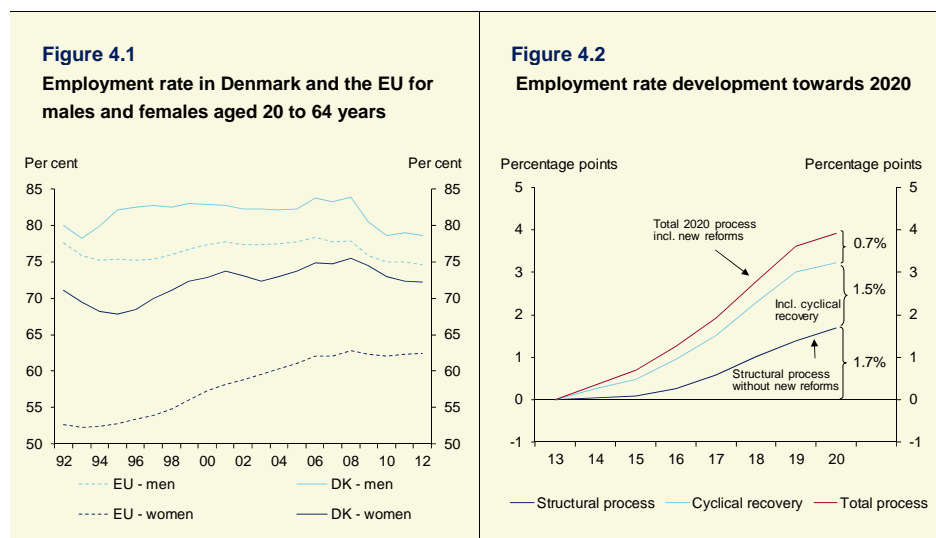
	Target in 2020
The national target for employment	80 per cent structural employment rate
The national target for R&D	3 per cent of GDP
The national target for climate and energy	Energy consumption stemming from renewable sources must account for at least 30 per cent by 2020 and use of renewable energy in the transport sector of 10 per cent by 2020. Gradual reduction of emissions in non-ETS sectors in 2013-20 of up to 20 per cent by 2020 relative to 2005.
The national target for education	Less than 10 per cent school dropout rates of the population aged 18-24 and at least 40 per cent of the population aged 30-34 having completed tertiary or equivalent education.
The national target for social inclusion	Reduce the number of people in households with low work intensity by 22,000 towards 2020.

## 4.1 The National Target for Employment

There are clear signs of improvement in the Danish labour market. Employment has increased over the past year and a half due to growth in the private sector, and unemployment has gone down. Overall, private sector employment has gone up by more than 30,000 persons since mid-2013. This development is expected to continue as the recovery of the Danish economy gains momentum.

The structures of the Danish labour market are healthy, and there are no signs that the economic downturn following the financial crisis has had a permanent impact on the labour market. This is reflected in, among other things, a structural unemployment that is no higher today than before the financial crisis, *cf. Economic Survey*, December 2014. The flexibility of the Danish labour market remains large and gross unemployment is at a low level compared to previous downturns.

The Danish employment frequency for persons aged 20 to 64 years is at around 75½ per cent in 2013 – significantly higher than the EU-average. The higher employment frequency is particularly evident among the Danish women, *cf. figure 4.1*. The Danish target is a structural employment frequency for 20-64 year olds of 80 per cent in 2020. Growth in the employment frequency towards 2020 corresponds to around 4 percentage points. Hence, the Danish target for the structural employment frequency is expected to be reached by 2020, *cf. figure 4.2*.



Note: The employment rate in figure 4.1 is based on EU's "Labour force Survey".

Source: Eurostat, Statistics Denmark, DREAM, and in-house calculations.

It is the government's ambition to maintain a high level of employment and improve the possibilities for persons on public income support to re-enter employment or education. With the reform strategy in *Growth Plan DK*, new targets for growth and private employment have

been set. This will be achieved through increased education attainment and reforms that increase labour supply.

The reforms and initiatives, including reforms of taxation, disability pensions and the flexi-job scheme, the cash benefit system, and the state education grants, which support the fulfilment of the growth targets in *Growth Plan DK*, are expected to raise employment by around 28,000 full-time persons. Together with demographic trends and the effects of earlier reforms, structural employment is expected to increase by around 95,000 full-time persons towards 2020, cf. *table 4.2*.

**Table 4.2**  
**Contributions to the changes in labour supply and employment, 2013-20**

	Effect, individuals	Incl. working hours, full-time persons
<b>1,000 persons</b>		
Demographic contribution (age, gender, ancestry, etc.)	8	1
Estimated contributions from earlier reforms <sup>1</sup>	74	66
Implemented reforms since 2012 <sup>4</sup>	23	28
Of this:		
- Tax reform 2012 <sup>2</sup>	5	11
- Reform of disability pension and flexi-job scheme	8	5
- Specific initiatives in Growth Plan DK <sup>3</sup>	7	10
<b>Total change in structural employment</b>	<b>105</b>	<b>95</b>
Contribution from cyclical normalisation	85	71
<b>Total change in actual employment</b>	<b>190</b>	<b>166</b>
Of this, private sector employment		159

Note: The difference between the effect measured in full-time persons and individuals does not solely reflect the change in average working hours from the various initiatives, but also the difference between the average working hours and the normal working hours. The sum of the contributions can deviate from the total because of rounding.

1) Including initiatives in the Consolidation Agreement, tax agreements from 2007 and 2009, the retirement reform, as well as different educational objectives etc.

2) Including estimated effect for 2013.

3) Including reform of the state education grants and cash benefit schemes.

Source: Updated 2020 process, August 2014, and in-house calculations.

Towards 2020, the economic situation is expected to normalise, which is expected to increase employment by around 70,000 full-time persons, cf. *table 4.2*. Overall, the cyclical recovery, underlying demographic trends, and previous and new reforms, are expected to raise employment by about 166,000 persons towards 2020. Private sector employment alone may increase by almost 160,000 persons.

Implemented reforms, including the retirement reform from 2011, and the reforms of taxation, the disability pension and flexi-job scheme, the cash benefit system, and the state education grant are expected to contribute to a significant boost of labour supply towards 2020.

*The tax reform* from June 2012 ensures that having a job compared to receiving benefits is economically favourable. In the long run, the reform is expected to contribute to an increase in employment by around 16,000 persons, including a contribution from longer working hours. Towards 2020 the reform is expected to raise employment by around 11,000 persons, *cf. table 4.2*. The increase in labour supply is largely attributed to the rise in the general tax allowance, particularly for single parents, the increase in the upper tax threshold, and a more moderate regulation of income transfers in the period 2016-23. The change in regulation of income transfers contributes to making it more favourable to work rather than receiving transfers.

Reforming the disability pension and flexi-job scheme contributes to an increase in labour supply by approximately 5,000 full-time persons in 2020 (and just above 12,000 full-time persons in 2030), *cf. table 4.2*. The reform came into force on 1 January 2013, and is described in further detail in section 3.2.1. The aim of the reform is to retain as many individuals as possible on the labour market. Access to the disability pension scheme will be limited for individuals younger than 40 years who will, instead, be offered a newly established resource clarification process. Furthermore, the reform entails that the flexi-job scheme is targeted persons with a limited work capacity and that subsidies are restructured.

In April 2013, the Danish government agreed on reforms of the cash benefit system and state education grants (a part of *Growth Plan DK*), which together increases the employment by approximately 9,000 persons towards 2020. The reform of the state education grants include initiatives that encourage students to complete their studies faster. The reform of the cash benefit system causes a greater incentive for employment-ready cash benefit recipients younger than 30 to find employment or undertake an education. In conjunction with the 2015 Budget Act, it was decided to abolish the mutual obligation to provide for cohabitants. This is, all else equal, estimated to reduce the effect on employment of the cash benefit reform by around 1,000 persons.

In addition, an increase in employment of around 1,000 persons in 2020 is assumed to be the consequence of productivity gains through a greater capital stock following the initiatives in *Growth Plan DK*.

*The Growth Package 2014* from June 2014 contains a number of initiatives that are primarily designed to increase productivity. The initiatives are expected to raise employment by around 1,500 persons towards 2020, partly following from the relaxation of the tax scheme for foreign researchers and key employees.

Finally, the reform of the sickness benefit scheme from December 2013 and the reform of the employment effort from June 2014 are expected to increase employment in 2020 by almost 1,500 persons.



As part of the reform of the employment effort, it was decided to reorganise the reimbursement system that account for reimbursements from the central government covering part of municipal expenses for income transfers. The restructuring of the reimbursement system supports the active employment effort, and ensures that the municipalities have the incentive to choose an effort that is aimed at helping the unemployed into a job or training. In February 2015 a political agreement was reached on the specifics of the reimbursement restructuring. The restructuring of the reimbursement system is estimated to lift employment by an additional 3,000 persons towards 2020. The final adjustment of the subsidy and equalisation systems for municipalities in relations to the restructuring of reimbursements is, however, not yet established. Therefore, in accordance with the precautionary principle, the effect of the restructuring of reimbursements is not included in the medium term projections.

## 4.2 The National Target for Research and Development

The Danish Government has set a target that public investments in research and development (R&D) must constitute at least 1 per cent of GDP. In addition, Denmark has adopted the EU target that total public and private investments in R&D must amount to 3 per cent of GDP. R&D constitutes the foundation for new knowledge, productivity development in the economy as well as new products, services, production processes and other types of innovation, which all of them are to contribute to increasing productivity growth in future.

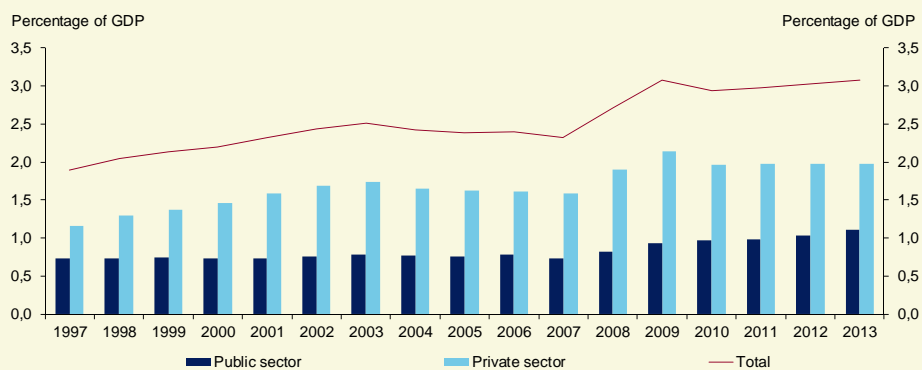
Total public and private investments in R&D increased from 2 per cent of GDP in 1997 to more than 3 per cent of GDP in 2012, *cf. figure 4.3*. Denmark has, consequently, reached the target presented in the EU growth strategy, *Europe 2020*. The public research budget has generally been on the increase since 2005 and is now at a relatively high level compared with other countries. Publicly financed research totalled DKK 20.9 billion corresponding to 1.1 per cent of GDP in 2013, whereas the private sector contributed DKK 37.3 billion corresponding to close to 2 per cent of GNP 2013, *cf. figure 4.3*.<sup>3</sup>

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<sup>3</sup> Accounting figures.

