LISBON STRATEGY
National Reform Programme
2005-2008

Belgium

*More growth, more jobs...*

Progress report 2007

www.be2010.eu
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Introduction

A caretaker federal government.

Belgium is a federal state in which decision-making power is exercised at different levels (federal, regional, community, local) based on the specific powers assigned to each. All levels of power are involved in meeting the budget objective of general government as a whole.

Federal elections were held in Belgium on 10 June 2007. The current federal government stood down after these elections, but remains responsible for day-to-day affairs until a new administration is formed.

At federal level, in the unusual context created by the elections, measures have been taken to ensure that implementation of the 2007 budget is closely monitored. However, since a caretaker government cannot take major corrective steps, it may not be possible to achieve the objective of a 0.3% budget surplus.

The regional and community governments remain in place and are continuing to exercise their normal duties in compliance with the pre-set objectives.

Setting budget objectives for 2008 and subsequent years is a task for the new administration. These objectives will be included in an addendum to this Progress Report.
1. Belgium today

Belgium’s overall strategy is geared towards creating sustainable economic growth in a stable macroeconomic framework. This strategy is wholly in line with the Lisbon objectives and with the strengthening of the economy (more and better jobs, more social cohesion and a healthy environment). The various economic and labour market policy measures have been streamlined to form a well-balanced policy for the entire country through ongoing consultations and cooperation between the federal government, the Regions and the Communities.

The results of this policy are clearly heading in the right direction. Economic growth in 2006 was strong and balanced, and higher than it had been for the past six years. The 3% growth recorded outstripped the potential growth of 2.3% and exceeded the euro area average for the fourth year in a row. The latest forecasts by the National Bank of Belgium put 2007 growth at 2.5%, equal to the European Commission’s latest growth prediction for the euro area.

The major components of demand, i.e. exports of goods and services, private consumption and business investment, all contributed to the economic growth achieved in 2006. Despite new losses of market share, the export volume of goods and services rose by 3.4%. Purchasing power, which rose by 0.9% in 2005, accelerated to 3.2% in 2006. A 2.4% increase in purchasing power is expected in 2007. Consumer confidence is underpinned by balanced (and in some cases surplus) budgets, a policy geared towards business creation and development, completion of the income tax reform, targeted cost reductions and increased purchasing power and poverty reduction in the context of stronger social cohesion. Business investment remains high, though is still slightly lower than during the upturn of late 2004. At that time the service sector accounted for the bulk of investments, whereas the investment base in 2006 was broader and included the industrial sector.

The rise in oil prices pushed inflation up to 2.5% in 2005 (harmonised consumer price index). In 2006, inflation fell slightly to 2.3%, and is expected to drop to 1.6% in 2007.

The strong growth in jobs in 2005 continued in 2006 and is expected to accelerate further in 2007. Where 41,000 additional jobs (net) were created in 2005, the net increase in 2006 was 46,000 and is forecast to be 60,000 in 2007 – the highest increase since 2000. While the overall rate of employment rate
rose significantly in 2004 and 2005 (0.7 percentage points in both years), it stabilised in 2006 at 61%. However, this annual average conceals the fact that the employment rate in the first quarter of 2007 rose sharply again by 1.4 percentage points compared with the same period in 2006. For the over 55s, the rise was as high as 2.7 percentage points. Because the increase in jobs exceeded the increase in the working population in 2006, unemployment fell from 8.4% in 2005 to 8.2% in 2006 and is expected to drop to 7.6% on an annual basis in 2007. While the number of unemployed rose by 20,000 in 2005, it fell by 8,000 in 2006, for the first time since 2001, and is expected to drop by 39,000 in 2007.

The Belgian authorities have pressed on with efforts to reduce labour costs in 2006 and 2007. Labour costs fell by 2% of GDP between 2002 and 2006, and the implicit tax rate on labour also fell by 2 percentage points over the same period. The introduction of new cost reductions and the expansion of existing ones will continue into 2007.

Belgium’s long-term policy has always been focused on measures that have an impact on the economic, social and environmental spheres. The emphasis in the national reform programme is on macroeconomic policy, reforms in the context of an innovative economy and the labour market as a whole, but the 2006-2008 strategic report on social protection and inclusion considers the key aims and challenges in relation to social inclusion, pensions, healthcare and long-term care. Consequently, the two reports should be read in conjunction.

In the context of the Generation Pact, a legal mechanism was established which links changes in social security benefits to prosperity and which provides for a structural mechanism to finance this linkage. Various measures have also been taken to guarantee the accessibility and affordability of healthcare, such as the new Omnio status, the maximum bill for chronically ill people and the new procedure for reimbursement of implants and medical devices.

Finally, the input of the social partners must also be highlighted. The role of the social partners has been and remains crucial in both developing and implementing the Generation Pact. Under the 2007-2008 Intersectoral Agreement, they agreed to control wage costs and improve training and education in order to boost Belgium’s employment levels. They thus make a significant contribution to the policy of increased growth and employment being implemented by the various governments.
2. Six lines of action for boosting growth and employment

The key priorities featured in the Belgian policy are in keeping with this overall strategy, which dovetails with the Lisbon Strategy for Growth and Jobs and factors in the four priority fields of action identified by the European Council in March 2006. These priority fields of action relate to the country-specific recommendations that we received, namely: the sustainability of public finances, an increase in the rate of employment, action to tackle long-term structural unemployment and the interregional mobility of workers, and an increased competitiveness of the services sector. Individually designed to maintain and further improve prosperity and social protection, these priorities represent the unifying theme of the actions featured in the three-part National Reform Programme.

The policy is being developed through effective cooperation with the legislative authorities and the social partners. A special Lisbon Strategy website has been set up (www.be2010.eu) to inform the general public about these issues.

Regions and Communities are also developing the necessary policies within the field of their competences to support the six lines of action for boosting growth and employment. The Lisbon goals are more in particular pursued by the following policy action plans; the “Priority Action Plan for the Future of Wallonia” (Marshall plan) for the Walloon Region, the “Contract for the Economy and the Employment” for Brussels Capital Region, and “Flanders in Action” for the Flemish Region.

Line of action 1: balanced budget

Aim:
- debt ratio under 60% by 2014
- budget surplus increased to at least 1.0% by 2010

Belgium has enjoyed an unbroken succession of deficit-free budgets since 2000. As a result, government debt, one of Belgium’s problem areas, has steadily declined as a percentage of GDP. Representing 137% of GDP in 1993, it fell to 87% in 2006 and is expected to drop further to 84% of GDP in 2007.

1. See for example the Flanders Progress Report which is added as an annex to this report.
2. This report is based on the statistics issued by the National Accounts Institute. The discrepancy between these statistics and those compiled by Eurostat is due to the different methods used to record the transfer of the SNCB debt to the Railway Infrastructure Fund.
The government is determined to press on with this policy in the coming years. In Belgium’s stability programme for 2007-2010, it was agreed to build up progressive budget surpluses and continue scaling back debt. However, while the objective of a balanced budget was exceeded in 2006 with a surplus of 0.3 percentage points, partly through the efforts of the Communities and Regions, the 2007 target (a surplus of 0.3% of GDP) will not be met. The outgoing government, which has been running day-to-day affairs in a caretaker capacity since the federal elections on 10 June 2007, cannot perform a full budgetary control. The outgoing government intends to land as close as possible to a balanced budget by implementing protective measures.

As regards expenditure, a sound policy is being implemented. Primary expenditure by federal ministries, excluding pension costs, will increase by a mere 1% in real terms in 2007. However, controlling healthcare spending remains critical in order to guarantee a sustainable financial balance in the social security system. A maximum annual rise of 4.5% (in real terms) in public healthcare spending was agreed on in 2003. Following excessive spending in 2003-2004, structural measures were taken which significantly improved the expenditure pattern in 2005, when the real-terms rise was a mere 0.5%. The continuation of this policy in 2006 resulted in a real-terms rise of 1.4%. The provisional estimate by the National Institute for Sickness and Disability Insurance (INAMI/RIZIV) is that the healthcare budget in 2007 will fall within the maximum growth limit, but with no margin to spare. Given that the Study Committee on Ageing, in its long-term projections, assumes an average real-terms growth in healthcare spending of only 2.6% in the period 2011-2050, it is clear that controlling healthcare spending will remain a major challenge in the years to come.

**Line of action 2: lower costs, particularly labour costs**

**Aim:**
- easing the fiscal and parafiscal pressure on labour by 2.2% of GDP between 2005 and 2010 (4.2% of labour costs)

Belgium combines a sound budget policy with a proactive policy of cost reductions, both general and targeting specific groups. According to the National Bank of Belgium (NBB), labour costs charges (income tax, social security contributions and others) fell by 1.0 percentage points of GDP between 2002 and 2005 and by a further 0.9 percentage points in 2006. The implicit tax rate on labour fell from 43.7% in 2002 to 41.6% in 2006. Accord-
According to the latest Eurostat data, the drop in the implicit tax rate in 2005 contrasts with a recorded rise in the EU average.

More specifically, the budget to cover the reduction in social security contributions (employer and employee contributions) has risen from €2 billion in 1999 to €5.6 billion in 2006 and €6.0 billion in 2007. As regards recent initiatives, employment among the over 50s is being encouraged by a new incremental, age-related reduction in employers’ social security contributions, which can be combined with the existing reduction. To encourage the recruitment of workers who have lost jobs due to restructuring, reductions in employers contributions are being increased, especially for older workers.

Also, in 2007 subsidies worth a total of €0.8 billion are being granted via the tax system for research, shift work, night work and overtime. This will benefit employment and business investment. To support the creation of high-skilled jobs in leading-edge sectors, the system of partial wage tax exemption on researchers’ pay is being extended to new categories of staff. Also, the partial exemption from wage tax of bonuses for shift and night work has been raised significantly from 1 April 2007. The same date saw a doubling of the existing reduction for overtime; as a result, the onus is on workers to increase their net wage in a legitimate way and avoid the (now less attractive) black market. They therefore accumulate pension rights, are covered by an insurance scheme and enjoy a larger net take-home pay.

The income tax reform will affect tax revenues and disposable income of families, and this for the last time in 2006. In addition, the rise in deductible fixed operating costs, which was implemented in two stages in 2006 and 2007, has resulted in a general easing of the fiscal pressure on earned income. In the Flemish Region, workers are also enjoying a fixed-rate reduction in income tax.

Past corporate tax reforms are continuing into 2007. The basic rate of corporate tax is 33.99%, although the 'notional' interest rate mechanism was introduced in Belgium on 1 January 2006 to create a greater degree of tax neutrality between funding from equity and from loans. The introduction of this system has led to a significant drop in the actual corporate taxation rate.

The combination of the first two lines of action, a sound budget policy and a policy of cost reductions has spawned high consumer confidence, which sustained Belgium’s economic growth at a respectable level.
Line of action 3: reforming and revitalising the labour market

Aim:
- having the number of older workers increase faster than the average (EU15) by 2010 compared with 2005
- an employment rate verging on 70%

Sustainable economic growth and more and better jobs call for reforms to the labour market to improve its adaptability. Belgium can only remain competitive, meet the costs of population ageing and achieve social inclusion by means of a suitable labour market policy and maximum employment of “outsiders”.

The need for structural changes to the Belgian labour market has been highlighted from the outset of the National Reform Programme in 2005: in the context of an ageing population, Belgium’s persistently low employment levels will not suffice to maintain the current level of prosperity and social protection. That is why ‘more and better jobs’ is the core policy theme for the period 2005-2008.

The approach is twofold: keeping those already at work in work for as long as possible, and getting a larger proportion of those of working age into work.

The Generation Pact focuses mainly on the initial and final phases of working life. With young people, the Communities and Regions are working to improve the transition from school to work, focusing in particular on the least qualified. Tackling the weaker aspects of the education systems has also led to some fundamental changes. At the end of working life, entitlement to early retirement pensions has been limited and a pension bonus has been brought in to encourage people to work longer. Employers are being made accountable and encouraged to keep and take on older workers, for instance by means of a reduction in indirect labour costs for older workers. In cases of restructuring, the easy and socially accepted solution of laying off older workers is being countered through responsible investment by both parties in the transition to new jobs. Social discussion surrounding the Generation Pact has been partly responsible for a gradual and necessary change in mentalities regarding the accepted retirement age.

The Regions and Communities are offering job-seekers faster, more intense and more tailored support and training. Systematic exchange of job vacancies between the relevant regional institutions has been expanded. In time,
this measure combined with greater commitment to language training will lessen regional employment differences – one of the explicit recommendations of the European Commission. Alongside this, the federal government has strengthened the link between the entitlement to unemployment benefit and the commitment and zeal shown by job-seekers in finding work. All these measures together have increased the number of people entering jobs and, in keeping with a more ‘rights-and-responsibilities’ approach, the loss of unemployment benefit for a small group of work-shy individuals.

Efforts to further reduce labour costs have been kept up throughout the period, while respecting budget restrictions and maintaining the financial stability of the social security system. The movement of direct labour costs is governed by the indicative wage norm, agreed every other year between the social partners. Indirect labour costs for employers have been further reduced by both fiscal and parafiscal measures. The tax burden has also been lowered for workers, particularly those on low incomes, making the transition from unemployment to low-paid work more lucrative and helping to tackle unemployment traps. For this group, the major expansion of the service cheque scheme, primarily in relation to home help, has helped to create regular jobs.

However, the European Employment Strategy indicator set shows quite clearly that, although Belgium is on the right track, it still has a long way to go. The results for lifelong learning, for example, are below what they should be and all parties involved need to work harder than they are currently doing.

One area where virtually no progress has been made is the development of a coherent ‘flexicurity’ policy, with the aim of striking a new balance between flexibility and security to make it more favourable to the large numbers of “outsiders” in the Belgian labour market.

**Line of action 4: investing to boost the economy**

**Aim:**
- 3% of GDP investment in R&D by 2010
- continuing reform of the network industries and sharpening the competitive edge of public sector companies

Policy on research and development and economic competitiveness is one of the key priorities of both the federal and regional governments. The policy covers a wide variety of issues, ranging from the opening up of
industrial sites to enhancing market functioning. Only a few examples will be cited here.

Belgium has resolved to drive up R&D spending\(^3\) to 3% of GDP by 2010. This aim has been espoused by the federal government along with the three Regions, the authorities primarily responsible for science and innovation policy. Although the latest figures on R&D expenditure show a slight fall, it is anticipated that the tax incentives introduced in recent years will continue to provide a major spur to private companies to step up their R&D efforts.

A raft of measures have been taken to foster entrepreneurship and industrial competitiveness. The Round Table on Modernising the Economic Regulatory Environment has been launched. The activities of the Crossroads Bank for Enterprises have been expanded and accelerated and the eDEPOT launched, slashing the time needed to set up a business from 56 to a mere three days. The Belgian authorities remain committed to simplifying administrative procedures and improving and simplifying administrative texts and legislation.

Both the federal government (via the Belgian Knowledge Centre for SME Financing) and the Regions (via various funding systems) have made it easier to secure financial resources.