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**Figure 4.3**  
Private and public investments in R&D

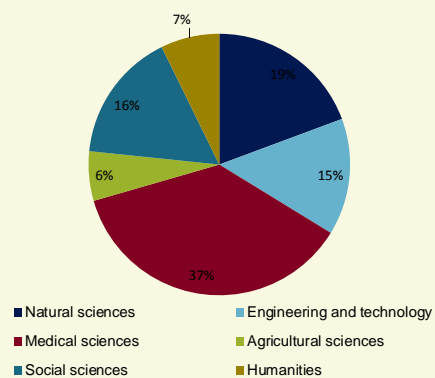


Note: The data in the figure is accounting data.

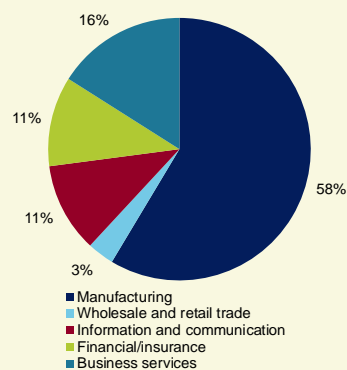
Source: Statistics Denmark.

More than a third of public expenditure on R&D is spent on research in health services while natural sciences account for 19 per cent, *cf. figure 4.4*. In the private sector, manufacturing industry accounts for more than half the enterprises' total investments in R&D, *cf. figure 4.5*. The industry for the manufacture of basic pharmaceutical products and preparations alone bears 23 per cent of enterprises' total investments corresponding to DKK 8.3 billion according to Statistics Denmark.

**Figure 4.4**  
Public expenditure on R&D by main area, 2013



**Figure 4.5**  
Private investments in R&D by industry, 2013



Note: Transport, hotels, restaurants and other industries are not included in figure 4.5 as they constitute a very small proportion of total investments in R&D.

Source: Statistics Denmark.

The performance of Danish research is good by international standards. Danish researchers published more than 60,000 scientific publications in the period 2008-2012, which in light of the population is only surpassed by Switzerland and Iceland. Danish researchers are at the same time among the most frequently quoted researchers. Internationally, Denmark is ranked number three measured by quotations per publication. Danish researchers' share of the 10 per cent most frequently quoted articles in the world has increased significantly and is today 40 per cent above the global average and considerably above the other Nordic countries.

Denmark also performs relatively well in the innovation area. Innovation understood as knowledge and ideas that are translated into products and processes creating business and societal value. Denmark is ranked number two in the EU after Sweden on the EU Innovation Union Scoreboard 2014, which compares the innovation ability of EU Member States. Innovation is traditionally divided into product and/or process innovation as well as organisation and/or marketing innovation. Considering the two types of innovation separately, Denmark is ranked above the OECD average for both types of innovation.<sup>4</sup>

With the innovation strategy *Denmark – a nation of solutions* of December 2012, the government has set three national targets for areas in which Denmark by 2020 must be among the top five OECD countries. This applies to (1) the proportion of innovative enterprises (2) private investments in R&D and (3) the proportion of highly educated employees in the private sector.<sup>5</sup> Furthermore, the government has set a target that the number of licensing, sales and option agreements is to be more than doubled from 2011 to 2020.

The four targets are important benchmarks with a view to strengthening Denmark's growth potential. In the longer term, it will be possible to measure progress in relation to the four targets set out in the innovation strategy.

Moreover, in 2014 the government launched a number of ambitious initiatives to foster research, development and innovation. New major government initiatives within research, development and innovation that were implemented in 2014 or are under implementation are presented in box 4.1.

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<sup>4</sup> The Danish Governments Report on Growth and Competitiveness, September 2013.

<sup>5</sup> Points (1) and (3) only apply to European OECD countries.

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**Box 4.1****Government initiatives to foster research, development and innovation.**

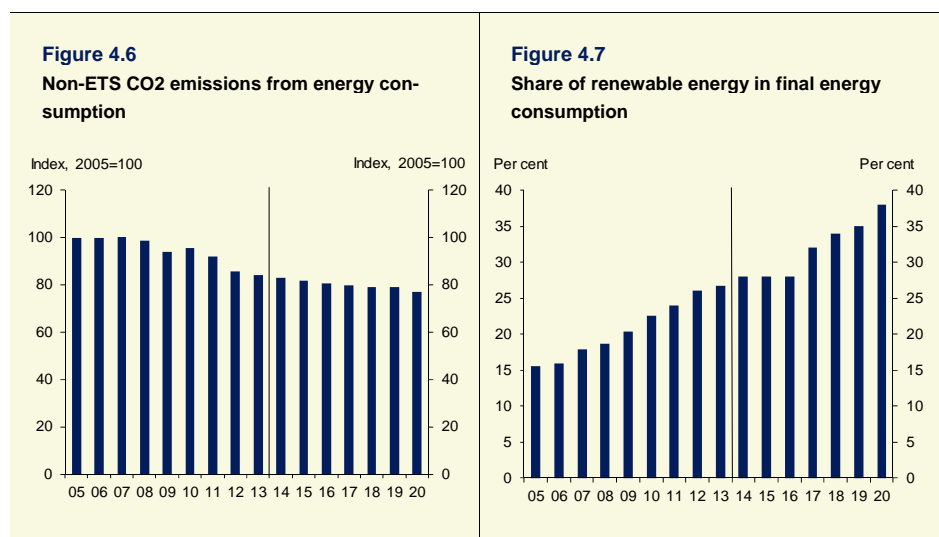
- **Innovation Fund Denmark:** on 1 April 2014, Innovation Fund Denmark was established with a total level of grants of approx. DKK 1.6 billion annually for strategic and challenge-driven research, technological development and innovation to the benefit of growth and employment in Denmark.
- **Danish National Research Foundation:** with the government's *Growth Package 2014* of June 2014, the Danish National Research Foundation received a capital injection of DKK 3 billion. The capital injection is to enable the Foundation to continue its current high level of activity and launch new research centres for another 10 years up to 2026.
- **Increased internationalisation of the innovation networks:** in 2014, support was granted to 28 international collaboration projects between Danish and foreign networks and clusters that are expected to involve more than 700 small and medium-sized enterprises.
- **Evaluation of the Danish Council for Independent Research:** the Danish Council for Independent Research was evaluated in 2014. The evaluation showed that the Council plays an important role in the Danish research system especially in relation to the development of Danish research talent. A number of recommendations are currently being implemented.
- **Initiatives for more women in research:** in 2014, the Danish Council for Independent Research launched a research project (YDUN). The goal is to strengthen talent and the exploitation of ideas in Danish research through improved gender composition in the research environment. Grants totalling approx. DKK 110 million have been allocated to 17 women researchers. Furthermore, a taskforce has been set up on women and gender in research. This taskforce is expected to submit recommendations fostering gender equality and a better gender balance in research by the end of the first quarter of 2015.
- **EUopSTART – increased acquisition of funding under Horizon 2020:** EUopSTART provides grants for the preparatory work of Danish enterprises and knowledge institutions with a view to drawing up applications for a number of selected European research programmes under Horizon 2020.
- **The pan-European research facility European Spallation Source (ESS):** in September 2014, the construction began of one of the world's largest and most advanced research facilities, European Spallation Source (ESS). Expectations are that in the course of 2015 a national ESS strategy will be drawn up, which will set the benchmarks for future development and action in the area.
- **Open Access:** in June 2014, the Ministry of Higher Education and Science published a new strategy which is to ensure free digital access to scientific articles for all in future.
- **ESOF:** the conference EuroScience Open Forum 2014 and the parallel research festival Science in the City were held in Carlsberg City District, Copenhagen, on 21-26 June 2014. The event takes place every second year in alternating European cities. It is Europe's largest research dissemination and research policy event. In Copenhagen, a total of 4,000 participated in the conference and more than 38,000 visited the festival.
- **Innovation in manufacturing industries:** with *Growth Package 2014* of June 2014, it was decided to strengthen conditions for innovation in manufacturing industries, among other things through a growth programme for small and medium-sized production enterprises; training courses in resource efficiency for employees working in manufacturing industries; as well as two new societal partnerships on innovation under the auspices of Innovation Fund Denmark: a societal partnership on big data and a societal partnership on advanced materials.
- **Tax credit for R&D activities:** in 2014, the ceiling was raised for how large expenditure on R&D may result in tax credit relief. The ceiling was raised from DKK 5 million to DKK 25 million, corresponding to a pay-out of DKK 5.5 million once the reduction in the corporation tax rate has been fully phased in by 2016.

### 4.3 The National Targets for Climate and Energy

Denmark is, among other things, subject to the following EU objectives on climate and energy:

- A series of yearly commitments for emissions of non-ETS sectors from 2013-2020. The objective is gradually intensified towards 2020 when Danish emissions should be reduced by 20 per cent compared to 2005, *cf. figure 4.6*.
- Increasing the share of final energy consumption stemming from renewable sources to 30 per cent by 2020.
- The share of renewable energy used in the ground transport sector should be 10 per cent in 2020.

The objectives are elaborated below.



Note: The statistics from 2014 and onwards are projections.

Source: Danish Energy Agency (2014), *Energy Statistics 2013, December 2014*.

#### Climate and Energy Policy Objectives

In October 2009, the EU heads of state and government reaffirmed that industrialised countries must reduce their greenhouse gas emissions by 80-95 per cent by 2050 compared to 1990 levels. The target has not yet been precisely defined, made legally binding or distributed amongst member countries.

In addition, in October 2014 EU heads of state and government agreed that the total level of CO2 emissions must be reduced by at least 40 per cent by 2030 compared to 1990 levels. No agreement on the framework for distributing how much each individual country must de-

liver, in order to reach the admission reduction that is not already covered by the EU ETS, has yet been made.

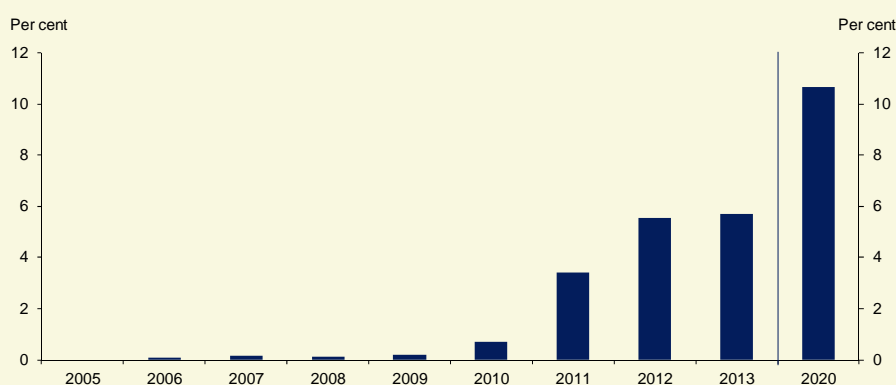
As part of the EU climate and energy package from 2008, Denmark has further committed to reducing non-ETS emissions by 20 per cent by 2020 compared to 2005 levels. There are annual commitments for the period 2013-20, and it is possible to carry any surplus forward to the subsequent year. The latest projections from October 2014 show that the reduction in emissions will be met by an additional 19 million tons of CO<sub>2</sub> equivalents for the entire period 2013-20. Overall, non-ETS emissions are expected to be reduced by 23 per cent by 2020 compared to 2005 levels. This corresponds to an overachievement of 0.6 million tons of CO<sub>2</sub> equivalents in 2020.

With *The EU Climate and Energy Package* from 2008, Denmark has also committed itself to increasing its share of final energy consumption stemming from renewable sources to 30 per cent by 2020. According to the latest projections the target is expected to be reached with renewable energy accounting for 37-39 per cent by 2020, cf. *figure 4.7*.

In the latest projection, total gross energy consumption is expected to be 753 PJ in 2020, a reduction of 12 per cent compared to 2006 levels. This meets the national objective on energy efficiency in *The Energy Agreement* of 2008, by which gross energy consumption should be reduced by 4 per cent by 2020 compared to 2006.

As part of *The EU Climate and Energy Package*, Denmark must also comply with a requirement that at least 10 per cent of energy consumption in the ground transport sector must be covered by renewable energy by 2020. This target is expected to be achieved through the implementation of the agreed upon transport initiatives in the energy agreement. According to the latest projection, 10.7 per cent of energy consumption in the transport sector will come from biofuels by 2020, cf. *figure 4.8*.

**Figure 4.8**  
Share of Biofuels used in the Energy Consumption of Ground Transportation



Source: Danish Energy Agency, *Energy Statistics 2013*, December 2014 og Danish Energy Agency, *Danmarks Energi- og Klimafremskrivning*, October 2014.

In October 2014, EU heads of state and government also agreed on objectives for the share of renewable energy sources in 2030, where 27 per cent of energy consumption must come from renewable energy. The target is binding but is not allocated between the individual countries. In addition, an indicative objective to improve energy efficiency by 27 per cent was set.

In recent years, a number of agreements that support the climate and energy policy objectives have been implemented. The main ones are *The Energy Agreement*, *The Danish Climate Bill* and *Growth Package 2014*.

### **Energy Agreement 2012-20**

The Energy Agreement is comprised of a wide range of initiatives designed to support and expand the Danish status on climate and energy, cf. the National Reform Programme 2013. The agreement involves extensive investments in renewable energy and energy efficiency. At the same time, important steps are being made towards achieving 100 per cent renewable energy in the Danish energy and transport sector by 2050.

Following the Energy Agreement several initiatives have been completed. These include a formulation of a strategy for energy renovation of the building stock. The strategy defines initiatives that should be implemented in order to ensure that energy consumption in buildings is reduced as part of the transition to a green energy system. A Smart Grid Strategy<sup>6</sup>, an energy-saving package and an overhaul of the Danish regulation of electricity are among the other initiatives.

### **The Danish Climate Bill**

*The Danish Climate Bill* was passed in June 2014. With the bill, Denmark now has an overall strategic framework for climate policy, ensuring transparency and openness on the status, direction and progress of climate policy. In the context of the Climate Bill a new independent, climate council was established. The Council is comprised of independent experts, who, among other things, will advise the government on how the transition to a low-carbon economy in 2050 can be realised in a cost effective manner taking into account growth, competitiveness and sound public finances. Professor Peter Birch Sørensen – former chairman of the Economic Council and the Productivity Commission – was appointed Chairman of the Climate Council.

The Climate Bill sets into law that The Minister of Climate, Energy and Buildings each year must send a climate policy report to the Parliament, which takes stock of the emission of greenhouse gases, and how Denmark complies with the international climate agreements.

Finally, The Climate Bill imposes the, at any time functioning Minister of Climate, Energy and Building to submit national climate objectives at least every five years. The climate objectives must have a ten-year perspective.

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<sup>6</sup> Smart Grid is used as an umbrella term for management of the entire power system, i.e. integrates the production, transmission, distribution and management of consumption.

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**Growth Package 2014 etc.**

As part of an overall agreement on *Growth Package 2014* a partial agreement on the retraction of the security of supply tax etc. and an easing of PSO<sup>7</sup>, was made. The partial agreement impacts the agreed expansion of wind energy in The Energy Agreement. In order to address some of the climate effect of the agreement, it was decided to implement climate measures in the form of setting a side of organic soil, the establishment of bio covers and the establishment of an energy-saving secretariat. Furthermore additional funds are allocated in 2018 and 2019 for climate measures. The forthcoming independent Climate Council will be asked to make recommendations on how these funds are best applied. The recommendations must be available in early 2016.

With The Budget Bill for 2015 funds for large heating pumps and a reserve for the promotion of geothermal energy was allocated. In addition, funds for climate measures have been allocated for the period 2015-17. The funds were used for concrete climate measures within primarily agriculture and transportation in February 2015.

**The Future Climate Policy and Assessment of Climate Impact**

The government aims to ensure, that climate concerns will continue to be integrated in future policy development in all the sectors that emit greenhouse gases. The government's climate policy is based on a number of principles, including the organisation of a cost efficient effort in order for the climate and energy policy objectives to be met with the smallest economic costs possible. In line with *The Danish Climate Change Policy Plan* from August 2013 a catalogue of instruments has been developed. In the catalogue different measures to obtain further reductions in greenhouse gas emissions are analysed. Along with *The Danish Climate Change Policy Plan*, the catalogue forms a starting point for the ongoing political process on how the national objective for 2020, regarding a 40 per cent reduction compared to 1990, should be met.

An overall assessment of the effect of the aggregate Danish effort is made annually. The next assessment (Denmark's energy and baseline projection) is expected to be published at the end of 2015. Furthermore, ongoing evaluations of some measures, such as the energy saving initiatives for the energy companies and the VE subsidy scheme for process, are made. The next evaluation of the energy saving efforts of the energy companies will be published in the first half of 2015.

On the energy policy area, the parties behind *The Energy Agreement 2012-20* will meet in 2015 with the aim of looking at the continuation of the initiatives in the agreement. No later than the end of 2018, the parties will discuss concrete additional efforts for the period after 2020.

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<sup>7</sup> Public Service Obligation covers subsidies to renewable energy and decentralised power plants among other things.

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## 4.4 The National Target for Education

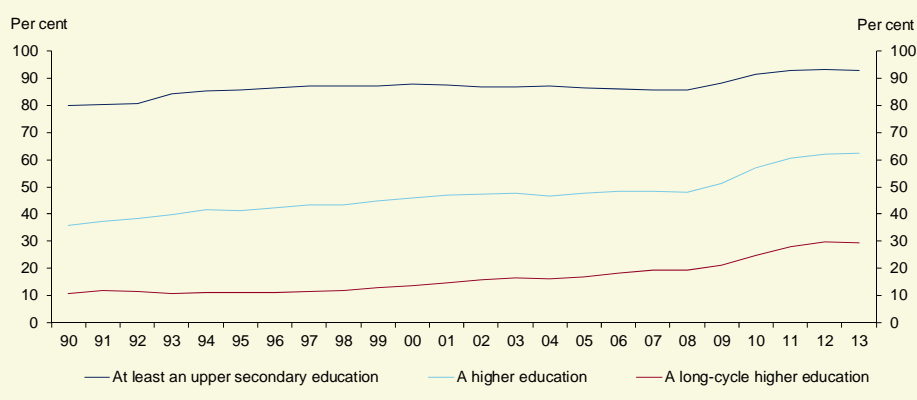
The Danish government has acceded to the EU headline targets for education set out in the Europe 2020 strategy to reduce drop-out rates to 10 per cent for 18-24-year-olds as well as to increase the proportion of 30-34-year-olds having completed a higher or equivalent education to at least 40 per cent.

Denmark contributes to achieving the EU targets through its national targets which are, however, calculated according to different methods than the EU targets. The Danish national targets are that 95 per cent of a youth cohort must complete at least an upper secondary education by 2015, 60 per cent of a youth cohort must complete a higher education by 2020, and at least 25 per cent must complete a long-cycle higher education.

The most recent data for the 2013 cohort show that 93 per cent of a youth cohort is expected to complete at least an upper secondary education, 62 per cent is expected to complete a higher education, and 29 per cent is expected to complete a long-cycle higher education *cf.* figure 4.9.

**Figure 4.9**

**Proportion of a 9th grade cohort expected to complete at least an upper secondary education, a higher education, and a long-cycle higher education**



Note: It is the targets of the government that 95 per cent of a youth cohort completes at least an upper secondary education, that 60 per cent completes a higher education, and that 25 per cent completes a long-cycle higher education.

Source: Danish Ministry of Education, *the profile model 2013*.

It is a key priority for the government to raise standards and quality of public primary and lower secondary education (*Folkeskolen*), of upper secondary education, and of higher education. At the same time, the government's objectives are that at least 25 per cent of the students should choose a vocational education and training programme directly after leaving the 9th or 10th grades; that more students should complete a vocational education and training programme; and that Danish young people should complete their education faster. It is, fur-

thermore, the government's objectives to strengthen the quality and relevance of higher education with a view to employment after graduation, and to strengthen adult education and continuing training significantly up to 2020. Altogether, the effort will contribute to improving the supply of well-educated labour and contribute to increased growth and employment.

#### **Improvement of standards in the Danish public primary and lower secondary school system**

The reform of the public primary and lower secondary school system (Folkeskolen) entered into force at the beginning of the school year in August 2014, cf. section 3.2.2. The objectives of the reform are for all students to reach their full potential, for the Folkeskole to lower the significance of social background on academic results, and for trust in the school and student well-being to be enhanced. The implementation is progressing as planned and is supported and monitored by the Ministry of Education. It remains too early to conclude on the effects of the reform.

The evaluation and follow-up efforts consist of annual national tests of student academic performance and surveys on well-being, among other things. Furthermore, the implementation process is monitored by an evaluation and follow-up research project, which is to document the status of reform implementation, to create a foundation for learning based on experience and results of the implementation process and to strengthen empirical research on schools.

#### **Better and more attractive vocational education and training programmes**

In June 2014 the government passed a comprehensive reform of vocational education and training (VET), cf. section 3.2.2. The reform, which comes into force in August 2015, will contribute to more young people choosing VET and to improving the quality of the programmes. Among other things, the reform implies a new one-year basic course for the youngest students (under 25 years), focus on strengthening attractive learning environments, and a more focused guidance process in the transition from lower secondary school, in which a new tenth grade targeted at VET programmes is also introduced. At the same time, admission requirements are introduced, opportunities for taking higher-level courses are expanded, and better opportunities for further education are made available. With the reform, students are ensured a minimum of 26 hours of teaching per week in the basic course, starting in 2016, corresponding to almost 35 lessons per week. The implementation is progressing as planned, and the specific objectives of the reform will be monitored closely through ongoing follow-up, monitoring, and evaluation of progress and results.

#### **General upper secondary education for the future**

In December 2014 the government presented a proposal for a new framework and contents of general upper secondary education, which aims at improving quality of general upper secondary education programmes. With the proposal, the government seeks to organise the general upper secondary education programmes in a simpler and more transparent manner. Focus will be on teaching students the courses that are required to start higher education. The academic level must be strengthened, and the students must meet better quality teaching, targeted and modern teaching methods, improvement of well-being and a more active dialogue between teachers and students.