The government is fostering technical innovation in companies by encouraging all R&D activities pertaining to patent development and by promoting patent ownership and the granting of associated exploitation rights. As a concrete step, it has brought in an 80% tax reduction on revenue from patents. This will apply to all ‘new’ patent revenue from tax year 2008 and will mean a drop in taxation on royalties from 33.99% to a mere 6.8%.

Support for innovation and economic growth has also been boosted thanks to more effective competition legislation, providing for more efficient and more harmonised competition agencies, amongst other things.

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3. According to the latest available data, Belgium’s total R&D spending in 2005 amounted to 1.86% of GDP, just under the intensity recorded in 2004. Foreign financing plays an important role in Belgium: 12.4% of total R&D spending was funded by capital from abroad in 2005. In addition, 59% of R&D spending by businesses in Belgium is by subsidiaries under foreign control.
The Belgian energy sector has undergone numerous radical changes in recent years, affecting its various segments. Following Flanders (July 2003), the Walloon and Brussels Capital Regions have liberalised their electricity and gas markets from the first of January 2007 onwards. However, to date the Belgian electricity and gas market remains highly concentrated. The Pax Electrica I, the pledges made by SUEZ in connection with its merger, the remedies proposed by the European Commission and a number of legislative initiatives are all geared towards creating more effective competition on the Belgian electricity and gas market.

Creating effective competition on the energy market, amongst others through appropriate regulatory measures, remains a top priority. It calls for a multidisciplinary approach involving all energy market players: producers, suppliers, regulators, transmission and distribution system operators and consumers. To oversee competition on the energy market and to monitor the market itself, we need effective regulators. With CREG (the Commission for the Regulation of Electricity and Gas) set to receive a broader monitoring remit, responsibility for policy preparation has been transferred from CREG to DG Energy.

The Competition Council monitors price movements closely and steps in to investigate where there is a suspicion that competition rules are being breached. An investigation of this kind is currently under way.

Well-informed and well-protected consumers are another prerequisite for effective competition on the energy market. Federal initiatives in this area, such as the Hermes complaints service and the code of conduct for suppliers, will be better coordinated with regional initiatives.

Statutory and regulatory measures have already been adopted to increase the autonomy of the transmission system operator (TSO) and the distribution system operators (DSOs).

The Pax Electrica commitments following the merger between SUEZ and Gaz de France should make room for new players on the market.

Given its position as net importer of electricity, Belgium intends to promote new investments for the production of new environmental-friendly energy sources. Both the Regions and the federal government contribute to the development of renewable energy.
The Belgian power exchange BELPEX is a landmark achievement. An agreement has been reached extending trading to Belgium, the Netherlands, Germany, France and Luxembourg.

Finally, additional investment in infrastructure (e.g. transport and mobility) will provide a major spur to further economic development.

**Line of action 5: consolidating social security**

**Aim:**
- earmarking 0.057\% of GDP every year for adjustments for prosperity in the case of pensions and other benefits
- striking a balance in the social security system and waging multidimensional struggle against poverty

Linking pensions and other social benefits to prosperity guarantees stable purchasing power and living standards for all, whilst also boosting consumer confidence. The structural prosperity-adjustment mechanism will remain in place after 2007. In September 2006, the social partners issued a unanimous opinion about how benefits should be adjusted in line with prosperity over the coming years. A particular concern was to avoid new unemployment traps.

More specifically, those on the lowest and oldest pensions (i.e. who have been on a pension for at least 15 years) will receive a ‘prosperity bonus’ in 2007. This system benefits over 600,000 people, compared with 370,000 under the social partners’ proposal. People on a minimum pension will receive a bonus equivalent to 1% of the basic rate in 2007 and 2008. All other proposals put forward by the social partners in their September opinion are being implemented in full. The integration allowance and the basic rate of the minimum guaranteed income for the elderly will also be amended – vital measures to help tackle poverty.

A new mechanism will be introduced for the structural financing of healthcare, preserving the accountability of partners to the health insurance system. Along with the Silver Fund, this is an important tool for meeting the present and future challenges of population ageing.

The new Omnio status will eventually replace the current arrangements governing extra help towards own healthcare contributions. Under the current system, individuals must meet both an income criterion and a status criterion (e.g. widow, pensioner) in order to qualify. Under the new
system, the main criterion is income. Everyone falling beneath a certain income threshold will be entitled to extra help with own contributions. From 2007, patients with chronic illness status (the details of which have yet to be defined) will be able to have more of their health costs covered by the maximum bill system, through the Chronic Illness Maximum Bill scheme. This means that they will have to pay less themselves before their mandatory health insurance kicks in.

In accordance with the healthcare law, a brand new procedure for the reimbursement of implants and medical devices will be introduced. The costs in question can often be very high, and are not (or only partially) reimbursed. The aim is to provide implants and devices deemed medically valuable and efficient by experts at as reasonable a price as possible and to introduce full or partial reimbursement of such implants as a matter of course.

For the self-employed, the federal government has raised minor risk cover for healthcare together with pension and invalidity benefits. It has also committed to creating a new statutory capitalisation pillar.

The government is pursuing its policy of discouraging products that are harmful to human health, putting up duty on ‘roll your own’ tobacco, cigars and cigarettes.

**Line of action 6: improving the complementary relationship between growth and environmental protection**

**Aim:**
- achieving the Kyoto Protocol emissions targets: reducing greenhouse gas emissions by 7.5% for the period 2008-2012 compared with 1990
- improving energy efficiency by 1% a year

The Kyoto Protocol commitments and negotiations for the post-Kyoto period represent the unifying theme of Belgium’s environmental, climate and energy policy. Belgium’s target under the Kyoto agreements is to achieve a 7.5% reduction in average greenhouse gas emissions in the period 2008-2012 compared with the reference level\(^4\). In 2005, greenhouse gas emissions were 2.1% beneath this level. According to the Belgian progress report of 15 March 2007, emissions in 2010 will have fallen to between 3.6%

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\(^4\) The reference level means the level of greenhouse gas emissions calculated for the ‘reference year’ specified in the Kyoto Protocol, namely 1990 for CO\(_2\), CH\(_4\) and N\(_2\)O and 1995 for hydrochlorofluorocarbons (HFC, PFC, SF\(_6\)).
and 5.1% beneath this level, based on the measures being implemented. Planned use of the Kyoto flexible mechanisms would bring emissions down to between 8.4% and 9.9% beneath the reference level, well within the Kyoto target.

Post-Kyoto negotiations have started between the federal and regional governments and studies conducted into the achievability of reduction percentages. A key way of achieving this reduction in emissions is to improve the energy efficiency of buildings and transport systems. Between 2000 and 2005, Belgium managed to increase energy efficiency by 2% a year. As well bringing environmental benefits, greater energy efficiency should mean savings for consumers and firms, thereby boosting business competitiveness and creating new markets and jobs.

Both federal and regional policies place heavy emphasis on improving energy efficiency in buildings – whether private, corporate or government.

Various instruments are being deployed to boost the environmental and energy performances of the transport sector. For example, the deductibility of costs (other than fuel) associated with buying a new company car are dependent on CO₂ emissions. People buying private cars are also being encouraged to opt for low-CO₂ models and cars fitted with particulate filters. With respect to biofuels, a regulatory framework was established in 2006 and a tax reduction system devised. The quotas were allocated in autumn 2006 and the first biofuel has been on the market since 1 November 2006; the first bio-ethanol is due out on 1 November 2007. Other means of transport - most notably public transport - are being promoted, for instance by subsidising commuters to use public transport.

The use of renewable and environmentally-friendly energy is being encouraged, via the system of green energy certificates for example, issued by the Regions. These certify electricity generated through hydro energy, wind farms, solar energy and other renewable sources. As regards offshore wind farms, the C-Power project will erect its first wind turbines in September and concessions have already been granted for two further projects. These investments could help to offset the closure of one or more nuclear power stations.
1. Macroeconomic stability

Introduction

The Belgian authorities have pressed on with existing measures whilst also developing new initiatives to meet the two macroeconomic policy challenges identified in the 2005-2008 NRP:

- Maintaining business competitiveness, more particularly cost competitiveness, by means of a targeted wage policy and a policy of easing labour costs. A context favourable to business activity is helping to meet this objective whilst also bolstering job creation.

- Operating a responsible budget policy aimed at the gradual accumulation of budget surpluses in order to offset the cost of population ageing. This policy also aims to be proactive, incorporating a sweeping programme of reforms intended to boost economic activity and employment and strengthen social policy.

For example, business competitiveness has been strengthened thanks to continued reductions in costs, enabling an easing of the fiscal and parafiscal burden on labour, and to new measures to encourage investment and research and the creation of a new indicative wage norm for 2007-2008. In addition, the 2006 budget recorded a surplus, which was used to top up the Silver Fund. A number of social benefits were also increased.

1.1. Business competitiveness

A series of reforms are being implemented to boost economic growth potential and business competitiveness. Investment, jobs and innovation are being encouraged by easing the fiscal and parafiscal burden on earned income, keeping wage costs under control and improving the fiscal and regulatory environment\(^1\) for businesses.

\(^1\) Improving the regulatory environment of businesses is analysed in section 2.2.1; business investment is examined in section 2.4.2.
1.1.1. Reduction of indirect labour costs

Particular attention is being focused on further efforts to reduce labour taxes, one of the recommendations highlighted in the evaluation of the 2006 progress report\(^2\). Both the demand and supply of labour are being encouraged by the introduction of new tax reductions and the extension of existing measures. These provisions relate to all workers or target particular groups, notably the highly qualified and the oldest workers. A whole raft of initiatives outlined in the Generation Pact of late December 2005, aimed at giving new impetus to employment, have been implemented on the ground or have entered into force.

In addition to the income tax reform, which has now entered fully into force, a general easing of the fiscal pressure on earned incomes is taking place by raising deductible fixed operating costs. The December 2006 increase of 1.1 percentage point on the first bracket of deductible costs was extended in 2007, with an additional increase of 1.1 percentage point. In addition, the ceiling for deductible spending was raised twice. This measure has increased workers’ net income at no additional cost to employers. The impact on the 2007 budget is €77 million for the first increase and €69 million for the extended deduction.

For workers resident in the Flemish Region, the Flemish government has introduced a fixed-rate reduction in income tax. The aim is to make work more lucrative and tackle unemployment traps. The reduction applies from 2007 to workers with incomes beneath a certain level, and will be extended to all workers in 2009. These cost reductions amount to €125 million in 2007, €150 million in 2008 and €523 million in 2009.

With respect to the oldest members of the workforce, the over 50s on low salaries are being encouraged to work by the introduction in April 2007 of an incremental, age-related reduction in employers’ social security contributions. This new measure, estimated to cost €75 million, supplements the existing reduction for workers over 57. The recruitment of workers who have lost jobs to restructuring\(^3\) is being encouraged by expanding the scheme to cut the social security contributions paid by their new employers. In addition, to get more older workers back into work, the benefits are greater where the employee taken on is over 45.

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2. The introduction to this report sets out all the recommendations and issues requiring further attention which apply to Belgium.
3. The new approach on restructuring is analysed in point 3.1.2.
Research and development activities are being bolstered by a whole raft of measures, detailed in chapter two (section 2.1.2). These are: expanding the wage tax exemption scheme to cover new categories of researchers (cost: €27 million in 2007), lowering social security contributions to encourage the creation of new basic research posts (cost: €31 million in 2007), introducing a favourable tax rate to foster effective use of research findings and, lastly, extending exemptions from tax on innovation premiums.

Tax incentives (tax reduction for employees and exemption from wage tax for employers) for overtime have been extended since April 2007, focusing in particular on employee income. The budgetary impact of this extension is €40 million. The wage tax exemption level for bonuses associated with shift and night work was raised in April 2007 from 5.63% to 10.7%. The cost of this rise is €180 million.

New taxes have been introduced, aimed at partially offsetting these measures by shifting the burden to other sources than earned income. The environmental impact of behaviour patterns has received particular attention in the form of a new environmental tax (€67 million in 2007) and cost limitation for company cars linked to CO2 emissions (€64 million in 2007). Measures have also been taken to clamp down further on tax fraud and improve the taxation system with a budgetary impact of €358 million in 2007), as well as to further tackle social security fraud (€66 million in 2007).

In addition, previous efforts to ease the fiscal and parafiscal burden are bearing fruit: according to the NBB’s 2006 report4, tax on earned income fell by one GDP point between 2005 and 2006. This reduction is mainly due to the income tax reform and the reductions in personal social security contributions on the lowest incomes. Over the same period, the implicit tax rate on labour also fell sharply by 1.1 percentage point to 41.6%.

Furthermore, as highlighted in a recent report by the High Council of Finance, the drop in the actual tax level on wages was greater in Belgium than the European and OECD average over the period 2000-20065.

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1.1.2. A suitable wage policy

In Belgium, wage negotiations are the responsibility of the social partners. That said, the government has provided a framework of reference for these negotiations in the 1996 law on promoting employment and safeguarding competitiveness. As well as controlling labour costs in businesses, the law also deals with a range of labour market issues such as worker training and innovation. Intersectoral negotiations take place every other year to reach overall agreement on these various issues. Wage development is based on the average wage development expected in Belgium’s three big neighbours (Germany, France and the Netherlands) over the following two years. This is used to establish an indicative maximum margin of increase.

In late December 2006, the social partners concluded the intersectoral agreement for the period 2007-2008. This was approved by the various employers’ federations and trade unions. Controlling wage costs is a key aspect of this agreement: the social partners agreed a nominal indicative wage norm of 5% for the period 2007-2008. With average wage cost development in the three big neighbouring countries estimated at 5.5%, the agreement should enable Belgium to reduce its wage cost handicap with respect to these countries by 0.5%. The social partners also recommended that individual sectors negotiate wage adjustment mechanisms to avoid potential wage gaps.

To encourage business competitiveness, the government has pledged to limit the cost for employers by introducing an intersectoral structural wage adjustment system in October 2007. This cost reduction covers 0.15% of the total wage cost and will take the form of a partial exemption from wage tax. The budgetary impact of this measure is put at €45 million for 2007 and €180 million for 2008.

Other measures adopted under this agreement also seek to boost employment. They include the rise in the minimum gross wage in April 2007, to offset employment traps, and the above-mentioned increase in tax reduction on overtime.

6. The government has decided to award a budget of €30 million to offset falls in both cost reduction for employers and employment bonuses for employees, resulting from this increase in gross minimum wage.
1.1.3. The fiscal environment for businesses

In addition to the notional interest deduction in force since 2006, new tax measures have been introduced, to create a framework that facilitates business activity.

Business investment is being encouraged by means of a lower tax rate on the use of untaxed reserves (i.e. profit that is not distributed but recorded as reserves under liabilities on the balance sheet). Although companies remain free to choose how the freed-up sums are allocated, the rate is more lucrative if the funds are reinvested rather than distributed.

To foster technological innovation, a new tax deduction encourages businesses to develop or acquire patents. Research and development activities are also supported by tax exemption for the bonuses and subsidies allocated by regional institutions to promote R&D.

A number of additional measures are aimed at attracting foreign investment to Belgium. These include the introduction of the ‘tax unit’ principle for VAT, a new legal framework for pension funds and extension of the Parents-Subsidiary Directive to companies established in countries with which Belgium has signed a double taxation agreement.