**Better adult education and continuing training for unskilled and skilled labour**

With *Growth Plan DK* of April 2013, the government allocated DKK 1 bn. in the period 2014-2020 for more and better adult education and continuing training for unskilled and skilled labour. On the basis of an agreement with the Danish Confederation of Trade Unions (LO) and the Confederation of Danish Employers (DA), this has been implemented in *Growth Package 2014* of June 2014. The goal is to upgrade the qualifications of more unskilled workers, and to improve the level of education of more skilled workers. At the same time, the goal is to strengthen quality and flexibility. The initiatives that have been launched are to contribute to an increase in activity of up to 180,000 more participants in especially adult vocational training programmes and academy profession programmes, including 20,000 students in higher education programmes.

**Adjustment of student intake**

With *Growth Package 2014* of June 2014, the government launched increased adjustment of student intake regarding higher education. The objective is to transfer the student intake from education programmes with systematic and significantly high unemployment rates among graduates to education programmes with better job prospects. The scope of the adjustment comprises around 3,500 study places, corresponding to 6 per cent of the 2013 intake.

At the same time, a digital overview is provided enabling future students to gain easy access to comparable information on education programmes regarding e.g. the likelihood of unemployment, employment opportunities, the number of classes, as well as students' and graduates' assessments of the quality of the education programmes and their relevance to future employment.

**The Expert Committee on Quality in Higher Education in Denmark (the Quality Expert Committee)**

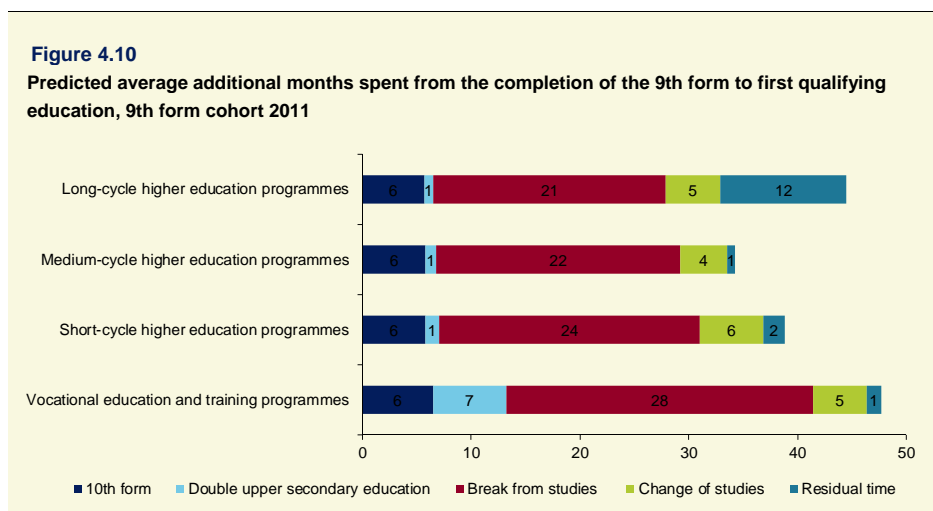
The government wishes to strengthen the quality and relevance of higher education to future employment. Therefore, in October 2013 the government set up the Quality Expert Committee. With two subreports in April and November 2014, respectively, and an overall report in January 2015, the Quality Expert Committee has presented a number of recommendations for the purpose of strengthening the quality and relevance of higher education. The recommendations comprise e.g. proposals for changing the structure of higher education programmes, increased adjustment of student intake, transparency regarding the individual's choice of education, increased openness and transparency regarding quality and relevance, study intensity, the admission system, the role of external examiners, quality education, etc.

With *Growth Package 2014* of June 2014, initiatives have been taken to follow up on some of the recommendations. In spring 2015, the government will decide on any further initiatives, e.g. in collaboration with the educational institutions.

**Reform of the state educational support (SU) system and the framework for the completion of studies**

In April 2013, a political agreement was concluded on a reform of the SU system and the framework for the completion of studies. The reform is based on the premise of a well-functioning and effective SU system which also in future will ensure that young people can get an education, irrespective of social background. The reform will strengthen public finances by DKK 2.2 bn. in 2020, cf. chapter 3.1.

It is a key element of the reform to ensure that students complete their studies faster. In an international context, Danish young people are among the oldest by the time they complete a qualifying education. On average, students are predicted to spend almost four years of additional time after having completed primary and lower secondary school until they complete a long-cycle high education, which is due to breaks in their studies and extensions to study programmes, *cf. figure 4.10*.



Source: Ministry of Education based on Statistics Denmark's registers.

As of 1 January 2015, a number of initiatives have been implemented that are to support an earlier study start and ensure that students complete their studies faster. Students may for example receive SU for 12 months in excess of the prescribed timeframe of the education if they start their first higher education programme no later than two years after completing upper secondary school. Students starting later are entitled to SU for the prescribed timeframe of the education programme. A ceiling has been introduced to the effect that students may receive SU for a maximum of five upper secondary school programmes. Moreover, a better framework has been introduced for credits obtained from studying at another institution or from a change of studies, increased use of enrolment in winter as well as improved transition from a bachelor's degree programme to a master's degree programme. Lastly, the universities are required to reduce the average length of study programmes by 4.3 months up to 2020.

#### Development contracts 2015-17

For higher education programmes, development contracts have been concluded with all 37 institutions for 2015-17. The development contracts are to promote the institution's strategic development as well as generate visibility regarding the institution's work towards meeting societal challenges.

**Action plan for internationalisation**

In April 2014, the government launched an action plan for internationalisation with a focus on attracting and retaining international students in Denmark and promoting the internationalisation of higher education. With *Growth Package 2014*, it was decided e.g. to launch a pilot project in the form of a new grant programme targeted at particularly talented students from outside the EU/EEA. A total of DKK 25 million has been allocated for 2015-17 with a view to financing scholarships covering tuition fees and costs of living for 60-65 particularly talented students.

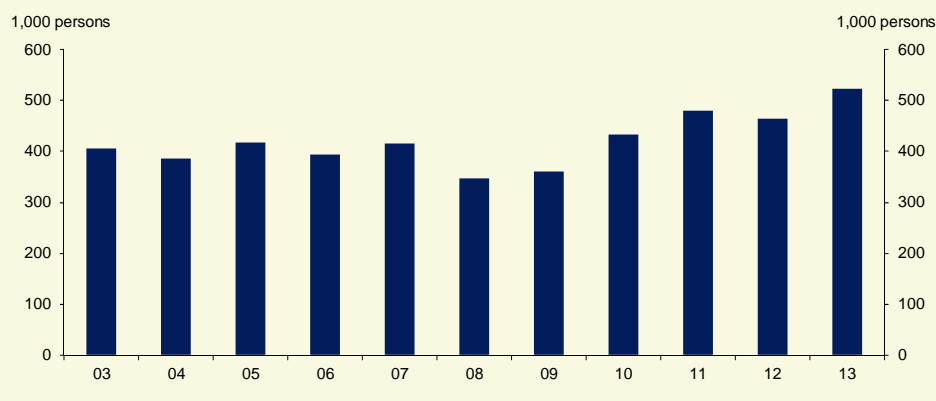
## 4.5 The National Target for Social Inclusion

It is important for the government that all citizens have an equal opportunity of actively contributing to society. With the reforms of the cash benefit system, the disability pension and the flexi-job scheme and secondary education, the framework for more people to get the opportunity to become an active part of society and the labour market has been created. This benefits both the individual and the Danish society as a whole.

The Danish government has, as part of the EU 2020 strategy, introduced a measure of social inclusion, which entails a reduction in the number of persons in households with low work intensity by 22,000 towards 2020. The Danish target reflects that social inclusion is best achieved through a broad based social, labour market and educational effort.

Towards 2013, there has been an increase in the number of persons living in households with low work intensity, and according to Eurostat the figure was 522,000 persons in 2013, cf. *figure 4.11*. This should be viewed in light of the significant economic downturn in 2008-09 and the subsequent period of weak economic recovery. The 2013 figure covers the self-reported work intensity for 2012 (the reporting took place in early 2013), and thus, does not reflect the turnaround in the labour market seen since mid-2013, including falling unemployment and rising employment.

**Figure 4.11**  
Persons in households with low work intensity



Note: Eurostat's 2020 indicator "People living in households with very low work intensity". EU-SILC's reference period is the previous year, e.g. statistics for 2013 are based on data collected in 2012. Very low work intensity is defined as work intensity below 20 per cent in the given year.

Source: Eurostat.

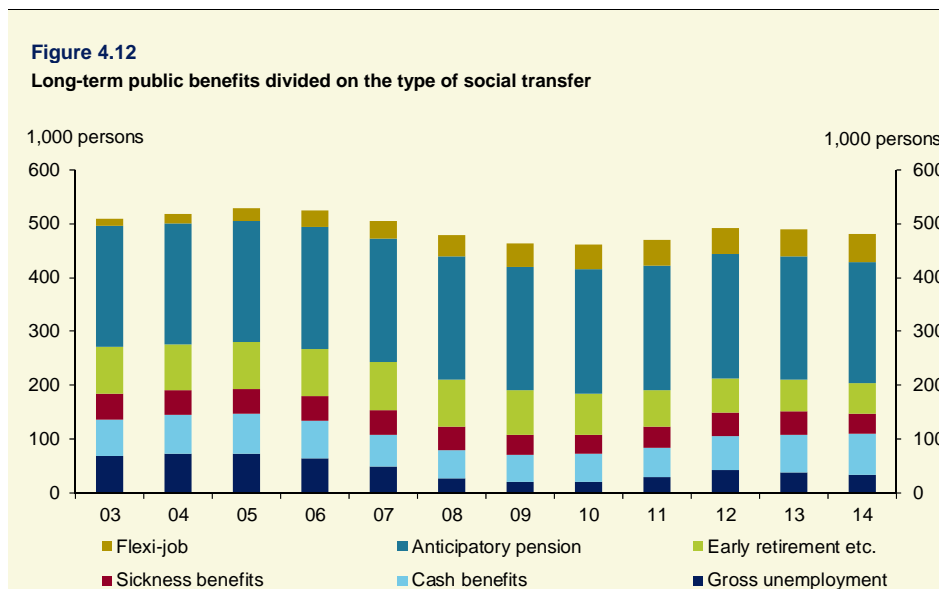
Persons in households with low work intensity are largely made up by unemployed, early retirees, persons receiving disability pensions, sickness benefits recipients and unemployed in supported employment. It is part of the Danish social and employment policies that if a citizen, either permanently or for a period of time, is functionally impaired, or for other reasons are unable to work, then he or she is ensured an income replacement through the public benefit system.

There are indications of a link between social inclusion and labour market attachment. Therefore, it is particularly important that people maintain the attachment to the labour market, rather than being on long-term public benefit schemes<sup>8</sup>. Studies show that this number has declined in recent years. By mid-2014 there were a little over 475,000 18-64 year old long-term public benefit recipients, compared to around half a million in the mid-2000's. The majority of this group has withdrawn permanently from the labour market and receive disability pensions or early retirement benefits. But there are also 141,000 gross unemployed and (other) cash benefit- and sickness benefit recipients, who have received public benefits for at least 80 per cent of the time in the previous three years.

The number of long-term benefit recipients has declined in the past few years and is currently at a lower level than 9-10 years ago where about 530,000 persons received long-term public benefit, *cf. figure 4.12*. This includes persons in flexi-jobs in the group of benefit recipients. If persons in flexi-job are not included in the group of long-term benefit recipients, the drop in

<sup>8</sup> A person is a long-term public benefit recipient if he has received benefits at least 80 per cent of the time in the previous 3 years (not including recipients of education grants).

the number of long-term public benefit recipients in the past 10 years is even greater. The decrease in the number of long-term benefit recipients in recent years, is mainly due to a decline in entry to the group (since 2010).



Note: Calculated as an average for the months in the first half of the year. The underlying monthly statement is based on labour market status in the last full week of each month. Persons who are registered with shorter-term "break" from public support (for up to 3 weeks), are considered public recipients of these weeks. The type of social transfer indicates social transfer at the time of compilation. Because of the 3-year reporting period is the cyclical swings slightly delayed relative to the performance of the number of benefit recipients in general.

Source: Own calculations based on the law model's database.

Towards 2020 there is the prospect that the number of (long-term) public benefit recipients will decrease further - as the business cycle is normalised and the impact of the reforms gradually increases. The initial evidence of the impact of the cash benefit reform, suggests that more young people now choose education or employment rather than cash benefits. The government is monitoring developments closely and will monitor the effects of the initiatives and reforms that have been undertaken to promote education and employment.

#### Initiatives to Support Social Inclusion

The government has continuously implemented initiatives, among other things, to support the national social 2020 targets of strengthening vulnerable groups, create social inclusion and prevent exclusion. With funding from The Budget Bill and the rate adjustment pool 2014/15, initiatives in a wide range of areas have been launched to enhance inclusion of children, adults and the elderly along with refugees and immigrants in society, *cf. box 4.2*.

The initiatives are supported by the general effort to increase employment and raise the education level.

**Box 4.2****Initiatives to Support Social Inclusion**

- **The Early-Action Package.** The Early-Action Package "Early Action - Lifelong Impact" was launched in the autumn of 2014. The Budget Bill of 2014 set aside DKK 70 million annually in the years 2014-17 for the initiative, this includes initiatives on day care (see below). There are a total of four sub-initiatives, all of which focus on early, pre-emptive work in both the short and long term in order to contribute to increased social inclusion.
- **The Poverty Report.** In May 2014, the government issued the first annual poverty report, showing trends in the number and the composition of the economic poor in Denmark. The report also highlights the social risk factors for economic poverty. The report shows that there were approximately 39,200 economically poor in Denmark in 2012
- **Deprivation study.** The government has initiated a study of which material and social deprivation persons that are economically poor experience due to the lack of financial resources. This study may provide insights as to the practical consequences of economic poverty and knowledge of where to focus.
- **Day care initiatives.** In connection with the prevention package "Early Action - Lifelong Effect" of The Budget Bill of 2014 a total DKK 55 million was allocated for the years 2014-2017 to a strengthening of early intervention towards children from at-risk families in day care. The aim is to ensure that children will ultimately perform better in the education system and the labour market. Additionally, there is an agreement in the 2015 rate adjustment fund, allocating DKK 10.6 million, for an initiative to strengthen the transition from school to day care for vulnerable children. In The Budget Bill for 2015 a further DKK 250 million is allocated to more educational staff in day cares.
- **Anti-Discrimination Unit.** In October 2013 a national anti-discrimination unit was launched to combat discrimination based on ethnicity and disability. The unit was established in 2014 and has, among other things, to examine the extent and nature of discrimination and organise activities that can have a preventive effect.
- **Agreement on future home care.** According to the agreement, DKK 38 million is assigned for a large development project where 10-15 municipalities in collaboration with voluntary organisations will work to support the participation of lonely elderly in preventive and social activities.
- **Strengthened reception of refugees and reunified families.** The reception efforts for refugees and reunified refugee families have been strengthened. Since 1 July 2013 the municipalities have been offering health assessments by doctors. Given the current exceptional situation with an increasing number of refugees, the government and the association of municipal corporations (KL) have reached an agreement on integration. The government has consequently initiated a number of concrete initiatives to support local reception of newly arrived refugees and reunified families.
- **Drug abuse treatment.** Part of the implementation of the rate adjustment pool of 2014 was a proposal on anonymous mobile drug abuse treatment. The target group is persons with a drug addiction, who have a relatively close attachment to the labour market or the education system, and that would not be expected to have sought treatment otherwise. The purpose is to prevent this group of citizens from developing social issues in the long term in addition to the drug abuse.
- **New Strategy for Homelessness.** The dispersion and anchoring of experiences from the Strategy for Homelessness from 2013-15 and the launch of a new Strategy for Homelessness (2014-17) focuses on strengthening prevention and early intervention for at-risk youths.



**Box 4.2 (continued)****Initiatives to Support Social Inclusion**

- **Sustainability Strategy.** The national social 2020 targets are on equal footing with the goal of economic development and environmental objectives as described in Chapter 5.
- **Need of all young people.** Support for the young who are not ready for an education, so a greater proportion of them start and complete secondary education. There is all together allocated DKK 28 million over four years in the rate adjustment pool (2015-18).
- **Inclusion and strong childrens' communities.** As part of the funds financed by the rate adjustment poll, the Learning Consultancy Team from the Ministry of Education has initiated special inclusion efforts.



## 5. Green, Economic and Social Sustainability

The government strategy *A Sustainable Denmark*, October 2014, has set out 23 ambitious goals for an economic, green and social sustainable development in Denmark. The progress will be monitored closely and an ongoing follow-up effort with concrete reforms and initiatives is set to ensure a sustainable development in Denmark.

A strong and healthy economy with a high level of prosperity forms the foundation for investing in welfare, education and health and taking care of the most vulnerable members of society. A high level of labour market participation is a prerequisite for prosperity and welfare, but also important in a social perspective. A society without major social divisions also helps to prevent marginalisation and crime. Equal opportunities for obtaining education and a high level of education support productivity and prosperity and contribute to social mobility. Thus, social sustainability is important for economic sustainability.

A rich and diverse nature and a clean non-toxic environment without air pollution contribute to public health and quality of life in Denmark. Meanwhile, nature and the environment provide an important framework for agriculture and fisheries. Prosperity enables investment in environmental protection, climate and nature. However, respect for the nature, environment and climate is also important for the economic development in the long run, *cf. figure 5.1*.

**Figure 5.1**  
Green, Economic and Social Sustainability



In this chapter the content of the strategy *A Sustainable Denmark* is outlined along with other initiatives focusing mainly on green sustainability. Economic and social sustainability is also described in the following, as well as being widely discussed in previous sections of this reform programme.

## 5.1 Environmental Sustainability

Denmark has set ambitious goals to ensure environmental sustainability by series of different initiatives which will ensure a green transformation and create a sustainable Denmark, *cf. box 5.1*.

Compared to international standards, Denmark is a front runner on climate issues. This is demonstrated by the national target of reducing greenhouse-gas emissions by 40 per cent in 2020 and the energy agreement that ensures extensive investment in a green transformation of energy supply throughout the coming years. Meanwhile, a climate plan that points towards the fulfilment of the climate objective has been presented, *cf. section 4.3*.

On environmental issues, ambitious steps will ensure that Denmark continues to have clean air and drinking water, protected against harmful chemicals, in the future. Furthermore it takes the necessary means to secure climate adaption in Denmark. The green transformation of Denmark will be supported by an increase in recycling and to utilise resources in waste. On aquatics and nature an agreement with private foundations regarding the establishment of *The Danish Natural Foundation* has been made.

The Budget Bill 2014 allocates DKK 800 million to the green transformation etc. in 2014-17. Sorting and recycling of waste, secretariat of *The Danish Natural Foundation* and better advice on PCB have been prioritised by DKK 263 million. Furthermore, funding for climate adaption has been found with *Growth Package 2014*.

Furthermore, The Budget Bill 2015 allocates DKK 400 million to an enhanced environmental and ecological effort, development of sustainable construction and development of green national accounts over the next four years.

**Box 5.1****Targets for Environmental Sustainability**

**Greenhouse gas emissions should be reduced by 40 per cent by 2020 compared to 1990.<sup>9</sup>**

**100 per cent of the supply of electricity and heat supply must come from renewable energy in 2035. The entire Danish energy supply, including the transport sector, must come from renewable energy by 2050.<sup>1</sup>**

**The recycling of household waste must be increased to 50 per cent in 2022.**

- The Resource Strategy for Waste Management sets the direction and measures for a shift to a larger degree of recycling.
- In 2022 50 per cent of household waste must be recycled. Increased sorting of organic waste must lead to a using of this for biogas production.

**The impact of pesticides must be reduced by 40 per cent by the end of 2015 compared to 2011.**

- Impact is measured in relation to health, nature and risk of leaching into the drinking water.
- The Pesticide Strategy specifies the means to supplement the duty to protect water, nature and health.
- The pesticide duty is reorganised so that it depends on each pesticide's environmental burden and it is raised substantially in order to reduce the impact of pesticides.

**Clean air and regulation of problematic chemicals. International agreements and objectives must be met.**

- In 2013 all parties in parliament agreed on a new chemical action plan for 2014-17.
- With an active role in the EU, the government has also promoted efforts concerning problematic chemicals and lowering air pollution. The European Commission has presented a European clean-air package of proposals for objectives for 2020 and 2030.
- In 2014 the government decided to spend DKK 149 million over three years to reduce the particle pollution and ensure compliance with the NO<sub>2</sub> limit in Copenhagen.

**Denmark is to maintain a diverse nature and protect animal and plant habitats in the open countryside and in forests. In the long run, a favourable conservation status of species and habitats covered by the plans will be secured.**

- With an initial capital of DKK 875 million, The Danish Nature Foundation will contribute to the diversity of nature, etc.
- The government exercises the option to convert part of direct agricultural subsidy to the efforts in the schemes under the Danish Rural Development Programme, including to contribute to improving the environment and nature.
- The government has launched Nature Plan Denmark, which is currently being implemented. The central policies of Nature Plan Denmark were adopted by law on 19 February 2015.

**Fjords, coastal waters, lakes, streams and groundwater must meet WFD requirements. Marine waters must meet Marine Strategy Framework Directive requirements.**

- The drafts of the water plans for the period 2016-21 are currently exposed to a public hearing. They are mapping the state of and the efforts needed in Danish waters. It forms the basis of the specific objectives and activities included in the drafted water plans for the period 2016-21.
- In 2012 a Marine Strategy was set. It sets the objectives and direction for future work to improve the environmental state of Danish coastal waters. In 2014 a monitoring programme was established, and in 2015 a programme to ensure that Denmark meets the objectives of the marine strategy, was established.