In the Flemish Region, risk capital is being stimulated by granting tax credits to private individuals who invest in new micro-enterprises or small or medium-sized companies.

The Brussels Capital Region has put in place a €15-million Fiscal Compensation Fund aimed at harmonising, simplifying, stabilising and eliminating, within the municipalities that make up Brussels, a whole series of taxes that hamper business activity. Since 1 January 2007, this fiscal and economic measure has applied to taxes on computers and motive force.

7. This measure is examined in detail in point 2.1.1.
1.2. A responsible budget policy

1.2.1. Budget surplus in 2006

In 2006, the Belgian authorities planned to achieve a balanced budget across all government departments. This objective was achieved for the 7th consecutive year. In fact, it was slightly exceeded, with the budget displaying a surplus of 0.2% of GDP. This means that Belgium remains in the group of euro area countries with a budget balance or surplus.

The estimated growth in GDP of 2.2%, upon which the initial budget was based, was borne out by the March 2006 budget audit. In fact, the economic upturn proved stronger than predicted, as it did in other EU countries. As a consequence, the Belgian authorities upped their initial forecast to 2.5% during the July 2006 budget audit and to 2.7% in the October economic budget. Final growth stood at 3% of GDP; as in previous years, this was higher than the euro area average of 2.7%.

This sustained growth combined with tight control on spending enabled a budget surplus of 0.2% to be achieved, along with a raft of one-off measures.

The government debt ratio was down to 87.2% of GDP by the end of 2006, factoring in the transfer of part of the SNCB’s debt to the Railway Infrastructure Fund. The gap between Belgium’s debt ratio and the euro area average was further reduced, despite the fall recorded by the latter.

1.2.2. Predicted short- and medium-term developments in budget position

The 2007-2010 stability programme, presented at the end of December 2006, updates the previous programme and sets out the budget path for the period in question. The progressive creation of budget surpluses and a continued reduction in the debt ratio remain the key objectives.

The programme specifies the creation of a surplus equivalent to 0.3% of GDP in 2007, increased by a further 0.2% of GDP each year thereafter to reach 0.5% of GDP in 2008, the last year covered by the current National Reform Programme, and 0.9% of GDP in 2010. Under the Silver Fund law, these surpluses must be used for structural financing of the Silver Fund.
According to the economic and budget forecasts contained in the programme, the public debt ratio should continue to fall, reaching 83.9% of GDP by the end of 2007 and 72.6% of GDP by 2010. As highlighted by the stability programme review, the ongoing fall in outstanding debt is an example of budget policy in line with the Stability and Growth Pact.

Alongside budget targets, a number of new priorities were outlined in the 2007 budget. In addition to the guaranteed funds for mobility (amongst other things), special attention was paid to policies promoting R&D, the environment and housing.

For 2007, the economic context has proved more favourable than the budget forecasts, although growth seems more moderate than the previous year. Indeed the NBB, in its June 2007 economic projections, raised its growth estimates to 2.5% of GDP. Moreover, this growth is boosting job creation and in terms of its composition is bolstered by domestic demand and exports. By contrast, the initial budget forecast was more prudent, predicting growth of 2.2% of GDP. This remained the case during the March 2007 budget audit.

Pending the formation of a new government, there is limited scope for implementing budget adjustment measures. Based on the latest available data, a more or less balanced budget can be expected for 2007. Processes for the strict monitoring of revenues and spending are being implemented.

1.2.3. Controlling healthcare spending

Controlling healthcare spending is key to ensuring a financially balanced social security system over the long term. It is also associated with a policy of strengthening Belgium’s high-quality social security system. In 2003, the maximum annual increase in public healthcare spending was set at 4.5% in real terms.

When this growth limit was exceeded in 2003-2004, the federal government implemented structural cost-cutting measures to monitor spending more effectively. Particular emphasis was placed on increased accountability of the players and institutions concerned. Thanks to these measures, the spending trend was curbed: in real terms, the rise in spending in 2005 was only 0.5%, well within the growth limit.

8. If necessary, the budget decisions taken by the next government will be detailed in an addendum to this report.
This policy of strict spending control continued in 2006. Once again, it enabled the rise in healthcare spending to be kept within the growth limit (up a mere 1.4% on the previous year). In the pharmaceutical sector, savings totalling around €80 million were achieved. This positive trend is mainly owing to measures encouraging doctors to prescribe more generic drugs.

Under the 2007 budget, healthcare spending remains bound by the real growth limit of 4.5%. According to the latest estimates by INAMI/RIZIV (the National Institute for Sickness and Disability Insurance), which have yet to be confirmed for the rest of the year, the growth rate on healthcare spending works out at around the 4.5% limit.

Strict monitoring of the healthcare budget has enabled the development of new initiatives. This enhances patient protection whilst also promoting general medicine.

A forward-looking strategy is also being implemented with the creation, alongside the Silver Fund, of a structural healthcare funding mechanism. A ‘fund for the future of the health system’ will be used from 2012 to offset medical costs resulting from population ageing. Having received an initial €309 million in 2007, the fund will be topped up in future with any surpluses in the healthcare budget. The practical details of this have yet to be worked out.

In addition, as from 2007, the social security budget will benefit from the expected positive economic impact of reductions in employer contributions, with a portion of income tax and corporate tax revenues being allocated to it. This figure totalled €46.8 million in 2007.

1.2.4. Stronger social protection

Retaining a high level of social protection is also a major aim. It is a factor in social cohesion and tackling poverty, whilst also fostering economic activity and growth by ensuring a certain level of living standards. A range of social security benefits have been increased to meet these economic and social objectives.

As well as the rise in the guaranteed income for the elderly in late 2006, the 2% increase in the social integration allowance scheduled for October 2007 was brought forward to April 2007. This accelerated implementation came with a price tag of €16 million. A further increase of 2% is scheduled for 1
January 2008, representing a total of €32 million. This allowance will be tied to prosperity from 2009, along with other social security benefits.

Under the Generation Pact, additional resources were earmarked to upgrade the oldest and lowest pensions in 2007 and to finance similar measures on incapacity for work. An additional €85 million was added to the initial budget of €75 million.

When compiling the 2007 budget, the government decided to earmark an additional budget of €22 million for adjusting pensions to prosperity, by awarding a fixed-rate ‘annual pension adjustment bonus’ in April 2007. This additional budget will be awarded again in 2008. The bonus will be supplemented by a new bonus, which will be paid out for a broader range of pensions. The cost of adjustment to prosperity is estimated at €70 million for 2007 and €196 million for 2008.

To boost household purchasing power, the schooling allowance will be paid out again in 2007. In addition, single-parent families on low incomes are awarded a supplement to the family allowances. For the self-employed, family allowances for the first child were increased as of April 2007 and minor risk cover will be included in mandatory healthcare insurance for all self-employed workers from 2008.

In addition, to ensure a decent level of income for older people, access to the minimum pension is being expanded for part-time workers and the minimum entitlement for each year worked is also being increased for low-income workers.

1.2.5. Challenges of an ageing society

The Belgian authorities have developed a comprehensive strategy to address the challenges of population ageing. Budget policy plays a key role in the strategy: its aim is to ensure the long-term sustainability of public finances, one of the issues identified during the evaluation of the 2006 progress report as requiring monitoring.

9. The adjustment to prosperity also operates on a percentage basis. A supplement to the bonus is allocated where the bonus would equate to less than a 2% increase in the pension.
10. The newly self-employed and those self-employed persons who receive the guaranteed income for the elderly or a very low pension have been covered for minor risks since 1 July 2006.
The progressive creation of budget surpluses to finance the Silver Fund and a steady and ongoing reduction in the debt ratio are the cornerstones of this strategy. Thanks to the reduction in the weight of interest charges on debt, a budget margin has been created to offset the additional expenditure linked to population ageing. According to a June 2007 report by the Study Committee on Ageing, the cost of population ageing will be 4.4% of GDP for the period 2006-2030 and 6.2% for the period 2006-205011.

The use of Silver Fund reserves should guarantee funding of the various statutory pensions schemes through to 2030. In 2006, the Fund was topped up with an amount equivalent to the budget surplus. The product of a series of non-fiscal revenues along with the input from the one-off tax amnesty measure known as the Déclaration libératoire unique/Eenmalige Bevrijdende Aangifte were also made available to the Fund in 2006. At the end of May 2007, its reserves totalled €15.1 billion.

Efforts to boost participation in the labour market are another component of this strategy to offset the effects of population ageing. The promotion of active ageing is a key part of this.

As noted in the Evaluation of the Progress report 2006, raising the employment rate among older workers remains a priority. Besides the above-mentioned reductions in social security contributions, the Generation Pact sets out a whole raft of initiatives to encourage older people to work longer. Several of these measures have now come into force, supplementing existing arrangements12. They include, most notably: allocation of a ‘pension bonus’, increased scope for combining a pension with earned income and implementation of a system of increased social security contributions on alternative (‘pseudo’) early retirement pension payments.

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11. High Council of Finance, Study Committee on Ageing, 2007, Annual Report, June 2007. Compared with the previous report, this is an upward revision of 0.6% and 0.4% respectively. This reassessment relates mainly to the medium term. It incorporates the cost of the new measures, primarily the increase in pensions for the self-employed and the rise in the guaranteed income for the elderly. This revision is attributable to a host of factors, including a reassessment of the macroeconomic environment. The denominator effect has to be factored in and there has been no major rise in expenditure compared with the previous assessment. Moreover, the Committee’s assessment remains very prudent, as demonstrated by the healthcare sensitivity study.

12. Chapter 3 looks in more detail at the employment of older workers. In particular, section 3.1.2 examines measures aimed at promoting active ageing.
2. Promoting productive economic growth

The national reform programme for the 2005-2008 period stresses that R&D and innovation have been chosen to form part of one of the Belgian Government’s six priorities. The efforts being made by each authority are designed to boost the level of public and private investment in R&D, create and/or strengthen competitiveness poles, lend support to transfers of knowledge by facilitating partnerships, promote the economic exploitation of research activities, enhance R&D human resources and intensify the dissemination and use of ICT.

Conducted by the Belgian governments in a bid to achieve a knowledge-based society, this policy has contributed to the good economic performance of Belgium. Over the 2001-2006 period, Belgium knew indeed an average annual growth rate of real GDP of 1.9% which is above the Euro zone average of 1.5%\(^1\). The rate of labour productivity also grew faster in Belgium than in the Euro zone over the same period.

2.1. Innovative economy

2.1.1. Fostering R&D

Private and public R&D investments

An R&D forum bringing together the various levels of governance and representatives of the private sector was organised in April 2007 with a view to boosting Belgium’s R&D effort to 3% of GDP by 2010, in line with the target adopted by the Federal Government and the three Regions\(^2\). The forum was tasked with pinpointing Belgium’s R&D weaknesses, while making recommendations for stopping the decline in R&D spending reported in recent years.

The latest figures show that total R&D spending in Belgium was equal to 1.86% of GDP in 2005, slightly down on the level of expenditure in 2004\(^3\).

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1. Sources: European Commission, Ameco database.
2. In charge of research policy for education, culture and personal matters, the Communities are also involved in the process of reaching the 3% target. The lower tax receipts as a result of the fiscal measures also contribute to R&D but are not included in the R&D expenditure.
3. Foreign resources play a key role in Belgium: 12.4% of overall r&d spending was of foreign origin in 2005. What is more, 59% of r&d spending by the business sector in Belgium is made by foreign-owned subsidiaries.
On the basis of the initial budgets, the Government budget appropriations for R&D rose by 8% in 2006, so that public spending on R&D increased from 0.60% of GDP in 2005 to 0.62% the following year.

Each region budgeted for an increase in the funding earmarked for science and innovation policy in 2007. Flanders' structural increase for this policy in 2007 was set at Euro 60 million, followed by an extra Euro 75 million in 2008 and 100 million in 2009 compared with the appropriations for 2007. The Walloon Region is pressing on with its priority action plan involving a 39% rate of increase in the research budget over the 2006-2009 period. Lastly, the Brussels-Capital Region is in the throes of rolling out its Regional Innovation Plan measures for the 2006-2013 period.

In order to support the initiatives of the Regions, the bonuses, capital and interest subsidies, granted by the regional authorities to companies on intangible and tangible fixed assets within the framework of support for research and development, are exempt from corporation tax since 1 January 2007.

**Networking and internationalisation of research**

The policy bringing innovative players together is continuing to be stepped up by the development of competitiveness and competence poles combining companies, training centres and public and private research units in a bid to achieve excellence in key sectors at international level. In Wallonia, a fifth competitiveness pole focused on mechanical engineering was given the seal of approval in September 2006 on top of the four other ones for the life sciences, aeronautics, aerospace, agri-industry and transport/logistics. An initial positive assessment was made after these four poles had been operating for 12 months. The third call for projects is set to start in the last quarter of 2007. The Walloon Parliament also adopted a clustering degree for the region and this came into force on 1 July 2007.

Brussels is continuing to focus its activities and support on three key sectors of innovation: ICT, health and the environment, where the Region is keen to emphasise the complementary relationships and opportunities for cooperation between the various stakeholders, while deploying incentive programmes to encourage more innovative activities. The Region is also rolling out suitable infrastructures and services to attract R&D from outside and provide a means of promoting the development of innovative activities. For example, two new incubators will be added to those already available in Brussels.
Apart from the seven already operating, the Flemish Region has set up a further two competence poles: created in October 2006 the first one is focused on product development and design, while the second one, which got underway in early 2007, prioritises mobility (creation of the "Vlaams Instituut voor Mobiliteit" – Flemish Mobility Institute). The competence poles seek to promote a concentration and cooperation between innovation players in a specific economic field, while being focused on the relevance of research and innovation in a Flemish context. Aspiring towards international eminence, the Flemish strategic research centres are focusing on transfers of technology, collaboration agreements/pacts with companies, promoting the economic exploitation of research and creating spin-offs in four sectors: nanoelectronics, biotechnology, the environment/energy and broadband technologies. Undertaken in 2006, a review of these centres resulted in new management agreements for the 2007-2011 period, featuring the basic principles of good governance. Under these pacts, the level of research funding for the centres has been boosted. A new framework catering more for the Flemish economy’s innovation requirements has been also been approved in the context of selecting and lending support to the competence poles and strategic research centres. Lastly, Flanders has increased its R&D spending on ICT, as this is regarded as a key sector for the Flemish economy (see point 2.1.3. on ICT).

Transferring knowledge and promoting the economic exploitation of research

Under the heading of initiatives to ensure a successful outcome to research investments, the drive to help research results find industrial applications is being promoted via myriad collaborations between universities, research centres and companies, and thanks to inter-partner transfers of technology and knowledge.

In the case of intellectual property, new legislation has been enacted in order to clamp down even harder on counterfeiting and piracy. The patent information units ("cellules info-brevets") coming on stream will provide SMEs with easier access to patents. January 2007 was the month in which a new tax incentive was agreed to encourage companies to develop or acquire patents. This means companies may now deduct 80% of their patent-related revenue from their basic taxable amount, so that the actual tax rate applicable to these revenues is restricted to 6.8%.