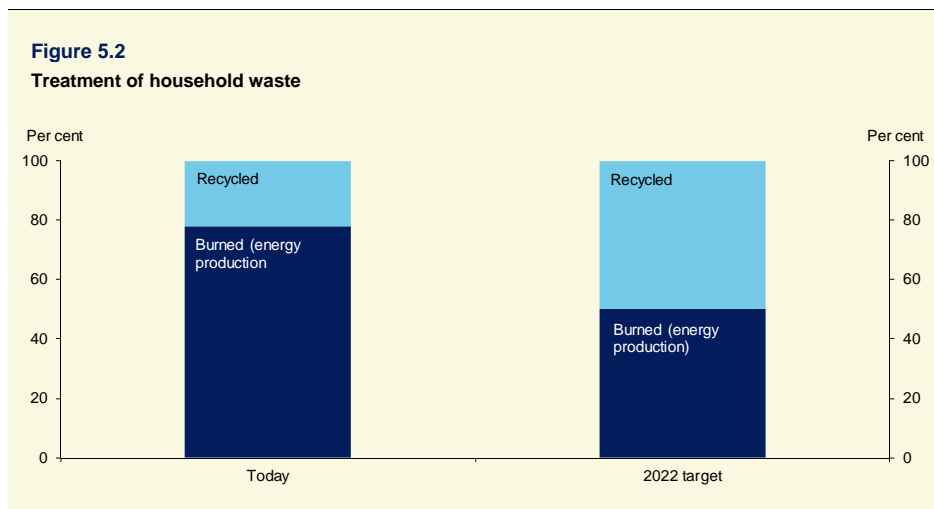
<sup>9</sup> The climate and energy objectives are described in Section 4.3.

### The Resource Strategy for Waste Management

The manufacturing and use of products often results in heavy consumption of resources throughout the entire value chain. Furthermore it contributes to the waste production. The Danish economy used 119 million tons of resources in 2012 – a reduction from 131 million tons in 2000. The consumption of materials is divided into 23 per cent of biomass, 51 per cent of non-metallic minerals, 24 per cent fossil fuels and 1 per cent metals. Danish resource productivity has increased by 17 per cent from 2000 to 2012. This implies that 17 per cent more economic value is extracted from every kilogram of material compared to 2000. In the same period, waste production has largely followed the economic development. This implies that about the same amount of waste relative to GDP is generated today as in 2000.

Denmark has high energy efficiency in waste for heating and electricity. Only 6 per cent of the waste in Denmark is deposited, which is a very small proportion compared to European standards. On the other hand, when it comes to waste from businesses and households which contain materials and values, even more could be recycled instead of being deposited and burned. Today 29 per cent is burned and 63 per cent is recycled. For instance the recycling of household waste is low, *cf. figure 5.2*.

In 2013 *Denmark without Waste – the Resource Strategy for Waste Management* was presented to promote the recycling of household waste. The goal is to recycle 50 per cent of the household waste in 2022, *cf. figure 5.2*. This means at least a doubling of the recycling of household waste which must be done in a cost effective manner and in close cooperation with municipalities and companies.



Note: Household waste with a potential for recycling.

Source: Projections and the Environmental Protection Agency's statistics of waste.

In February 2015, the government launched *Denmark without Waste II – a Draft on Strategy for Waste Prevention* which is an extension of the government's *Resource Strategy for Waste Management – Denmark without Waste*. With this strategy, the government wants to reduce waste and prevent valuable resources from becoming waste. *Denmark without Waste II* con-

tains two cross-cutting themes; a green transformation in Danish businesses and green consumption.

The effort of businesses and consumers is essential to reduce the amount of waste and is thus the natural focal point for the two themes.

It is the government's objective that Danish companies increase resource efficiency. To support the objective the government contributes to strengthen the companies' strategic environmental work and resource efficiency through targeted subsidies. Among others, the government makes new borrowing capacity available for businesses in *Denmark's Green Investment Fund* a priority. Thus, the investment fund has a borrowing capacity of DKK 2 bn. and businesses can apply to the fund for co-finance of green projects, including projects on resource efficiency.

It is the objective of this government to make it easier for consumers to buy products and services that are less heavy on resources, contain fewer problematic substances and generates less waste. This should partly be done by stimulating the demand for environmentally sound goods and services, and supporting the expansion of more resource-efficient business models.

With the strategy *Denmark without Waste II* the focus is on five different areas, cf. box 5.2. The priorities are selected based on an assessment of the potential for waste prevention combined with an extensive involvement of stakeholders.

#### Box 5.2

##### Objective areas in *Denmark without Waste II* – a draft on Strategy for Waste Prevention

**Food waste:** The government's objective is to reduce food waste in all parts of the food value chain.

**Building & Construction:** The government's objective is to make it easier for the construction sector to act in a more resource efficient manner, for problematic substances to be handled in a healthy and environmentally responsible manner and to ensure a better knowledge sharing across the sector.

**Textiles:** The government's objective is to make it easier for the textile companies to reduce the environmental impact of production and to make it easier to reuse and recycle textiles, for instance by reducing the use of hazardous substances in textiles.

**Electronics:** The government's objective is to make it easier to reuse and recycle electronics and electronic waste, in order to extend the life of the products and getting them better engaged in the economic cycle.

**Packaging:** The government's objective is to reduce the aggregated environmental impact of packaging .

Source: Denmark without Waste II - a Draft on Strategy for Waste Prevention.

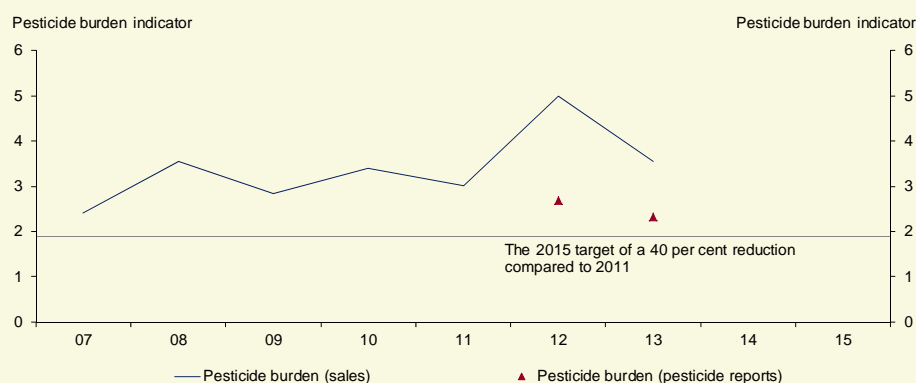
#### Pesticides and Chemicals

An ambitious course has been set to contribute to the protection of drinking water, nature and peoples' health against pesticides. Therefore, the government is working towards a sustainable use of pesticides, and a widespread reduction in consumption. It must also be ensured

that the impact on health, nature and groundwater of the pesticides in use is the smallest possible. The objective is that the consumption of pesticides by the end of 2015 is 40 per cent lower than in 2011, *cf. figure 5.3*.

**Figure 5.3**

**Development in the pesticide burden in the period 2007-13 compared to the 2015 target**



Note: The new tax led to hoarding of pesticides and therefore to temporary higher sales in 2012. The actual use of pesticides was significantly lower according to pesticide reports.

Source: The Environmental Protection Agency, *pesticides statistics 2013*.

In February 2013 a new strategy on pesticides was agreed upon. It holds specific initiatives and tools to obtain this objective, especially the new and higher duty on pesticides. The new duty tax makes it more expensive to use pesticides that heavily incriminate nature, health and groundwater, while less incriminating pesticides become relatively cheaper.

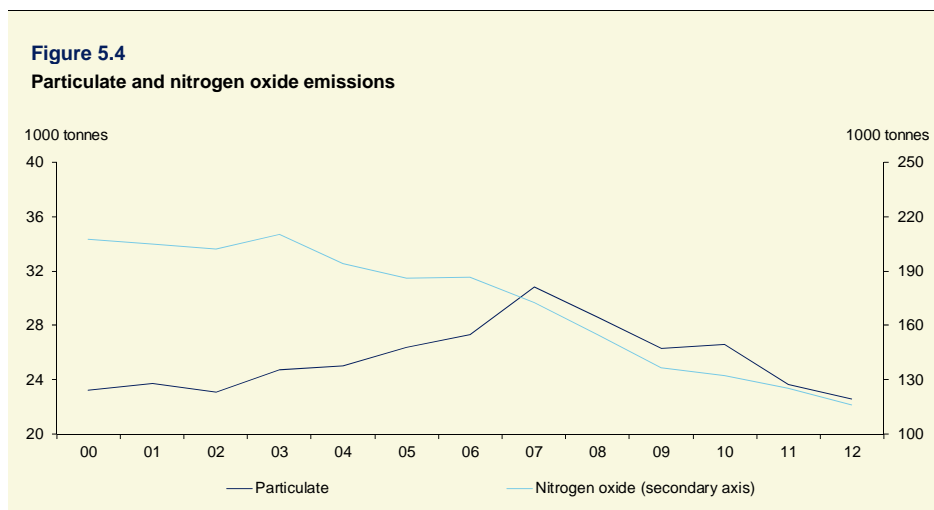
Problematic chemicals should also be avoided. Today we find chemicals in many products such as clothes, toys, etc. Some of these harm human health and quality of life and affect nature. The chemicals and products are produced in many parts of the world and traded across national borders. Thus, the handling of chemicals requires an international effort. Therefore a broad agreement, *Agreement on a New Chemical Effort 2014-17*, has been entered with all the parties of parliament. The agreement will ensure more knowledge on chemical hazards and is a continuation of Denmark's active participation in international collaborations to prevent problematic chemicals from harming people and the environment. Moreover, the agreement focuses on alternatives to problematic chemicals in e.g. consumer products and the control of these chemicals is strengthened.

### Air Pollution

Air pollution in Denmark comes from many different sources. Most sources of air pollution are man-made, and come from the burning of coal, oil, gas and wood. 70-80 per cent of the air pollution comes to Denmark from other countries and from the international shipping industry. Evidently, Denmark cannot itself solve the problem of air pollution and must therefore work internationally to reduce air pollution. One of the platforms for corporation is the IMO where agreements are made on the requirements applying to international shipping.



Air pollution consists of a variety of particles, gases and chemical compounds which mainly come from the burning of coal and oil, from traffic and from wood-burning stoves. Transportation and wood-burning stoves are the dominating sources. Almost 70 per cent of the particle pollution (PM2.5) comes from wood burning and more than 70 per cent of the nitrogen pollution (NOx) comes from the transport sector. Both particle and nitrogen pollution have shown a declining trend the past few years, *cf. figure 5.4*.



Source: European Environment Agency.

Thus, busses, shipping and wood-burning stoves are the focus of the effort against air pollution. DKK 74 million have been allocated to cleaner busses in Copenhagen and DKK 75 million have been allocated to reduce pollution from wood-burning stoves, increased control of pollution from ships and the development of clean air technology and city collaborations, *cf. box 5.3. Clean Air to the Danes* must have full effect in 2016. There are already strict emission requirements for new wood-burning stoves. They will soon be further tightened with a new wood-burning stove decree. The assessment is that the new requirements will result in an average annual reduction in particle emissions from wood burning of about 5 per cent until the year 2035.

**Box 5.3****Clean Air to the Danes**

**Cleaner buses in Copenhagen:** The buses in Copenhagen will have new, improved cleaning systems (so-called SCR) that will reduce their pollution by 80 per cent. With this solution, Denmark will comply with EU requirements for air quality in 2015.

**Less pollution from wood-burning stoves:** Wood-burning stoves account for almost 70 per cent of Danish particle emission. The government will work with municipalities and other stakeholders to find solutions that ensure less pollution from wood-burning stoves.

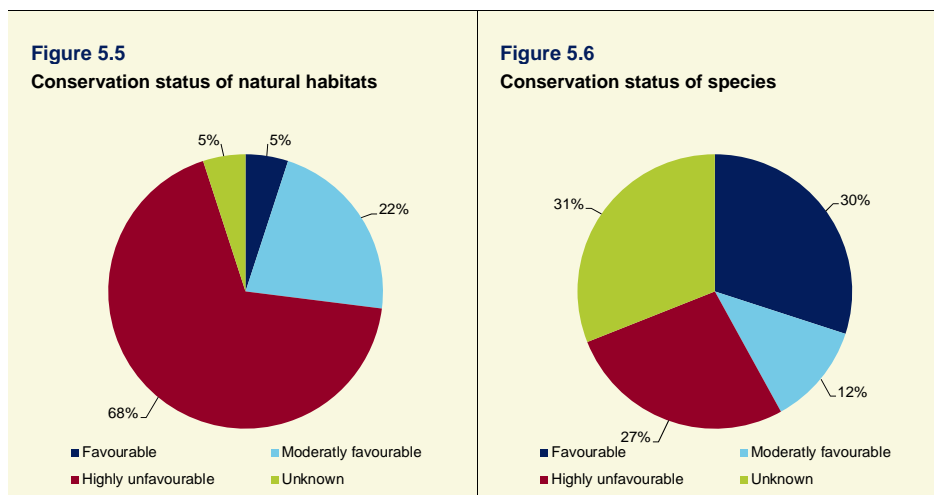
**Increased control of pollution from ships:** The government will strengthen the control in order for ships to comply with new international requirements. This means, the ships in the North and Baltic Seas will sail on clean fuel with almost no sulphur as of 2015. Increased control will ensure that the new sulphur regulations maximise their impact.

**Development of clean-air technology and city cooperation:** The Government will strengthen cooperation between cities and the development of new technologies that reduce pollution further in Denmark and can be exported to other countries with challenges regarding air quality.

**A Rich Flora and Fauna and a Clean Aquatic Environment**

The protection of habitats for animals and plants are necessary in order to maintain a rich flora and fauna. Nature must have adequate space and coherence to be preserved. Similarly, a clean aquatic environment without too many nutrients is also central to biodiversity in streams, lakes, fjords, coastal waters and the seas around Denmark.

A high level of biodiversity, a clean aquatic environment and ample opportunities for recreative experiences in the countryside must be ensured in Denmark. The basis for agriculture and fishery, and for all the other activities where use is made of nature, must be preserved. This requires taking care of natural assets and the discharge of nutrients is in balance with the environment. Denmark must preserve a diverse nature and protect animal and plant habitats in the countryside and in the forests. Luckily, the efforts of recent decades are showing results and for some habitats and species there are positive trends. However, more than two-thirds of the natural habitats covered by the Habitats Directive, has a highly unfavourable conservation status, *cf. figure 5.5*. About a quarter of the species covered by the Habitats Directive has a highly unfavourable conservation status, *cf. figure 5.6*.



Note: Figure 5.5 and 5.6 show the conservation status assessment of the 60 natural habitat types and 82 species in Denmark that are covered by The Habitats Directive Annexes (Annexes I+II+IV+V).

Source: Aarhus University – DCE – Danish Centre for Environment and Energy 2014. The conservation status of natural habitats and species – The Habitat Directive Article 17 report. Scientific report by DCE – Danish Centre for Environment and Energy no. 98.

Thus, there is still a need for a large, comprehensive and focused effort to ensure viable populations of plant life and animal species and varied and resilient natural areas.

The government has launched a Nature Plan Denmark which is currently being implemented. *Nature Plan Denmark – Our Common Nature*, October 2014, is a long-term, strategic and comprehensive plan for getting a richer and more coherent nature in Denmark. At the same time, *Nature Plan Denmark* is Denmark's biodiversity strategy, which follows up on the UN and the EU goals for biodiversity in 2020. The government will work to ensure that the decline in the diversity of nature is stopped by 2020. The initiatives in Nature Plan Denmark help to stop this decline. Nature Plan Denmark contains three objective areas: (1) More space and better coherence in nature, (2) enhanced efforts for wild flora and fauna (3) better opportunities for nature and outdoor life experiences in the communities.

The core nature political initiatives in Nature Plan Denmark have been approved by law on the 19 of February 2015. A new departure in Danish nature and environment policy has arrived with the act on *The Danish Nature Foundation* from December 2014. *The Danish Nature Foundation* will contribute to the improvement of the diversity of nature, the protection of endangered species, the improvement of the aquatic environment and lower greenhouse gas emissions. Moreover, the fund will strengthen popular foundation and support for nature restoration and conservation. The initial capital of the foundation is DKK 875 million of which the Villum Foundation contributes with DKK 250 million and Aage V. Jensen Nature Foundation contributes with DKK 125 million. The aim is for *The Danish Nature Foundation* to have DKK 1 bn. at its disposal for natural purposes before 2016.

The forthcoming water and nature plans are a key element in the work of improving the aquatic environment and preserving biodiversity in Denmark. With the natural plans an active

effort is made to preserve and develop habitats for animals and plants in a way that meets EU directive requirements. Similarly, the objective is for the aquatic environment to be in balance. This means that the requirements of the EU Water Framework Directive that all fjords, coastal waters, lakes and streams as a starting point must be in good ecological condition must be complied with. The Danish marine area will be protected with the marine strategy from 2012 that ensures that Denmark complies with the EU Marine Strategy Directive.

In order to ensure a solid scientific foundation for water and nature efforts in the coming years an extensive review has been launched to map the condition of the Danish aquatic environment, the natural areas and the habitats of the species.

## 5.2 Economic Sustainability

Economic sustainability implies an economic policy that supports growth, high employment and low unemployment within the framework of a sustainable and credible fiscal policy. The government has aligned its policy and the six economic objectives for a sustainable and credible fiscal policy hereafter, *cf. box 5.4*.

### Box 5.4

#### Targets for economic sustainability

1. Fiscal policy must be sustainable.
2. There must be at least balance on the structural budget in 2020.
3. The structural budget balance must not exceed a deficit of ½ per cent of GDP annually at the time of budgeting.
4. Denmark must meet the convergence criteria.
5. Reforms and initiatives must lift growth in the Danish economy with an extra DKK 40 bn. towards 2020.
6. There should be released 12 billion. DKK. for targeted improvement of public service through the modernisation of the public sector.

In recent years, public finances have been consolidated in order to reduce the deficit of the budget balance and improve the structural budget balance in accordance with the government's plans and the EU recommendation for Denmark.

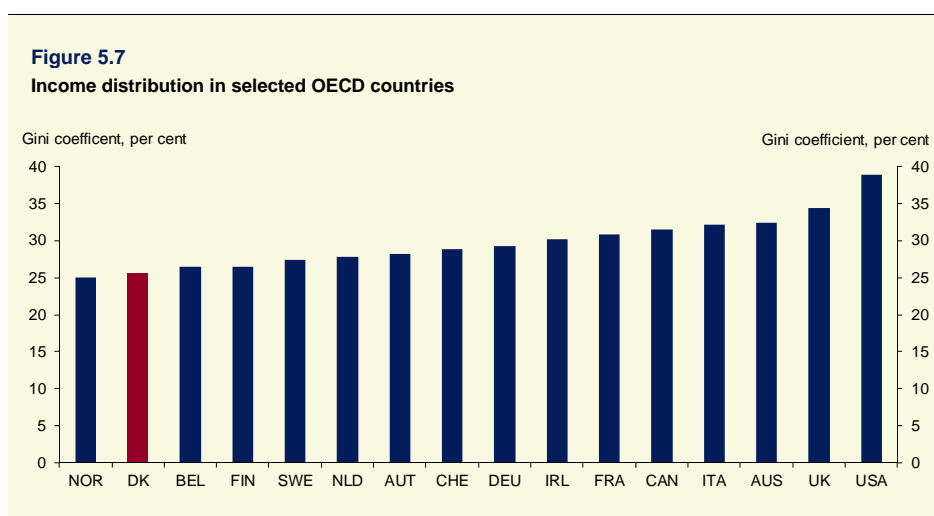
Fiscal policy is conducted within the framework of the Budget Law, which among other things, implies that the structural deficit must not exceed ½ per cent of GDP at the time of budgeting.

With *Growth Plan DK* the government has presented three long-term reform tracks with the aim of creating 150,000 new jobs in the private sector towards 2020 and a foundation for average annual economic growth of at least 2 per cent. These reforms should help lift growth in the Danish economy by an extra DKK 40 bn. in 2020. Of the DKK 40 bn., DKK 20 bn. must come from reforms that improve conditions for private businesses and the other DKK 20 bn. must come from reforms that increase employment and the overall level of education. In addition to this come reforms that through modernisation of the public sector can free up DKK 12 bn. for targeted improvements in public services.

Fiscal policy is outlined in more detail in section 3.1 and The Convergence programme 2015.

### 5.3 Social Sustainability

Denmark is characterised by a high level of public services, including free and equal access to education and health, and relatively favourable income support to families who are unable to support themselves. This is one reason why Denmark has small income disparities, and that individual opportunities for development to a lesser extent than in many other countries depend on parents' income and social status, *cf. figure 5.7*.



Note: Distribution of disposable incomes. A more equal income distribution implies a smaller Gini coefficient. The Gini coefficients are calculated for 2011. However, the coefficient for BEL is calculated for the year 2010, while the coefficients for DK, CHE and AUS are calculated for the year 2012.

Source: OECD Statistics.

The Gini coefficient, which converts the total income gaps to a single number, has increased from about 20 per cent in 1994 to 25½ per cent in 2012 in Denmark. One of the key explanations behind the increasing income gap is the development in capital income which is largely affected by the housing prices. Capital income aside, the income gaps have only increased slightly over the period.

The reason Denmark is characterised by small differences in income and low social barriers is partly due to reforms that have strengthened the Danish economy and increased employment and the level of education. Moreover, there is a long tradition for taking care of the socially at-risk in Denmark. Along with a well-functioning public sector, that delivers a number of important public welfare services such as childcare, education and health and elderly care, the Danish flexicurity model has also contributed to a more equal society.

Even in wealthy countries with small income disparities, there will always be people with relatively low incomes and fewer opportunities compared to the rest of the population. As part of

the effort to create better conditions for disadvantaged and vulnerable, the government has announced a series of social 2020-targets on the 12 September 2013. The social 2020 targets include targets for strengthening the education of disadvantaged children and young people, reducing the crime among disadvantaged children and young people and greater continuity in their placements. Regarding disadvantaged adults the social 2020 objectives includes objectives relating to homelessness, women's shelters, drug abuse treatment and drug-related deaths, *cf. box 5.5*. In addition, the government has an aim of reducing the use of coercion in the mental health sector by 50 per cent towards 2020.