The Flemish Region agreed in September 2006 to initiate a new applied biomedical research funding programme of applied biomedical research with
a mainly social purpose, which offers a support for the development of new therapies and/or diagnostics. The aim of this programme is to support and promote economic exploitation of research in an area that is poorly served by the existing government funding channels.

Each region has underscored the importance of support for encouraging innovation in the business community, while facilitating the dissemination of knowledge. For example, the level of aid for joint research and the dissemination of information / providing incentives for innovation (VIS programme) in Flanders has risen from 50% of the costs in 2006, to 80%. The aid for encouraging sub-regional innovation in Flanders is now equal to 100% of the costs compared with 80% before. The Brussels- Capital Region is helping research centres to transform their technological knowledge into economic activities, while encouraging smaller businesses to take on board innovations developed elsewhere. Lastly, the Walloon Government has adopted various themes under the "Marshall" action plan 2007. The plan has been designed as a regional research financial assistance tool bringing together all the research and innovation stakeholders from industrial sectors that are of key importance for the Region and are likely to lead to economic exploitation in due course.

2.1.2. Boosting R&D human resources

In recent years, the federal government’s R&D incentives programme has resulted in wage tax exemptions for universities and colleges of higher education (65% exemption), accredited research institutes (50% exemption), public/private sector partnerships (50% exemption) and companies employing researchers who graduated in the applied or exact sciences, in medicine, veterinary medicine and civil engineering (25% exemption). R&D support for recently established companies takes the form of extending the 50% wage tax exemption for researchers to these companies' employees (not including administrative and sale/marketing staff). The exemption was ushered in on 1 July 2006. Starting from 1 January 2007, a 25% wage tax exemption is also being applied to private companies employing masters graduates or industrial engineers in certain subject categories.

4. The themes are: information system security, nuclear fusion, power electronics, hydrogen and fuel cells and open innovation.

5. Small “newly” created companies operating for less than 10 years and earmarking 15% of their spending for R&D.
New job opportunities for researchers are being encouraged by allowing fundamental research institutes to reinvest their employers' social security contributions in the creation of new doctoral and post-doctoral appointments. This scheme was launched on 1 January 2007.

Mindful of the growing social relevance of promoting the economic exploitation of university research results, the Federal Government has adopted a new scheme directly targeted on researchers, encouraging them to become involved in exploiting their findings. Consequently, starting on 1 January 2007, a favourable rate (33%) is applied to incomes that researchers receive from accredited research establishments in the context of exploiting their research results. Lastly, there is a two-year extension for the personal income tax and personal social security contribution exemptions in respect of innovation premiums introduced in 2006.

The Walloon Region has established a labour market for people holding a doctoral degree, and amended the SME job-creation support scheme so that employers hiring staff for high value-adding positions are offered financial grants worth up to 80% of the salaries paid to newly appointed staff. These appointments primarily involve innovation and differentiation in the context established by the competitiveness poles.

Flanders has increased the Methusalem programme budget. Launched in 2006, the programme offers each university long-term funding on an annual basis to enable top researchers to continue their research projects. During the same year, Flanders launched the Odysseus programme designed to attract top foreign and Flemish expat researchers to the Region. Flanders agreed in 2007 to push through a plan to increase the number of doctoral scholarships and post-doctoral appointments. It also created new permanent research posts in Flemish universities. Lastly, the relevant Flemish minister had a series of meetings in 2007 with researchers working in Flemish universities, colleges of higher education and research institutes so as to define their needs and expectations.

The Brussels-Capital Region is set to launch a new programme in early 2008 under the heading of "Brains Back to Brussels". This seeks to halt the brain drain and encourage researchers to return to the Belgian capital.

2.1.3. Dissemination and use of ICT

The tax concession the Federal Government granted by way of a tax cut under the "Internet for all" package scheme, was extended until 18 April 2007.
Launched on 20 July 2006, the Flemish Government’s i2010 action plan features five priorities: the further roll-out of R&D in the ICT sector, developing a digital research infrastructure (e-research), promoting the use of ICT in Flemish SMEs, broadening the scope of the e-Government services and bridging the digital divide.

The diffusion of the electronic identity card (eID) for citizens continues. More than two thirds of Belgian citizens possess an eID (100% diffusion is foreseen for 2009). The eID makes a digital signature possible, while it also enables an identification. This enables the development of securized electronic services by the private and public sector. The federal government made an inventory of the use of eID http://map.eid.belgium.be. Each company or organisation that develops a service that used eID is able to make use of this inventory.

The Cyber-classroom scheme (Plan Cyberclasse) has enabled all schools in the Walloon Region to have access to contemporary, high-performance computer equipment. The French-speaking Community has also taken steps to draw the teaching profession’s attention to the benefits of ICT in the teaching environment. Lastly the ICT Action Plan seeks to sensitise and initiate Walloon job-seekers still unaware of the advantages of PC and Internet resources.

### 2.2. Entrepreneurship and industrial competitiveness

#### 2.2.1. Better regulatory environment and administrative streamlining for companies

As a result of both the Cross Roads Bank for Enterprises and the One-stop Business Shop being able to grant a company number, the time needed to set up a business was drastically reduced over the 2003-2005 period: from 56 to 26 days. Under this heading, a pilot project was initiated in April 2007 allowing a number of notaries to enjoy an e-filing application system so the administrative procedures involved in a business set-up now take three days to complete. Three avenues are now being investigated with a view to achieving other changes for the better:

- The structures available will be enhanced, primarily in the light of an audit report, due to be finalised in December 2007, on the operation of the one-stop business shops.
- The e-filing pilot project is to be extended to all notaries' offices.
- The application of the European services framework Directive will result in further streamlining.

Within the context of the Cross Roads Bank for Enterprises, the relevant departments carried out about 35,000 to 50,000 transactions every day. In the meantime, public applications have reached a total of 25,000 a week.

The Brussels-Capital Region Government announced in June 2007 its approval for a draft organic decree on promoting economic growth. Scheduled to be submitted to the Brussels-Capital Region Parliament in September 2007, the draft Decree seeks to consolidate all the various business aid packages, which are currently spread around various legislative and regulatory texts, some of which date back to the late 1970s. The Decree is designed to streamline and update the existing aid packages, shorten the case processing times and create new types of aid tailored to the present needs of companies in an urban setting. The major aid categories targeted are general and specific investment aid, recruitment aid, pre-start-up aid, consultancy, training and mentoring aid, company transfer aid, environmental aid, European standards compliance aid, etc.

The Flemish Region's regulatory management policy is focused on: reducing administrative burdens, legal and technical streamlining, regulatory impact analysis (RIA). On 16 May 2007, the Flemish Government gave the final approval to a regulatory agenda and the development of the Cellules Wetskwaliteit (quality of legislative texts).

Operating within the Flemish Region's public authorities, the Cellules Wetskwaliteit, the regulatory agenda, the forms website and the monitoring system for the quality of legislative texts are due to be fine tuned in the future. Pursuant to decisions taken during the March 2007 European Council, Flanders has undertaken a survey of the administrative burdens. All the assessments were made in the light of the Standaard Kosten Model.

The Walloon Government has shown (via a regional policy declaration and an administrative streamlining action plan, E-Government and transparency 2005-2009) its commitment to reducing the administrative burdens

affecting companies. During its 10 May 2007 meeting on the theme of administrative streamlining, the Walloon Government decided on several measures, including the implementation of the Kafka test in the Walloon Region.

The federal-level Round Table on upgrading economic legislation continued with its major overhaul of the comprehensive body of obsolete legislation, particularly in areas such as access to the profession, legislation on bankruptcies, the information society, intellectual property, accounting law and standardisation.

### 2.2.2. Support services

The Federal Public Service-Economy’s multimedia contact centre answered over 40,000 requests last year from consumers and companies about issues, such as the open electricity and gas market (25% of the total number of requests), the fuel oil bill, the Cross Roads Bank for Enterprises, REACH, consumer protection, energy conservation in the home, product safety and start-ups.

The Flemish Entrepreneurship Agency created in Flanders provides entrepreneurs (start-ups) with a single interface with the Flemish authorities. Entrepreneurs may get in touch with various FEA branches with questions about international entrepreneurship, investment support, and assistance for all kinds of financial grants. Further local FEA contact points will be created in 2007 so as to continue reducing the thresholds and establish an extensive network of such contact points throughout Flanders. Offering tier one advice, these contact points are responsible for forwarding all requests to the relevant public service in the Flemish Region.

The 23 February 2006 Programme Decree on Walloon priority schemes for the future led to the creation of an economic promotion agency, and involved the introduction of six local coordination structures bringing together the existing public and private economic promotion services. Operating as one-stop shops for potential entrepreneurs, these structures have been accredited by the Walloon Government.

As an interface for potential entrepreneurs, the Brussels Enterprise Agency (BEA) announced in 2007 a programme of cooperation with professional accountant and tax specialists associations and the Brussels Centre for Ailing Companies. Launched in September 2007, the initiative is designed to enhance the support for would-be entrepreneurs so as to help them prepare...
their business plans more effectively, while offering supervision to ailing companies. The BEA is tasked with organising and coordinating all the ongoing programmes and projects in the Brussels-Capital Region, while seeking to promote the entrepreneurial spirit among young people. New initiatives may be taken within these terms of reference.

Initiated by the "Wirtschaftsförderungsgesellschaft Ostbelgiens (WfG)(Business Development Corporation for East Belgians)", the "Xistence" programme for the German-speaking Community programme provides a framework for over Euro 550,000 to be invested in consultancy and specific training schemes over the 2007-2009 period so as to encourage business (re) start-ups.

2.2.3. Access to funding

A series of Flemish measures were recast or introduced under this heading during the previous period. The Fonds Vlaanderen Internationaal (FVI) began operating in late 2006. A Flemish SME investing abroad may be entitled to support of Euro 150,000-1 million. The holding company "Participatie-maatschappij Vlaanderen (PMV)" is investing directly in equity participation abroad. The Business Angels Network (BAN) available in Flanders has received a new financial grant for the 2007-2011 period. The win-win loan (a subordinated loan worth a maximum of Euro 50,000) regulation came into force in the autumn of 2006. The scope of the existing guarantee rules (= government guarantees for SMES) has also been extended. Created during the same period, Cultuurinvest, a new investment fund, is designed to provide funding solely to companies and projects operating within the cultural industry. An adjustment has also been made to the Growth Bonus focused on financial assistance to SMES making business investments in the Flemish Region. Lastly, the BEA, (Budget Economic Advice) regulation has been revamped. The comprehensive financial grant system allows small and medium-sized enterprises to secure services involving training, advice, knowledge and mentoring with a view to promoting entrepreneurship. Small and medium-sized enterprises in the Flemish Region may be entitled to aid up to a maximum 35% of the total costs taken into consideration.

The Brussels Regional Investment Company (BRIC) is set to launch a Brussels venture capital fund in late 2007 for the purpose of investing (up to Euro 1.5 million) in small and medium-sized enterprises based in Brussels. Based on a public-private partnership, the fund will be accessible for banks, Business Angels and Venture Capitalists. The idea is for the Euro 25
million contribution the BRIC makes to the fund to be at least matched by contributions from private partners. The fund is due to operate for 12 or so years. A review is to be made of the question of offering securities to the public, as well as exempting contributions from taxation.

2.2.4. **Industrial policy**

Over the last two years, conferences taking the form of round tables have been held in several industrial sectors in Flanders: the car industry, the life sciences and the chemicals industry. Fitting in with the revamped approach to industrial policy, the conferences focus on companies faced with serious problems that need urgent attention where the Flemish authorities can lend their assistance. A biotechnology action plan was formulated in 2007. It is reported that in the meantime this type of action plan for the car industry has succeeded in drawing Euro 800 million worth of investments into Flanders. One of the outcomes of a round table for the chemical industry was Flanders' membership of the European Chemical Regions Network.

The Walloon Region's industrial policy is devoted to stepping up the pace of networking activities and partnerships between business operators involved in research and training. More specifically the Walloon Government has given its seal of approval to 5 competitiveness clusters operating globally in the case of the life sciences, aeronautics, the agri-industry, mechanical engineering and transport logistics. These economic fields were chosen in the light of a university survey designed to pinpoint economic areas in Wallonia likely to result in a competitiveness clusters policy.

2.3. **Improving marketplace operations**

2.3.1. **Reform of competition policy**

The Federal Public Service-Economy was provided with a separate "Directorate-General for "Competition" in 2007. Now fully operational the DG is set to make a wider review of market operations while delving down deeper into the competition issue.

2.3.2. **Electricity and gas industry**

As a result of the 29 April 1999 Act on the organisation of the electricity market and the Act of 12 April 1965 concerning the transport of gaseous
and other products by pipelines and the various amendments made to it, the Electricity and Gas Regulation Committee (CREG) has gained the status of an autonomous body with extensive powers within this field, so it can carry out its tasks completely independently. For example, this body alone is empowered to approve electricity and gas transmission charges. Moreover, the regional decrees and ordinances have created regional independent regulators that have been charged with controlling the proper working of the regional market and the strict compliance with the regional legislation on the distribution of electricity and gas.

Legal and regulatory measures have been taken to extend the managerial autonomy of the transmission system operator (TSO) and distribution system operator (DSO). One of the outcomes for the TSO is the development of new corporate governance rules designed to boost its managerial independence from the main shareholders. This was also helped along by the sale of 40% of the TSO’s shares on the stock exchange. Steps have also been taken to increase the independence of the DSOs. For example, Electrabel’s share in DSOs was cut from 50 to 30% in the Flemish Region, while its share is due to be phased out in the Brussels-Capital Region so that by 2012, Electrabel will no longer be involved in the relevant DSO (Sibelga).

As for consumers, initiatives have been taken to help sharpen competition, such as the tariff simulators introduced by the regional regulators, the customer information service "Hermes" and the code of good conduct for suppliers. These latter two measures are federal and set to be harmonised with the regional ones.

The market coupling of BELPEX, APX and Powernext is operational since its introduction on 21 November 2006. As a result, the use of the daily cross border capacity with France and The Netherlands is optimised, achieving 100% utilisation in congested hours and allowing price convergence between the three countries in uncongested hours; energy has been flowing between the three markets depending on the hourly demands. Market coupling has showed to be an efficient means for easing the impact of a tight supply on the Belgian market. The Ministers of the Pentalateral Energy Forum and the High Level representatives of the Regulatory Authorities, Transmission System Operators (TSOs), Power Exchanges (PXs) and the Market Parties Platform of the Central Western European (CWE) region (Belgium, France, Germany, Luxembourg and the Netherlands), signed on 6 June 2007 a Memorandum of Understanding (MoU) aimed at the analysis, design and implementation of a flow-based market coupling between the five countries of the CWE region with January 2009 as a
target date as well as the achievement of further steps in the field of secu-

rity of electricity supply.

Against the background of unilateral engagements, Suez and the Belgian Government have reached various agreements for scaling down the activities of Suez and Electrabel on the Belgian energy market: Suez has undertaken to relinquish 30% of the Belgian energy market and give up its majority stake in the Fluxys gas transport company. These measures are primarily intended to create opportunities for new energy market entrants. In addition the Belgian government would obtain a ‘golden share’ or right of veto. These commitments have been confirmed in the wake of the Suez-Gaz de France merger.

Also on the gas market a number of radical changes have been implemented. A secondary market was created, thus allowing a greater flexibility in the transport of gas. Furthermore, just like for electricity, regulatory provisions have been developed in order to start with multi-annual tariffs as from 1 January 2008. This will keep the tariffs almost stable for four years which will have a positive impact on the prices for the energy-intensive enterprises. More research on the possibility of storing gas in Belgium is also being done. There is some interest in the depot of Poederlee to use it as a storage facility. The necessary studies and drillings have been launched.

2.3.3. Rail industry

Subsequent to the liberalisation of the cross-border freight transport market in 2006, domestic freight traffic was opened up on 1 January 2007. However, this liberalisation process has not resulted in any significant level of competition in Belgium. Five new transport operators have all the requirements to enter the market. Three of them are now actually in the marketplace but they are still operating relatively few trains. Two Laws and a set of Royal Decrees that appeared in early 2007 provided a means of rounding off the transposition of the EU’s second railway package. A key component is the creation of the Department of Safety and Interoperability of the Railway Network (DVIS/SSICF). Independent of the new legislation, the pension fund of the national railway company (NMBS/SNCB) was transferred to the State on 1 January 2007, thereby creating more transparent financial flows and a more effective system of comparability with the other rail companies.
2.3.4. Postal services

The safeguards for securing the universal provision and its funding, and the need for fair competition for relevant stakeholders, continue to be key issues in the light of the new reform of the postal services and, more specifically, the complete liberalisation of the postal market, pursuant to the proposed third postal directive. These issues play a crucial part in shaping Belgium’s position in the European debate on the planned directive.

The partial market opening on 1 January 2006 has not yet led to any manifest entry. The national Post Offices (De Post/La Poste) has opened four out of five completely refurbished sorting centres in 2006-2007, while the fifth will be ready by late 2007. Involving Euro 250 million this is the biggest investment De Post/La Poste has ever made and it now boasts ultra high-performance sorting facilities. Lastly, in January 2007, the Ombuds-person’s remit for De Post/La Poste was extended to the postal industry as a whole.

2.3.5. Telecommunications

The Council of Ministers gave the go-ahead for a Directorate-General for "Telecommunications and the Information Society" to be set up. The DG will be responsible for preparing policy on electronic communications coordinating of ICT policy at the federal level and formulating a plan for a forum where consultations about ICT policy can be held with other levels of governance.

2.3.6. Sector-specific initiatives

Sector-specific reviews were undertaken in 2006 of various professions: statutory auditors, bailiffs, lawyers and doctors. The legislation will be reviewed in 2007 and amended if need be.

2.4. Investments

The Belgian authorities' contribution to improving productive capacity involves infrastructure investments and offering incentives to private investors. Towards this end, special attention is still being paid to the sustainability of investments in various ways and also in ecological terms.

2.4.1. Infrastructure

Belgium is responsible for preparing and implementing European TEN priority projects. Against the background of these projects, improvements were made in early 2007 to the Monceau to Chooz (France) high-voltage power line. Work on extending the Zeebrugge LNG terminal will be finalised in late 2007. The high-speed railway lines to Amsterdam and Cologne will also be opened. A new lock is being built on the Schelt-Seine link at Evergem (near Ghent). This will be available for use in 2008.

Apart from these priority projects, the Western Scheldt pacts are expected to be ratified in 2007 so excavation work can get underway. Most of the operations will take part on Dutch territory. Back on dry land, a large-scale investment programme is in progress with a view to boosting the rail capacity towards the ports. The programme may be implemented within a relatively short time span thanks to advance funding supplied by the Flemish Region. Work is being carried out in the Walloon Region on rehabilitating the network of inland waterways and the administrative reform of the inland ports.

In the case of passenger transport, a programme was initiated in 2006 to rehabilitate the Brussels suburban rail network so as to convert it into a full-size Regional Express Network. A few four-track lines are being built during the initial stages, while the number of bus services has been extended. The START 9 and Diabolo projects propose better access by rail to the national airport. Since 2006, the airport can now be reached by train from a second direction. Pursuant to the high-speed projects and Diabolo, the third rail access is under construction: a new time-saving link between Brussels and Mechelen.

The implementation of a natural gas pipeline between the Port of Antwerp and the close-by Dutch network in January 2002 is a remarkable achievement for the energy networks. This pipeline has the potential to meet 9% of the demand for gas in Belgium and may thus help boost competition. Work is also underway on a significant extension of the east-west transport network capacity, and making the exchange of gas between the three terminals of Zeebrugge more flexible.

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9. Strategic Redeployment and Employment Plan for the Airport Region.
2.4.2. Business investments

It is too early to decide what effect the notional interests scheme (referred to in §1.1.3 of the previous chapter and introduced in 2006) has had on investments. In any event, the scheme has attracted some attention abroad and it is expected to make quite an impact. It is estimated that the effective rate of company taxation could fall to about 26%, dependent on the return on equity\(^{10}\).

§1.1.3; also lists other measures likely to encourage investments by national or foreign companies. This refers in particular to: (1) a lower rate of company taxation on reserved profits; (2) an extension of the exemption of prepayments on dividends for foreign parent companies; and (3) a favourable tax system for European pension funds based in Belgium.

Under a new regulation on financial assistance for business land in the Flemish Region (adopted in May 2007), aid may provided for a series of investments for the development and improvement of business locations.

2.5. Encouraging a sustainable use of resources and enhancing synergies between growth and environmental protection

Environmental protection supports the economy in two ways. First of all, a more efficient use of natural resources means savings for businesses and consumers, without any adverse effect on production or consumption. Second, environmental protection creates new markets and jobs. In a bid to promote the demand-side of the environmental product markets, the national action plan for purchases of environmentally-friendly products has been extended and a sustainable public procurement task force has been set up for the 2005-2008 period. All federal administrations are required to apply an environmental management system. The supply-side is being bolstered in the Flemish Region with the launch of an Environmental Innovation Platform involving companies, research institutes and public bodies participating in the development of environmental and energy technologies. The aim is to facilitate the development of new technologies with a view to making them economically viable later on. Towards this end, the Flemish Region has prepared an environment and innovation action plan setting out the strategic aims of an integrated environment, energy and innovation policy. The action plan is supposed to be a contribution to the

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European Environmental Technologies Action Plan. A similar initiative is now being taken in Wallonia. Indeed, a platform bringing together companies and research centers involved in the production (and innovation in the field) of goods and services linked to the production of renewable energy has been set up. Within the framework of the Plan Marshall, the Walloon Region has decided to allocate an extra 100 million euros to sustainable development via a call for projects.

2.5.1. Promoting energy efficiency and environmentally friendly energy

The EU’s 7 December 1998 Resolution on energy efficiency sets its sights on increasing efficiency by 1% a year throughout the EU until 2010. Belgium succeeded in boosting its energy efficiency by 2% a year between 2000 and 2005. In order to continue along these lines, tax measures have been taken to raise energy efficiency for transport and buildings. These schemes are also helping to blunt the energy consumption’s impact on the environment while contributing to the achievement of the EU’s renewable energy and biofuel targets. Consequently, the maximum personal income tax exemptions for energy saving investments has been doubled to reach Euro 2,000, while a further exemption equal to Euro 600 is possible for the installation of solar panels. A tax deduction worth Euro 600 over 10 years has been introduced for the purchase and construction of passive homes. The federal public authorities will help further the cause of environmentally-responsible energy as a result of having solar panels fitted to public buildings. The regulation on building energy efficiency in Flanders has been tightened up. As part of the energy reform programme 2020, the aim is to achieve a 30% saving on household energy use. Towards this end the Flemish Government agreed on 20 July 2007 to back a proposal to usher in an energy efficiency certificate for the sale and renting of houses and apartments, as an incentive for energy-saving investments. The second benchmarking covenant round table is due to lead to a new energy programme for heavy energy-consuming companies in Flanders.

Wallonia grants allowances to improve the energy efficiency of residential, tertiary and industrial buildings. The Walloon Region already encourages the contracting authorities to go beyond the existing regulations through the initiative ‘Build with energy’ or through the allowances granted for building passive houses. The Walloon Region is also particularly keen on stimulating green power and has recently introduced the target of 12% green power to be reached by 2012.
The proportion of energy efficient cars in the total number of cars on the road is set to increase as a result of replacing the tax concession for purchasing environmentally-friendly cars with an immediate discount on the purchase price. Another plan is to gear the concession for company cars in the light of the level of CO₂ emissions. The supply of ecologically-sound energy is being promoted by a tax exemption for biodiesel and bioethanol in the case of blends with fossil fuels and rapeseed oil sold directly to end users. Encouraging the production of green energy is also curbing the Belgian economy’s dependence on energy imports. Encouragement for the use of low-energy products has led to the development of an Internet site that gives the opportunity to assess the cost-effectiveness of replacing an appliance. An approach has been made to the European Commission with a view to forbidding access to the Belgian market of B, C and D energy appliances, starting from 1 July 2007.¹¹

2.5.2. Achieving the Kyoto and post-Kyoto targets

The aforementioned measures also have to help achieve the 7.5% cut in average greenhouse gas emissions over the 2008-2012 period relative to the reference level¹², as agreed by Belgium under the Kyoto agreements. Greenhouse gas emissions were 2.1% below this level in 2005. According to the Belgian progress report issued on 15 March 2007, greenhouse gas emissions are scheduled to fall to 3.6-5.1% below this level, on the basis of the measures taken. The planned use of the Kyoto flexible mechanism should bring greenhouse gases to 8.4-9.9% below the reference level, so the country will be successful in meeting the Kyoto goals.

The forecasts for the period up to 2020 refer to greenhouse gases again rising to the 2005 level. Should the flexible mechanisms be discounted, the new policy measures being proposed should bring greenhouses gases down to 5.6% below the reference level. However, if the mechanisms are used as intensively as in 2008-2012, emissions should be 10.4% below this level in 2020.

¹¹ Apart from dryers whose C types will be phased out on 1 July 2008, and B types on 1 July 2009.

¹² The reference level refers to the level of greenhouse gas emissions computed for the “reference years”, provided for in the Kyoto Protocol: 1990 for CO₂, CH₄ and N₂O, and 1995 for the level of fluorinated greenhouse emissions, i.e. hydrofluorocarbons (HFC, PFC, SF₆).
2.5.3. Efficient use of materials

A new environment tax has been introduced to encourage people to replace disposable products by ones that can re-used. A federal website has been created to provide information about ecological building systems. A new home renovation and sustainable building platform set up in Flanders lays down quality standards and tests building training courses. Finally, the waste policy has become the sustainable materials policy.

2.5.4. Preserving of biodiversity

A national biodiversity strategy that has been given the go-ahead features 15 objectives seeking to protect biodiversity in Belgium. Various awareness-raising initiatives have been taken (invasive species, biocides and pesticides). The Flemish Ecological Network (Vlaams Ecologisch Netwerk) is continuing to be developed. The new rural development programme (2007-2013) features management agreements for protecting hamsters, grassland birds and birds that inhabit fields. A recovery programme has been formulated for a series of fish species. Action has been taken to eliminate invasive plant species.

13. Introduced on 1 July 2007, the tax is estimated to generate Euro 134 millions worth of revenue on an annual basis.
3. Work continues to ensure quality jobs for all, young and old

The National Reform Programme 2005-2008 sets out how Belgium, through structural reforms to its labour market, can maintain its prosperity and strengthen social cohesion, i.a. by ensuring the financial viability of the social security system. It advocates raising the employment rate to 70%, combined with increased productivity and better quality work.

The 2006 Progress Report noted significant progress on a number of fronts. Implementation of the Generation Pact had begun, for example, lending a more dynamic perspective to the initial and final phases of working life. The support for short-term job-seekers had been further expanded, and the new monitoring and support system for the long-term unemployed introduced. The planned changes to the tax and benefits system were being implemented, and the exchange of job vacancies stepped up as part of the drive to tackle regional differences on the Belgian labour market.

This Progress Report, the last before the new Reform Programme is drawn up, makes a further interim assessment, examining the situation from a slightly wider perspective to evaluate the reforms that have been implemented. As in the previous report, we can report some fundamental changes, particularly in the fields of active ageing, rights and responsibilities in relation to unemployment insurance and tackling the weaker aspects of the education systems. The increased cooperation between regional employment services represents a major breakthrough, and the ongoing reduction in labour costs and the extra focus on diversity in the workplace also signal a step forward.

However, this does not mean that we have reached our goal, or that the results have lived up to expectations in all areas – as was rightly pointed out in the recommendations and points to watch put forward by the European Council with respect to Belgium and which are of major assistance in mapping out Belgium’s employment policy. Furthermore, it must be noted that in the field of lifelong learning, and particularly in-company training, not all commitments have yet been met. To date, no start has been made on developing a coherent ‘flexicurity’ package, with the aim amongst other things of striking a new balance between flexibility and security by reforming labour law.
The Reform Programme sets out a number of quantitative targets, which Belgium aims to meet as soon as possible. Self-evidently, follow-up of these cannot provide a complete picture of the impact of the measures implemented, most of which aim at a long-term effect. That being said, an interim assessment combined with the whole set of European Employment Strategy indicators\(^1\) offers important indications which provide guidance and clarification, thereby helping us to assess what has been achieved and how we should move forward.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Belgium 2004</th>
<th>Belgium 2006</th>
<th>EU 2004</th>
<th>EU 2006</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>employment rate of total population (aged 15-64) is at least 70%</td>
<td>60.5%</td>
<td>61.0%</td>
<td>62.7%</td>
<td>64.3%</td>
<td>the rate of increase is too slow compared with the EU average</td>
</tr>
<tr>
<td>employment rate of female population (aged 15-64) is at least 60%</td>
<td>53.0%</td>
<td>54.0%</td>
<td>55.3%</td>
<td>57.1%</td>
<td>the rate of increase is too slow compared with the EU average</td>
</tr>
<tr>
<td>employment rate of older workers (aged 55-64) is at least 50%</td>
<td>30.1%</td>
<td>32.0%</td>
<td>40.4%</td>
<td>43.5%</td>
<td>the rate of increase is slow and the gap with the EU average is growing</td>
</tr>
<tr>
<td>the average retirement age, i.e. the time when workers leave the labour market, will be 62 years of age</td>
<td>59.4</td>
<td>60.6*</td>
<td>60.5</td>
<td>60.9*</td>
<td>the Belgian retirement age is rising markedly</td>
</tr>
<tr>
<td>25% of the long-term unemployed take part in an active employment measure</td>
<td>27.2%</td>
<td>30.2%</td>
<td></td>
<td></td>
<td>the objective has been clearly exceeded</td>
</tr>
<tr>
<td>all unemployed young people are offered an occupational integration contract before they have been out of work for six months</td>
<td>not for 10.1%</td>
<td>not for 16.3%</td>
<td></td>
<td></td>
<td>the overall evolution conceals diverging regional trends</td>
</tr>
<tr>
<td>all unemployed adults are offered an occupational integration contract before they have been out of work for 12 months</td>
<td>not for 28.6%</td>
<td>not for 16.3%</td>
<td></td>
<td></td>
<td>thanks to the new monitoring system for the job-seekers, significant progress has been made</td>
</tr>
<tr>
<td>childcare is available for at least 33% of children under the age of three</td>
<td>30.4%</td>
<td>30.5%</td>
<td></td>
<td></td>
<td>the catch-up continues</td>
</tr>
<tr>
<td>the level of school drop-outs is under 10%</td>
<td>11.9%</td>
<td>12.6%</td>
<td>15.5%</td>
<td>15.1%</td>
<td>the overall evolution conceals diverging regional trends</td>
</tr>
<tr>
<td>85% of 20-24-year-olds have successfully completed their secondary education</td>
<td>81.8%</td>
<td>82.4%</td>
<td>77.2%</td>
<td>77.7%</td>
<td>slow but steady progress</td>
</tr>
<tr>
<td>12.5% of adults (aged 25-64) take part in lifelong learning on a monthly basis(^a)</td>
<td>8.6%</td>
<td>7.5%</td>
<td>9.3%</td>
<td>9.6%</td>
<td>although there are questions regarding the volatility of this indicator, the fall is worrying</td>
</tr>
</tbody>
</table>

1. See annexed indicator set, which also includes regional data and an explanation of the gender aspect.
3.1. The Belgian labour market broadens

For the Belgian economy to create more and better jobs, a broad and skilled labour force is required. In recent years, therefore, the various governments have invested heavily in the initial and final phases of working life and in training.