#### Box 5.5

##### Targets for Social Sustainability - Social 2020 targets, etc.

1. At least 50 per cent of socially disadvantaged children and young people must have completed an upper secondary education or equivalent, by the age of 25.
2. The disadvantaged children's academic level in reading and math must be improved.
3. The proportion of socially disadvantaged 15-17 year olds, convicted of a crime, must be reduced by at least 25 per cent. This corresponds to a maximum share of 9 per cent.
4. The proportion of foster care placements that breaks down must be reduced by at least 30 per cent, corresponding to a maximum of 4 per cent.
5. The number of homeless people in Denmark must be reduced by 25 per cent to a level of no more than 4,000 people.
6. The share of citizens who return to a shelter or a care home within the first year after being assigned to their own homes may not exceed 20 per cent.
7. The share of women in need of more than one stay at a women's crisis centre must be reduced by at least 30 per cent, corresponding to a share of no more than 25 per cent.
8. The share of citizens who complete a course of treatment for drug addiction and become drug-free or reduce their abuse must increase to at least 50 per cent from 31 per cent in 2011.
9. The number of drug related deaths must be reduced and maintained at a level of no more than 200 people, corresponding to a reduction of at about 30 per cent.

#### Equal Opportunities for Disadvantaged Children

Disadvantaged children and young people do not fare nearly as well in school as other children. They are less prone to get a secondary education and they tend to commit crimes more often. This is also important for the well-being on a daily basis and for the possibility of becoming self-supporting and getting a well-functioning adulthood. The primary and lower secondary school play a crucial role in preventing adverse social mobility and thus one of the three key objectives for the reform of the public school system is for schools to reduce the importance of social background for academic achievements. Thus, four of the government's social 2020 targets focus on disadvantaged children and young people.

Young persons who at some point in their lives have been placed outside of home or received a preventive measure according to the service act do less often than other young people get an *upper secondary education*. For that reason the government has set a 2020-target which says that 50 per cent of the disadvantaged children should complete youth education in 2020. In 2013 the share was 37 per cent. Going forward the government will also

support more young people completing a youth education and doing better in primary and lower secondary school, cf. section 3.2.2.

Disadvantaged children also fare worse than other children in the national tests in *reading and math*. For that reason the government has agreed with KL to focus on the teaching of disadvantaged children and agreed that the share of disadvantaged children doing poorly in the national tests should be reduced every year. In 2015 the government will set a specific target for academic performance.

Moreover, the government will make efforts to reduce *crime* among disadvantaged young people. In 2011 the share of disadvantaged young people who got a criminal sentence was almost 12 per cent compared to 2 per cent among non-disadvantaged young people. In 2013 the share was 9.5 per cent and the 2020-target is to bring down the share to 9 per cent of the disadvantaged young people. The agreement on implementation of the rate adjustment pool for 2014 contains initiatives to strengthen the early and targeted effort of municipalities against youth crime, including a new effort against anti-social behaviour and an extension of the efforts for crime prevention etc.

In 2011, the share of out of home placements that broke down was 5.4 per cent, either because the child or young person left the care facility, or because the care facility gave up on the child or young person. In 2013 this figure was approximately 4.7 per cent. The 2020-target is to reduce the proportion to 4 per cent. Breakdown in the placement creates another major change in the child or young person's life, and thus the possibilities of succeeding with the effort are diminished and it has great personal implications for the individual. For this reason the government has initiated several initiatives with focus on securing disadvantaged children a stable childhood. This includes the Supervision Reform and a task force advising municipalities on case work regarding special support for disadvantaged children and young persons.

#### **Better Help for Disadvantaged Adults**

Today a lot of work is done to help persons who struggle and move on the edge of society. These include persons with an addiction and people affected by homelessness. The government works to further promote preventive efforts and to ensure that help and support for individual citizens to a greater extent induce an improvement in living conditions and thus helps the individual ahead in life. Thus, the 2020-targets also include targets for the effort to disadvantaged adults.

In recent years, the number of *homeless people* has been increasing despite positive experiences with *The Homelessness Strategy*. A significant part of the increase stems from an increase in the number of young homeless persons. In 2013 5,820 people were homeless. Experiences from *The Homelessness Strategy* show, that it is possible to help people out of homelessness by establishing a permanent housing solution (*Housing First*) early on. The government has launched several initiatives to reduce the number of homeless people. The agreement on implementation of the rate adjustment pool for 2014 includes initiatives regarding a targeted effort to prevent homelessness among young persons. And the government will work to anchor the successes from *The Homelessness Strategy* in more municipalities. In the rate adjustment pool of 2015 funds were also allocated for testing of temporary transitional housing for the most disadvantaged young homeless persons. At the same time, with The

Budget Bill 2014, DKK 20 million has been allocated annually from 2014-17 for action against youth homelessness.

Many have a difficult time maintaining their housing and thus return to a *shelter or a care homes* within the first year. In 2013 30 per cent of those who were prescribed their own home returned to a care home the following year. The government will focus on the options for the municipalities to give homeless persons and citizens of shelters or care homes a coherent and rehabilitating help that create a basis for a good transition to a life in their own home. On this background a bill was proposed in February 2015 which ensures a better collaboration between municipality and accommodation facilities in order for the homeless who stay at a shelter or care home can get in contact with the municipality early on. The bill requires all accommodation facilities are to inform the municipality within three business days after enrolment and exit of a citizen.

The effect of the drug treatment is not good enough today. Of the people who in 2012 completed treatment, 34 per cent became either abstinent or had their drug use reduced. The government has focus on drug use and launched *The Drug Abuse Package* to raise the quality of the drug addiction treatment through increased use of knowledge and testing methods with documented effects.

People with drug addiction have a significantly higher mortality rate than the general population. In 2011, there were 285 drug-related deaths. The number has fluctuated between 240 and 285 deaths in previous years. Other factors than just treatment and harm reduction influences the number of *drug-related deaths*. It is therefore difficult to achieve and maintain a low level. In 2012, the number of drug-related deaths was 210 people. Hence, the number has been decreasing and it is the government's ambition to sustain this development. The government has, among other things, made it possible to establish and operate rooms for drug-taking, launched trials with naloxon dispensing for the prevention of overdose and expanded the scheme of prescription heroin.

A large proportion of the women, who take up residence in *women's crisis centres* because of domestic violence, return later in their life. In 2013 the share of women in women's crisis centres with previous stays was 35 per cent. This figure is uncertain because a big part of the women of women's crisis centres do not wish to disclose previous stays. With the rate adjustment pool for 2012 several initiatives were launched to tackle violence in intimate relationships. With The Budget Bill for 2014 further funds are allocated for a new action plan on violence in the family and close relations. With the rate adjustment pool for 2015, an agreement has been made. It includes an extension of the advisement the municipalities must provide women with children on crisis centre to also include women without children and strengthen the effort by launching the advisement earlier on.

*Use of coercion* in the mental health services is a violent interference in the freedom of the individual patient. Despite many good intentions and experiences from pilot projects the past decade has not shown a permanent decrease of coercion in the mental health services. Reducing and preventing coercion requires a broad and determined effort with respect to patient involvement, skills development, management focus, culture and physical environment among other things.



With The Budget Bill 2014 DKK 50 million have been allocated annually from 2014 to enter partnerships with the regions to achieve the objective of halving coercion towards 2020. At the same time DKK 100 million has been allocated in 2014 to an increase in the quality of facilities to support the decrease of coercion in mental health services. Moreover, with the agreement on implementation of the rate adjustment pool for 2014 DKK 74 million has been allocated to non-belt and non-coercion experiments in the mental health sector from 2014-17. With the agreement on the rate adjustment pool in mental health DKK 2.2 bn. have been allocated for 2015-18. Among other things, the funds will be used to provide more capacity of a high quality, more and better skilled staff in the mental health services as well as better physical facilities and environments which all together will contribute to prevent and decrease the use of coercion in treatment.



## 6. Institutional Issues and Stakeholder Involvement

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Denmark has an established procedure for the Parliaments involvement in the Danish and European growth and employment agenda. It happens as a priority part of the Danish EU-decision procedure, when the Europe 2020 strategy and the European Semester are on the agenda in the EU, in each Council formations and the European Council.

The government and the Parliament have agreed on a greater involvement of the European Affairs Committee and the Finance Committee in relation to discussions on the European Semester and the National Reform Programme. This implies that the government (in addition to the current discussion of the European growth and employment agenda) will brief the European Affairs Committee and the Finance Committee of the Danish Parliament. Overall three annual joint briefings are held during the European Semester.

The procedure is as follows: In autumn, following the publication of the Commission's Annual Growth Survey, the government will in joint consultation inform the European Affairs Committee and the Finance Committee of the content of the Annual Growth Survey. During the spring, the government will in joint consultation inform the two parliamentary committees of how the government expects to reflect the Broad Economic Policy Guidelines from the European Council in March in Denmark's National Reform Programme and Convergence Programme.

In addition, the Government will - after the presentation of the Commission's country-specific recommendations - in a joint consultation inform the Parliamentary Committees on the Commission's draft country-specific recommendations.

The three consultations are referred to as the "National Semester". In the light of the closer coordination of the economic policy in the EU, this is a good example of a strengthened role for national Parliaments in the EU.

The Contact Committee for the Europe 2020 Strategy is the pivotal point with regard to national anchoring of the Europe 2020 strategy and the European Semester in Denmark. The committee was established in 2001 in connection with the adoption of the Lisbon strategy and consists of approximately 30 regional and local authorities and a wide range of organizations with an interest in European growth and employment agenda. Regional and local authorities are of key importance with respect to the national implementation of the growth and employment policy. The Contact Committee does not replace the various special EU committees within the framework of the Danish EU decision-making procedure, but acts as a parallel consultation forum in the growth and employment area. The Committee is an important forum for dialogue between decision-makers and interest organisations on the European growth

and employment agenda and is of key importance in terms of achieving a consensus on Danish priorities in the growth and employment area.

The members of the Contact Committee meet typically four times a year, two of the meetings take place at official level and two take place at ministerial level. In the first half of the year, the Contact Committee is kept informed of the development of the European Semester, the current European growth and employment agenda as well as the preparation of the National Reform Programme. In the second half of the year, thematic meetings are held with a focus on elements of the growth and employment agenda, e.g. a meeting was held in November 2014 chaired by the Minister of Foreign Affairs with focus on energy and growth in line with the European Council in October 2014, when the EU climate and energy package was adopted.

The draft of Denmark's National Reform Programme 2015 was sent for consultation to the Contact Committee and discussed at a meeting of the Committee on 4 March 2015. The Committee members subsequently had the opportunity to submit comments in writing. To the extent possible, the comments submitted by the Committee are reflected and incorporated in the National Reform Programme.

**Box 6.1****The government's orientation of parliament on the European Semester and the NRP ("the national semester")**

5 December, 2014: Joint consultation of the European Affairs Committee and the Finance Committee on the Commission's Annual Growth Survey of 2014 and the Commission's early warning report in 2014 under the macroeconomic imbalances.

19 March 2015: Joint consultation of the European Affairs Committee and the Finance Committee of the Danish National Reform Programme and Convergence Programme and economic policy guidelines of the European Council.

June 2015: Joint consultation of the European Affairs Committee and the Finance Committee on the draft country-specific recommendations.

# The National Reform Programme

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In tables numbers do not necessarily  
sum to totals due to rounding

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**Electronic version**  
978-87-93214-57-6

**Cover design**  
e-Types & e-Types Daily

**Web**  
The publication can be downloaded at  
[www.oim.dk](http://www.oim.dk)