3.1.1. Smoother transition from school to work

Technical and vocational education was still not being viewed as a positive choice offering decent employment prospects. In a bid to alter this perception, the Community governments, assisted by the Regions, took a number of measures, starting with major investment in equipment for the schools concerned totalling €41 million. The French-speaking Community and the Brussels and Walloon Regions have allocated additional resources are being allocated to some schools, allowing them to acquire the latest technology and setting them up as regional pilots. Meanwhile, cooperation between these schools and the specialist centres has been enhanced, e.g. by allowing teachers as well as students to master the latest technologies.

Another insufficiently developed area in the past was the potential for combining school with vocational workplace experience. Flanders has implemented a full-time commitment for sandwich training programmes, to ensure that students do not end up learning only part time with no gainful

<table>
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<tr>
<th>Objective</th>
<th>Belgium</th>
<th>EU</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>annually, 1 out of 2 workers takes a training course or receives training</td>
<td>39.4%</td>
<td>39.6%*</td>
<td>there is still a long way to go</td>
</tr>
<tr>
<td>the unemployment rate of people of non-Belgian nationality or origin will</td>
<td>dif-</td>
<td>dif-</td>
<td>the difference remains very big and is even still growing</td>
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<tr>
<td>not be higher than that of Belgian workers</td>
<td>fe-</td>
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</table>

* 2005.

a. i.e. the average of the four reference weeks of the Labour Force Survey.
b. In the table, a comparison is made between inhabitants with EU nationality and those with non-EU nationality.

2. Unless otherwise indicated, the budgets referred to in this chapter relate to the period 2005-2008.
3. Via the system of Advanced Technology Centres – Under the cooperation agreement between the French Community and a) the Walloon Region and b) the Brussels Capital Region and COCOF.
4. The Regional Technology Centres in Flanders, the Skills Centres in Wallonia and the Career Reference Centres in Brussels.
employment outside those hours. As well as increasing the number of work experience places, pathways have been put in place to ensure a transition to the labour market. By mid-2007, 70.3% of students concerned were covered by the full-time commitment. The Communities too have taken action, introducing a specific sandwich learning diploma; Brussels (BCR5) has also created extra places for these students within municipal authorities. The federal start-up and placement bonus scheme fosters the creation of extra places by rewarding both the student and the receiving company.

Pupils and students who did not opt for sandwich training often had too little contact with the labour market during the course of their training. To remedy this, an agreement was reached with the social partners in the sectors concerned to create additional, high-quality job placements. Flanders is supporting this by deploying special mediators, while the French Community has set itself the official goal of offering all senior secondary school pupils the chance of a job placement by 2009. The databases aimed at ensuring more effective coordination between supply and demand have also begun operating.

Guidance for school-leavers who experience difficulties in entering the labour market has been radically stepped up. Both Flanders6 and Wallonia have recently launched schemes whereby the least qualified young people who find themselves unemployed are immediately moved onto a pathway7 where they are offered tailored guidance and support – something the German-speaking Community has been doing for all young job-seekers for some time. As a result of these measures, there is more emphasis on balancing rights and responsibilities among this target group. In Brussels, young job-seekers are invited to attend individual interviews where they are offered the chance8 to move onto such a pathway immediately.

The temporary work sector continues to play a major role in getting young people into work; to facilitate this process, a transparent procedure on temporary employment has been introduced in the framework of an employment project.

5. Brussels Capital Region.
6. Based on experiences with the specific action plan launched in 13 towns and cities in 2006.
7. Via the Contrat crédit insertion in Wallonia (including as part of JobTonic, which focuses specifically on low-skilled young people) and the Youth Unemployment Action Plan in Flanders.
8. Via the Contract voor Beroepsproject.
Additional subsidised work placements have been created for around 4,100 young people, the aim being that they move into regular employment after one or more years. An annual budget of around €71 million has been earmarked for these. Finally, a voluntary community service scheme has been set up, giving young people the opportunity to carry out work benefiting the community for a period of up to one year.

3.1.2. Belgium ageing more actively

To drive up the very low employment rate among 55-64-year-olds, the federal government introduced a package of measures in late 2005, known as the Generation Pact. The measures set out in the Pact have been systematically applied, the eventual aim being to raise the actual retirement age by five years.

To begin with, entitlement to an early retirement pension has been scaled back over the past year. From 2008, except in cases of company restructuring, this system will only be open to employees who have reached the age of 60 and have worked for 30 years, or those aged 58 who have worked for 35 years. From 2012, the career length requirement will be raised further. The legislation provides for a number of exceptions, e.g. for those working in tough professions. However, even here this may be waived in some cases, depending potentially on an assessment of the employment trend among older workers. These measures have sharply curtailed early retirement opportunities: in 2008, 21% fewer men and 5% fewer women will be entitled to an early retirement pension at 58 compared with 2007. By 2012, this is set to rise to 43% and 22%. Likewise, the opportunities for early retirement at 60 will be fewer in 2008 and fewer still in 2012.

As of 2007, those who continue to work after the age of 62 – or after their 44th year of work – are entitled to a pension bonus. Returning to work is also being encouraged, by enabling older workers to keep part of their unemployment benefit or the supplement paid by the employer on top of this: 2,259 people took advantage of this option in 2006. Flanders is providing an additional bonus along similar lines, with a take-up of 1,652 in the first year. Steps have also been taken to make it more attractive to stay in work after retirement age.

9. Due to the unequal career paths of men and women, especially in the past, female workers are subject to less stringent requirements and enjoy longer transition times.
The approach in cases of restructuring has been radically overhauled. For early retirement to be possible, a special employment cell working in conjunction with the employment services must first take all possible action to help workers threatened with redundancy to find alternative jobs. The workers concerned receive six months of intensive guidance and support, while still receiving their wages. This approach is part of a wider plan drawn up by the company, the effectiveness of which is assessed by the government. The Regions must issue an opinion on these plans and have developed an assessment framework for this purpose. The Regions also support the employment units through subregional coordination structures and ensure that an exchange of experiences takes place; Wallonia, for example, is continuing to develop new support methods. When a company with many employees from another Region closes or restructures, a joint crisis unit is set up to provide support to the workers affected.

Workers who fail to find jobs through the employment cells must remain available for work, even if they are receiving an early retirement pension. This applies until the age of 58. It has been observed that older workers are often under-represented in active labour market measures. A profound analysis is under way to find a solution for this problem. 11

The Generation Pact urges the social partners to make age less important as a factor in the wage-setting process. In the Intersectoral Agreement 2007-2008, the social partners responded to this by calling on sectors and companies to work on this issue, in the light, amongst other things, of European age discrimination legislation. In response to the fact that older workers are under-represented in in-company training, the social partners have called for specific training plans to be drawn up for this target group.

The effects of these Generation Pact measures will only become apparent in the longer term; their first manifestation may be a shift in mentalities leading to a greater willingness to work and a recognition by companies of the added value older workers represent. 12 The first indications point to a marked fall in the number of people taking early retirement at 60 in 2007 compared with 2006, although access to the scheme may have to be tightened further in future. The federal government is aware that this could result in increased numbers entering the invalidity system, although in

11. See recommendations by the Higher Council for Employment (Conseil supérieur de l’emploi/ Hoge Raad voor de Werkgelegenheid).
12. Which, moreover, makes the estimation method used by the Study Committee on Ageing unsuitable for estimating the Pact’s effect on employment, due to the underlying model (and in any case this is not the purpose of the Committee’s work).
Belgium this is not the most attractive way of ‘escaping’ the labour market. Developments will be monitored closely, although action on this front has not so far proved necessary.

Finally, it remains to note that a number of measures contained in the Generation Pact have yet to be implemented, namely: the proposed awareness-raising campaign and the introduction of the right to a regular ‘career check-up’, although the latter has been partially fulfilled by the career service scheme set up in Flanders.

3.1.3. The employment services take control

In recent years, the regional employment services have built up a strong working relationship with private players on the labour market. In Wallonia, this takes the form of an annual call for projects in which almost 8,000 people are offered support and training via a number of operators, both NGOs and private companies. The German-speaking Community is working in a similar way with NGOs. In a pilot project, Flanders is outsourcing 6,000 comprehensive integration solutions for long-term job-seekers, and in 2007 began outsourcing reintegration projects for job-seekers with a serious medical, mental, emotional or psychiatric condition. Brussels (BCR) operates a system of combined labour market management, where 10,000 job-seekers are assisted by various labour market players such as the temporary sector. A first social temporary work agency based on the PPP principle, geared towards low-skilled young job-seekers, was set up. A second call for similar initiatives was launched in 2007.

3.1.4. Better support for job-seekers

The new system for monitoring and supporting job-seekers, which has been phased in since 2004, now covers all target groups. Under the system, the support measures introduced by the Regions and Communities are supplemented by periodic follow-up interviews with the federal employment service. At Region and Community level, support has been stepped up heavily in recent years, so that guidance starts at an earlier stage and follow-up takes place more regularly. In addition, both Wallonia and Flanders have introduced more systematic, and in some cases automatic, distribution of vacancy notices and monitoring of how job-seekers get on with this system. One of the results of this in both Regions is an increased emphasis on the responsibilities associated with being an unemployed person with benefit entitlement. Brussels (BCR) too has signed up to this system and is working in active partnership with the federal level.
To date, the federal employment service has organised some 215,000 follow-up interviews under the new scheme. The results from the initial interviews, held for young job-seekers after 16 months of unemployment and for over-25s after 21 months, show that 60% of job-seekers have made the required effort. For the remainder, a meeting is arranged and a subsequent course of action agreed upon. In the end, 8,687 individuals incurred a temporary or permanent suspension\(^{13}\), with the number of suspensions roughly proportional to the unemployment level in each Region. Initial partial assessments of the system point to a positive impact on the numbers entering work. A more in-depth assessment is scheduled for the coming months.

### 3.2. More mobility on the labour market

#### 3.2.1. Working on entrepreneurship

Fostering entrepreneurship begins at school. In recognition of this, the French Community is hiring special staff, starting in the 2007-2008 academic year, to raise awareness among pupils and school communities. In Flanders and Brussels, the various existing initiatives in this area have been continued.

21 Job-seekers too are alerted to the opportunities associated with starting up a business. In Flanders, job-seekers are systematically screened for entrepreneurial potential, while Wallonia has established a permanent legal framework for its trial scheme allowing job-seekers to set up a ‘life-size’ business at limited risk\(^{14}\). In Brussels, the emphasis is very much on offering support to job-seekers in setting up a business. The federal government allows young start-up entrepreneurs to keep their unemployment benefit for a limited period to facilitate the start-up process.

#### 3.2.2. More geographical mobility

The major differences in the labour market situation from Region to Region and also within individual Regions have been a cause of great concern to the Belgian authorities for some time. For a solution to the problem, we must look first and foremost to the Regions’ economic policies, in which European structural funds are used in addition to their own investment.

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13. A further 6,573 individuals were temporarily or permanently suspended due to failure to attend one interview – however, in many cases these individuals had found jobs.

14. The Couveuses d’entreprise (start-up incubators).
programmes. Aside from this, there has been a growing realisation in recent years that job-seekers in one place can help to fill vacancies (in particular ‘bottleneck’ vacancies) elsewhere. A cooperation agreement was concluded on this subject in 2005, resulting in 2006 and 2007 in the systematic exchange of vacancies for jobs located in other Regions, ‘bottleneck’ jobs and jobs that remain unfilled after a certain time. In the past year, temporary job vacancies have also been included in the system.

There is stronger cooperation between both Flanders and Wallonia and Flanders and Brussels. Thus, 36,000 Flemish job vacancies are being passed on to the Walloon employment service, of which 5,000 undergo additional processing by being translated and sent out directly to qualifying job-seekers. In addition, special attention is being focused on potential mobility bottlenecks, and solutions developed in conjunction with public transport companies – including free transport for job-seekers. Similarly, Brussels and Flanders have joined forces to address commuting bottlenecks and efforts are being made to ensure more active follow-up of job-seekers by both the Flemish and Brussels employment services. Brussels is supporting this by tailoring its training opportunities more closely to these requirements (COCOF\textsuperscript{15}), e.g. boosting vocational language courses, language exchange placements and the language cheque scheme (BCR).

Of course, within the European Union, the demand for increased mobility transcends national borders. In 2006, Belgium decided to simplify the job access procedure for workers from the new EU Member States, in relation to ‘bottleneck’ jobs. It made full lifting of restrictions subject to four conditions: a reporting requirement for cross-border employment, the possibility\textsuperscript{16} of settling disputes with foreign workers in Belgian courts, a strengthening of inspection services and international cooperation between such services, and finally joint and several liability for social security fraud. Not all conditions have been achieved yet.

3.3. Working towards an inclusive labour market in an inclusive society

3.3.1. A more balanced labour market

Key to achieving a better work-life balance is an effective childcare system. An additional 13,000 places are due to be created over the period 2005-

\textsuperscript{15} French Community Commission in Brussels.
\textsuperscript{16} Primarily for the trade unions.
2009. In Flanders, efforts are also being made to improve occasional childcare, by enabling existing facilities to employ flexible staff and through the use of service cheques. The Regions are supplementing Community initiatives by removing the childcare obstacles faced by job-seekers. For instance, Brussels (BCR) is investing in the renovation of childcare infrastructure, promoting support posts for certified childcare initiatives and, like Wallonia, providing additional childcare places for job-seekers. Flanders and Wallonia help cover childcare costs for job-seekers who have signed up to a job insertion scheme.

There has also been renewed focus on the pay gap between men and women, starting with the publication of a federal report on the subject and a practical guide to analytical job classification. Partly in response to this, the social partners repeated calls in their Intersectoral Agreement for a gender-neutrality review of job classifications in sectors where this has not already happened. A useful tool in this respect will be the gender-neutral wage policy checklist that has been compiled.

### 3.3.2. Potential of less-favoured groups increasingly exploited

To drive up the Belgian employment rate to desired levels, particular commitment is needed to ensure better integration not only of women but also of less-favoured groups such as the disabled, the low-skilled, the long-term unemployed and ethnic minorities. In this connection, the authorities are placing a heavy emphasis on promoting diversity in companies, for instance by supporting (via specialist consultants) and subsidising projects and statements aimed at fostering diversity and by identifying and rewarding best practices. The social partners expressly endorsed these efforts in the Intersectoral Agreement.

The employment services too are focusing heavily on groups under-represented on the labour market. Aside from guaranteed equality of access to all facilities, additional steps have been taken to promote the integration of these groups. Like the German-speaking Community, Wallonia is placing strong emphasis on increased support through one-to-one coaching and workplace follow-up. Also, in deprived neighbourhoods, where unemployment can be as high as 70%, extra staff and resources are being

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17. For instance, the German-speaking Community has introduced out-of-school childcare in eight out of nine municipalities.

18. Flanders by awarding them a bonus, Wallonia by reimbursing their childcare costs through the Crédit Insertion.

19. As part of the EVA project.
pumped in to get young job-seekers into work. In Brussels, individual career solutions are being offered, in collaboration with the various players on the Brussels labour market. Flanders is seeking to achieve over-representation of less-favoured groups in active employment measures, e.g. through a priority system for training courses. The targets for the low-skilled and disabled have been all but met, but there is still room for improvement when it comes to ethnic minorities and (in particular) older workers.

With ethnic minorities, poor language skills are a major obstacle to employment. To combat this, more language lessons are being offered in schools and various literacy and integration initiatives are under way to improve the opportunities of both newcomers and established immigrants in Belgian society and on the Belgian labour market. Improved monitoring of employment integration of ethnic minorities is also planned.

Finally, to improve employment rates among those living on welfare, employment services are working closely with local welfare agencies.

3.3.3. Work now cheaper for employers and more attractive for employees

Because the financial pressure exerted by the tax and social security system on labour was found to be too high, various steps have been taken in recent years to ease that pressure. For example, the tax reform was completed in 2007 with an increase in the work bonus, a reduction in personal social security contributions and an increase in the income tax deductibility of professional expenses. This reduction in parafiscal revenues has been offset by finding alternative sources of funding for the social security system. The Flemish government has supplemented this with a fixed-rate tax reduction for low earners. As part of the drive to eliminate (potential) unemployment traps, the period during which former job-seekers are entitled to extra child allowance has been extended from six months to two years.

Alongside this, the reduction in employers’ social security contributions has been further increased. This initially translated into extra tax breaks for younger and older workers, to bolster the measures contained in the Generation Pact. A reduction in taxes on night and shift work and an increase in the tax reduction for overtime should enable companies to achieve greater

20. The integration allowance.
21. The CPASS/OCMWs (social welfare offices).
internal flexibility. The total reduction in employer contributions was €5.16 billion in 2007, equivalent to a 16.5% drop in overall contributions. In the interests of getting less-favoured groups into work, a further extension of these tax breaks, focusing on low wages, may be advisable.

### 3.3.4. More work for a fairer society

The modest but undeniable progress made by the Belgian labour market in recent years has made it possible to improve the position of a number of groups within the social security system, e.g. in the context of the open methods of coordination on social protection and social inclusion. An example of this is the rise in minimum pensions for both employees and the self-employed. The invalidity system has also seen a number of benefit rises.

### 3.3.5. Strengthening of local and community services

When it comes to getting less-favoured groups into work, the social economy in general and local and community services in particular have an important role to play. The federal government has expanded subsidies for these services and the Regions have been working on a new legislative framework aimed at providing long-term support for these initiatives and offering them solid legal and financial security. Brussels provides additional support in the form of low-interest loans to social economy structures. Meanwhile, the federal ‘service voucher’ scheme, which the regional employment services also use and promote, continues to be successful, with take-up levels of close on 62,000 by the end of 2006. The employers’ subsidy has been cut back; however, this has not jeopardised their economic viability and is partially offset by the introduction of a training fund allowing them to invest more in staff training. Nevertheless, it should be noted that bottlenecks are emerging in the system, so that companies are no longer able to fill all job vacancies.

### 3.4. More equality of opportunity in education, promotion of lifelong learning

#### 3.4.1. Sound, high-quality education for all

To improve the quality of education and ensure equal opportunities for all, the Communities have signed up to the Open Method of Coordination “Education and Training 2010”. In this context, Flanders has extended the
bonus system aimed at pushing down the costs associated with relatively expensive courses of study. A new school funding system has also been devised, based on socio-economic parameters. The French Community is strengthening the community foundation in secondary education, and is to phase in a community test at the end of primary school, which will be fully in place by 2009. Pupil support has been improved. The German-speaking Community is also strengthening the community foundation in primary and secondary education by defining key skills, and promoting schooling and integration into the standard education system for pupils with a disability.

3.4.2. More investment in training

Due to a lack of funding for the 2006-2007 academic year, the federal scheme to finance training leave\(^22\) had to be scaled down. This is a possible explanation for the drop in the percentage of employees taking part in training initiatives. In the Intersectoral Agreement, the social partners agreed to safeguard the scheme for academic year 2007-2008, and to examine what structural steps could be taken to guarantee its future feasibility.

The Regions and Communities are continuing to encourage training initiatives by issuing training vouchers, which in 2006 benefited a total of 783,070 employees at a total cost of around €24.5 million. Brussels (BCR) has slightly altered the scheme, making language vouchers available to young non-jobseekers to help them prepare for job interviews (in theory, cheques in Brussels, unlike the other Regions, are reserved for job-seekers). The French Community is also committing heavily to language vouchers and plans to raise the amount it allocates to the scheme over the coming years (to €3 million annually).

The range of training available to job-seekers has also been expanded in recent years, e.g. through specialist centres in the different Regions and Communities, with particular emphasis on workplace training\(^23\). Both Brussels and Flanders have increased the number of job-seekers finding work through this approach. In this context, Flanders has recorded a decline in the under-representation of less-favoured groups in these schemes. In Brussels, the opportunities for moving from training into jobs are being enhanced. For example, the COCOF is funding placements for job-seekers who have completed a vocational course or have graduated from technical and secondary vocational education.

22. Paid educational leave.
23. e.g. via the IBO/FPI/PFI system.
In Wallonia, there have been new initiatives to organise placements for job-seekers in companies outside the Region, allowing them to acquire both language and technical skills. Similar measures have been developed in Brussels (COCOF), with a focus on ensuring greater coherence between training and labour market needs, by pooling administrative databases for example.

To promote the recognition of acquired skills and improve coherence between school education and further training, the Communities are continuing to work on career profile descriptions. The certification procedures are also now up and running. In addition, more attention will be paid to the recognition of foreign qualifications.

3.5. Structural funds and employment policy 2007-2013

Planned ESF expenditure per guideline for the 2007-2013 programming period

<table>
<thead>
<tr>
<th>Guideline</th>
<th>Federal</th>
<th>Brussels</th>
<th>Flanders</th>
<th>Wallonia</th>
<th>German-speaking Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>GL 17</td>
<td>45,064,810</td>
<td>28,877,624</td>
<td>468,874,561</td>
<td>517,930,599</td>
<td>12,470,000</td>
</tr>
<tr>
<td>GL 18</td>
<td>16,536,442</td>
<td>Transversal*</td>
<td>77,000,000</td>
<td>Transversal*</td>
<td>1,122,300</td>
</tr>
<tr>
<td>GL 19</td>
<td>1,863,111</td>
<td>6,702,256</td>
<td>70,000,000</td>
<td>61,513,080</td>
<td>4,115,100</td>
</tr>
<tr>
<td>GL 20</td>
<td>23,620,590</td>
<td>15,498,626</td>
<td>280,124,561</td>
<td>194,506,696</td>
<td>4,364,500</td>
</tr>
<tr>
<td>GL 21</td>
<td>N/A</td>
<td>5,521,637</td>
<td>10,000,000</td>
<td>58,366,550</td>
<td>748,200</td>
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<tr>
<td>GL 22</td>
<td>1,242,074</td>
<td>N/A</td>
<td>8,000,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>GL 23</td>
<td>N/A</td>
<td>N/A</td>
<td>15,000,000</td>
<td>163,922,225</td>
<td>997,600</td>
</tr>
<tr>
<td>GL 24</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>28,779,578</td>
<td>623,500</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>1,802,592</td>
<td>1,155,105</td>
<td>18,750,000</td>
<td>10,842,471</td>
<td>498,800</td>
</tr>
</tbody>
</table>

* Brussels and Wallonia have no specific programmes under (general) guideline 17 due to its transversal nature. This expenditure is included in the remaining categories.

In the new ESF programming period, there is heavy emphasis on support for and integration of job-seekers and other less-favoured groups. Wallonia is focusing available resources on job creation, developing human capital and social inclusion, while Brussels is concentrating heavily on the work-life balance.
4. Contribution of the European Structural Funds to implementation of the Lisbon Strategy in Belgium

Introduction

The General Regulation on the Structural Funds for the forthcoming programming period 2007-2013 confirms their role as financial instruments to support employment, labour market, social inclusion and territorial development policies. The direct support offered by the European Social Fund (ESF) to the European Employment Strategy gives it the strategic scope to enable it to contribute to achieving the Lisbon objectives and to meet the recommendations made to countries under the Lisbon Strategy. Support from the European Regional Development Fund (ERDP) will also make it possible to achieve these objectives with respect to cohesion and territorial competitiveness.

Since the European Commission prepared the new programming period for the Structural and Cohesion Funds 2007-2013 in close coordination with the Lisbon process, the issue of the structural funds must be explicitly tackled. Member States are required to specify how their programme will help to achieve the Lisbon strategy objectives. More specifically, in the context of Objective 2, the European Commission wants 75% of expenditure to be devoted to projects favouring the achievement of the Lisbon objectives. The 75% limit is a constraint imposed on the whole EU 15. The European Commission has calculated that, over the period 2000-2006, Belgium devoted 53% of its Funds to projects that were in line with the Lisbon objectives. It emerges from the definition of the priorities that the available Funds were largely channelled into meeting the Lisbon objectives.

In other words, the objectives pursued by cohesion policy are now required to contribute more strongly and more strategically to the European growth and job objectives with a view to sustainable development.

As a consequence, the composition of Belgium’s National Strategic Reference Framework (NSRF) 2007-2013 reflects the resolve and need to involve all the institutional players. In a coordinated way, and based on the distribution of powers among the different entities, it stresses the priorities and their implementation to which Belgium is committed in achieving the Lisbon strategy.
4.1. Federal State

In view of the importance of the link between the European Employment Strategy, the National Reform Programme (NRP) and the European Social Fund (ESF) programming, the federal government remains committed to strategic federal actions in support of the NRP, in terms of both employment and social inclusion. The ESF will make it possible to support federal priorities and themes and their implementation, as set out in the NRP and the National Social Inclusion Plan.

It will also offer valuable means and methods for implementing the Generation Pact. Faced with the demographic challenges of population ageing and the risks that this poses to the funding of our model of social solidarity, the intergenerational bond must be strengthened. In this connection, the ESF needs to contribute to the development of approaches and tools for promoting career development. Continuing participation of both older and younger workers in the labour market needs to be reinforced.

Federal actions promoting diversity and combating employment discrimination are also important if we are to have any chance of raising the employment rate among target groups. Moreover, governance of European employment policies along with the requisite coordination, consultation and dialogue require a permanent structure that can bring together all the players involved in the Structural Funds and the Lisbon Strategy. The federal government is committed to this aim.

Finally, using the European Social Fund to foster the social and occupational integration of a vulnerable group sidelined from employment is a sustainable and effective way of tackling poverty.

4.2. Brussels Capital Region

The terms growth, jobs, innovation and competitiveness recur again and again as key objectives of the Lisbon Strategy. In the Brussels strategy for the ESF programming period 2007-2013, these objectives are expressed in the form of integrated urban development and the need to balance the city’s different functions, giving a guarantee of sustainability for meeting these objectives.

The programming of the 2007-2013 Structural Funds in the Brussels Capital Region has adopted the objectives set out in the Integrated Guidelines for Growth and Jobs:
- make Europe a more attractive place to invest and work;
- make knowledge and innovation the two driving forces of European growth;
- implement policies allowing businesses to create more and better jobs.

The Region has committed to translating these objectives into a strategy of integrated urban development, making it possible to link the socio-economic development of the capital to the NRP growth and employment objectives, while taking into account European regional policy documents. The Brussels programming of the 2007-2013 Structural Funds is therefore based around two pillars, the Lisbon Strategy pillar and the Cohesion Policy pillar.

The Lisbon Strategy pillar is concerned particularly with the implementation of certain priorities of the first two components of the NRP: Encouraging productive economic growth and Quality jobs for all, young and old. To this end, the programming of the Structural Funds and the implementation of the NRP share a common strategy based on the Contract for the Economy and Employment (C2E) launched in 2005 by the regional government in conjunction with the social partners and in consultation with local and institutional players.

This strategic instrument aims to structure all the concerted actions focused on two essential priorities: cutting unemployment in Brussels by creating jobs and also by giving the people of Brussels greater access to employment and the economic restructuring of the Region by placing enterprise back at the heart of the city’s priorities. Annexed to the NRP, the C2E positions the Brussels Region within the Lisbon dynamic.

As regards the Cohesion Policy pillar, the Brussels programming combines the requirements of the Regional Competitiveness and Employment Objective and those covered by the term ‘earmarking’. Thus, at least 75% of programming expenditure is devoted to actions concerned with the following themes: “Technological research and development, innovation and entrepreneurship”, “Energy”, “Environmental protection and risk prevention”, as well as themes more specifically related to employment.

The priorities of the Brussels Capital Region for the 2007-2013 Structural Fund programming are as follows:

Principle of concentration: this has two dimensions in the Brussels context: concentration on the target populations mainly affected by unemployment
(ESF and ERDF) and concentration on a well defined zone corresponding to the most socio-economically disadvantaged area (ERDF only).

3 transversal priorities: sustainable development; innovation; governance, partnership and equal opportunities.

3 thematic priorities:
1. Strengthening territorial cohesion: the main objective of this priority is integrated sustainable development of neighbourhoods with weakened social structure, quality of life and economic potential, by enhancing their attractiveness and image and by strengthening employment and training infrastructure in these communities.
2. Supporting territorial competitiveness: the main objective of this priority is to make run-down neighbourhoods of Brussels that are undergoing redevelopment attractive, both in their economic development and in terms of innovation: supporting the creation of new businesses in job growth sectors, ensuring better and more professional assistance and advice for businesses, offering support for investment and access to capital for young entrepreneurs and supporting the creation of centres of innovation, focusing in particular on the environmental economy sector.
3. Early assistance for job seekers in order to increase their employability. 54% of the earmarked budget has been allocated to measures covering employment guidelines 19 and 17 (the latter being deemed a transversal priority applying to the whole programming), the target being to help 17,500 job-seekers a year, primarily those with a poor employment profile.
   - Improving the occupational integration of persons who are excluded or at risk of exclusion (GL 19), including the promotion of diversity in the workplace. The programme aims to provide practical support for achieving the specific objective of getting 25% of the long-term unemployed involved in an active employment measure. In addition, collective actions and awareness raising seminars on combating racial discrimination against job candidates will take place in 270 companies on a sector-by-sector basis by the end of the period.
   - Increasing the participation of women in the job market, in particular by creating a better work-life balance (GL 18) through measures such as the development of childcare facilities. 23% of the total ESF budget is earmarked for this priority. The aim is to have helped around 770 job-seekers a year by the end of the period.
- Strengthening the coordinated partnership between the public employment service (ACTIRIS) and job market intermediaries in order to benefit job-seekers and employers.
- Responding more effectively to the needs of the labour market (GL 20 and, to a lesser extent, GL 23) by a proactive approach to needs analysis via the Brussels Labour Market and Qualifications Observatory (studies to anticipate skills requirements, shortages, etc.), developing a network of local employment platforms (coordination at local and zonal level in the BCR) and working towards transversal employment synergies based on the Territorial Employment Pact in the BCR. 19% of the ESF budget will be allocated to a) strengthening coordination between existing partner networks and creating new ones as required and b) responding more effectively to labour market needs through a system of future needs analysis.

These three thematic priorities, which aim amongst other things to underpin sustainable development of the Region and foster a culture of innovation, will be divided into two operational programmes. The priority objectives, which are critical for a city-region like Brussels, dovetail perfectly with the EU cohesion policy objective of reducing regional disparities.

The objectives of better governance and a partnership approach will be at the heart of these two programmes, one per Fund under the Regional Competitiveness and Employment Objective. The Territorial Cohesion and Competitiveness programme will come under the ERDF (€115,184,930 million in total) while the Employment and Social Cohesion programme is presented to the ESF (€57.75 million in total). With respect specifically to the ESF, the aim of the Brussels Capital Region is to open up regional employment powers by exploiting other areas of powers to benefit employment in Brussels.

4.3. Walloon Region, French Community and French Community Commission

As far as the Walloon Region is concerned, the NSRF must leave the list of priorities open to allow the Region to make choices that are best suited to its economic restructuring needs in accordance with the guidelines set out in the Contract for the Future of Wallonia, the regional transversal strategic plans and the Priority Action Plan for the Future of Wallonia.

This being the case, the portion of cohesion spending that contributes to the Lisbon Strategy must be clearly identified to ensure that a minimum
proportion of funding is assigned to it in the operational programmes. Thus, at the regional level, 60% of the amounts included in the Convergence programmes and 75% of those in the Regional Competitiveness and Employment programmes will be allocated to actions contributing directly to the implementation of the Lisbon Strategy (targeting will be carried out on the basis of average amounts per programme over the period 2007-2013 and will be specifically monitored based on the categories of expenditure set out in the Commission regulation, the various elements of which will be included in the annual implementation report).

In fact, the Lisbon Objectives have already been included in the Contract for the Future of Wallonia (the transversal strategic plans, including the Priority Action Plan for the Future of Wallonia), which defines the strategic framework at regional level up to 2015. This served as a basis for identifying which priorities and actions should be favoured in the future Structural Funds programming period. In particular, the priorities set out in the Priority Action Plan for the Future of Wallonia have also been favoured in subsequent programmes, so as to boost the dynamic created at Walloon level.

The European Funds will thus help to expand and complement the policies being implemented at Walloon level, which themselves help to meet the guidelines for growth and employment and, ultimately, the Lisbon Objectives. Monitoring for each Operational Programme will enable progress on the targeting to be assessed in connection with the National Reform Programme, which is subject to an annual review by the Commission ahead of its progress report to the European Council and Parliament.

The Structural Funds also support the core actions of the French Community Commission (COCOF), which has made vocational training a top priority. Thanks to these structural resources, a major expansion of training opportunities has begun and is set to continue, with an overall increase in training opportunities of 22% over two years.

From 2007, European funds will enable the diverse range of training activities to continue, with priority going to improving the qualifications and skills of low-skilled job-seekers.

These actions will be set out in the Regional Competitiveness and Employment Objective Operational Programme for Wallonia-Brussels (COCOF). They break down as follows:
- developing training programmes geared to the needs of sectors with labour shortages, in order to better meet the needs and expectations of low-skilled groups, who are the least able to compete on the labour market;
- measures promoting the learning of Dutch will be strengthened, particularly job-specific Dutch and the Dutch needed for finding work, for the benefit of low-skilled job-seekers;
- programmes to combat illiteracy and promote the teaching of French as a foreign language will be expanded;
- guidance and information regarding training opportunities in Brussels will be enhanced, in particular by improving and developing online information tools and organising activities to raise the profile of technical jobs;
- links will be created between vocational training schemes and occupational sectors, notably via private sectoral funds, in order to detect, develop and implement new training provisions to meet the needs of job growth sectors in the Brussels Capital Region and to ensure concerted participation in the regional reference centres and the placing and supervision of trainees in businesses;
- the system for recognition of acquired skills will operate at full potential as new certification centres and new certification criteria are approved in priority sectors of the BCR’s economy;
- synergies with training and educational facilities throughout the French Community will be developed.

4.4. German-speaking Community

The new programming for the European Social Fund in the German-speaking Community in 2007-2013 incorporates both local strategies, most notably the third Community Training and Employment Pact (GABB) and the 155 government measures, and European strategies, in particular the Lisbon Strategy.

The first priority area - increasing the adaptability of workers and enterprises - emphasises guidelines 17, 20 and 23 and aims to offset labour shortages, encourage the development of new job profiles and promote lifelong learning, continuing vocational training, job security for older workers and new sources of employment resulting from demographic development. This priority area supports the creation and long-term survival of businesses and facilitates worker mobility.
The second priority area aims to foster active employment policy. In collaboration with key players and the social partners, effective measures are being put forward aimed at improved qualifications for job-seekers and improving the reconciliation between work and family life. Pilot projects will spearhead new ways of getting young job-seekers and people returning to the labour market into work. This priority area therefore covers guidelines 18, 19, 20, 23 and 24.

Promoting social integration is the aim of priority area 3. In accordance with guideline 19, new measures aimed at social stabilisation and pre-qualification will be introduced. Other specific measures support the occupational integration of immigrants. Lastly, the social economy is an area requiring development in the German-speaking Community.

The fourth priority area proposes horizontal measures targeting structures and systems. Anticipatory measures, studies and labour market observation measures will be developed. With the help of pilot projects, the transition from school to work will be improved. However, this priority area also covers the creation of networks and corresponds to guideline 24 of the Lisbon Strategy.

These thematic priority areas are supplemented by horizontal priorities, namely equal opportunities, the sustainability of implemented measures and innovation, partnerships and transnational cooperation. These horizontal concepts will be mainstreamed into all ESF actions proposed in the German-speaking Community.

### 4.5. Flanders

Within the framework of the new 2007-2013 programming period, Flanders has received €201 million under the Cohesion Policy (European Structural Funds) for objective 2 Regional Competitiveness and Employment, from the European Regional Development Fund (ERDF).

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1. Specifically, Belgium has been allocated €1,265 million for objective 2 Regional Competitiveness and Employment (ERDF + ESF). The proportion of this amount for Flanders is €594.3 million. In view of current prices and index linking at a rate of 2% a year, this equates to a budget of €669.8 million. The Flemish government has decided to earmark 30% (€200.9 million) of this amount for the ERDF.

This programme entails increasing the number of staff at Agentschap Economie in the policy area Economy, Science and Innovation (EWI) in addition to co-financing for technical support for the Operational Programme and for staff at contact points in major towns via the Hermes Fund (€5.78 million).
In utilising these resources, the Flemish government has opted to set up one Operational ERDF Programme for the entire Flemish-speaking Region (in contrast to previous programming periods, when only certain regions recognised by the European Commission were eligible). This Operational Programme builds on Belgium’s National Strategic Reference Framework (NSRF). Flanders’ contribution to the NSRF was formally approved by the Flemish government on 15 December 2006. In setting up the NSRF, Member States had to comply with the Community strategic guidelines on economic, social and territorial cohesion approved on 6 October 2006. On 16 May 2007, the Flemish government also approved the ERDF Operational Programme 2007-2013, borne out of the NSRF; this will now be submitted to the European Commission.

The main purpose of the ERDF Operational Programme is to “promote Flanders’ further development to transform it into one of the most competitive regions, and in so doing to ensure sustainable economic growth, create more and better jobs and protect and enhance the environment.” The programme is based on four priorities laid down by the Flemish government. These priorities and their operational objectives are set out below:

- **Promoting the knowledge economy and innovation:**
  Raising awareness, providing support, working together, creating an international dimension, providing further examples of how knowledge can be used and creating innovation within rural economies.

- **Encouraging entrepreneurship:**
  Consolidating the sustainability of economic ports and international multimodal access, encouraging entrepreneurship and capabilities, creating a framework to support start-ups, growth businesses and takeovers and stimulating international business

- **Enhancing the spacio-economic context:**
  Consolidating the sustainability of economic ports and international multimodal access, creating high-quality opportunities for businesses to become established, setting up leverage projects within Flanders and at sub-regional level and exploiting the benefits afforded by economic concentrations to ensure sustainability

- **Promoting urban development:**
  Supporting integrated urban-development projects and giving major towns such as Antwerp and Ghent a greater sense of urban vitality.

The following topics will also be incorporated into all areas of the programme: territorial aspects, sustainable development and the environment, inter-regional cooperation and equal opportunities.
The available ERDF resources are split equally between the four priorities. The total estimated budget for the programme is approximately €500 million, with the ERDF resources accounting for 40% of this overall amount. The remainder is to be funded jointly by the Flemish Region and regional/local authorities (approximately €220 million) and the private sector (approximately €80 million).

The 2006 progress report on the European Social Fund (ESF) gave details of the starting points, strategic objectives, thematic priorities and horizontal themes. The year 2006 was the last in the European Social Fund's 2000-2006 planning stage.

In Flanders, the ESF was assigned the task of consolidating and supporting standard labour-market policy. During the period 2000-2006, the ESF in Flanders became more than merely a tool for financing education and providing support for job-seekers. Although such measures still swallow up the lion’s share of the budget, the ESF was also utilised as a lever to provide education for employees, launch the EVC procedure (previously acquired skills) and extend the range of careers services on offer. During the period 2000-2006, the government and private co-financing sources released almost €200 million via ESF resources to fund in-company training courses. Both the EVC procedure and careers support measures were set up in the form of a pilot project using ESF resources and were later incorporated into standard labour-market policy.

The pilot projects run under the auspices of the ESF provided an opportunity to perfect and consolidate services prior to incorporating them into standard policy. Both the EVC procedure and careers support measures feature prominently in the new Operational Programme for the period 2007-2013. A growth path of 3,500 certified work-experience programmes and 3,500 careers support measures annually once the measure is properly up and running has been agreed. Under the Skills Agenda (Competentieagenda), the Flemish government and the social partners have pledged to extend this service and to root it firmly within a broader range of services designed to strengthen the skills of job-seekers and employees alike.

Under the terms of the Operational Programme Objective 2 approved by the Flemish Government on 24 November 2006, the following six priorities were laid down for the period 2007-2013:
- Promoting skills and long-term integration into the labour market
- Encouraging social inclusion of less-favoured groups via targeted measures
- Focusing within corporate and institutional culture on people and society
- Innovation
- Transnational and inter-regional cooperation
- Technical support

In view of the Lisbon goals to get 25% of long-term job-seekers into work each year and to guarantee both young and adult job-seekers a new start before they become long-term unemployed, support and training for job-seekers is also a key feature of the ESF programme during this new planning stage. Under the first priority of the ESF programme, the VDAB is planning 5,790 support programmes for those entering the labour market (broad-based and intensive support) and 3,870 skills-development programmes (goal-oriented training courses for job-seekers, the latter being over-represented among the unemployed population at regional level) annually aimed at the four main less-favoured groups.

Priority 2 is aimed at job-seekers who are a long way off accessing the labour market. Through work experience (in a sheltered environment where appropriate), these individuals will be able to acquire the skills they need to move on to access the standard labour market. Priority 3 is designed specifically for companies and organisations.

Work under the previous ESF programme during the period 2000-2006 delivered many innovative projects, but these did not always find their way to a broader public. Within the framework of the cooperation agreement the ESF agency will be signing with the Flemish government, the role of 'knowledge broker' will feature more prominently. Success in this context will ensure that the ESF has an even greater impact on the labour market.
Annex

Annex 1: Distribution of responsibilities

The Federal Government and the governments of the different regions and communities are each competent in different policy fields. Notably for the fields treated in the chapters 2 and 3 of this report, the competences are strongly divided. For your information, a simplified division of competences for those two fields is presented below.

1. Distribution of micro-economy responsibilities

<table>
<thead>
<tr>
<th>Category</th>
<th>Federal</th>
<th>Regions</th>
<th>Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1. R&amp;D and innovation</td>
<td>- Scientific research for federal jurisdictions</td>
<td>- Economy-based research</td>
<td>- Fundamental research in universities</td>
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<tr>
<td></td>
<td>- Astronautics</td>
<td>- Support for research and development and innovation in the business environment (direct</td>
<td>- Applied research in higher education</td>
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<td></td>
<td>- Participation in internal research programmes</td>
<td>and indirect)</td>
<td>- Scientific establishments</td>
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<td></td>
<td>- Inter-university magnets</td>
<td>- Strategy research institutes</td>
<td>- Grants for researchers</td>
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<td></td>
<td>- Joint research centres (in cooperation with the Regions)</td>
<td>- Partnerships on the basis of innovation and the dissemination of information</td>
<td>- Popularisation of science and innovation</td>
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<td></td>
<td>- Federal scientific establishment</td>
<td>- Technological development</td>
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<td></td>
<td>- Patents policy</td>
<td>- Joint research centres (in cooperation with the federal authorities)</td>
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<td></td>
<td>- Fiscal and parafiscal support for research and innovation</td>
<td>- Know-how disclosure in industry</td>
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<tr>
<td>2.2. Industrial policy and</td>
<td>- Commercial practices law, except granting quality labels</td>
<td>- Economic support policy (direct aid, subordinated loans, guarantees, venture capital</td>
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<tr>
<td>entrepreneurship</td>
<td>and designations of origin</td>
<td>regulations, etc.)</td>
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<td></td>
<td>- Establishment conditions apart from tourism</td>
<td>- Industrial policy (including development and investment companies)</td>
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<td>- Industrial and intellectual property</td>
<td>- Planning (including industrial zones)</td>
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<td>- Quotas and authorisations</td>
<td>- Foreign trade (in cooperation with the federal authorities)</td>
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<td></td>
<td>- Metrology and standardisation</td>
<td>- Support for start-up firms and entrepreneurs</td>
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<td>- National investment companies</td>
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<td>- Public procurement regulations</td>
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<td>2.3. Market operations</td>
<td>- Competition policy</td>
<td>- Electricity and gas (in cooperation with the federal authorities): monitoring the retail</td>
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<td></td>
<td>- Electricity and gas (in cooperation with the regional authorities);</td>
<td>trade market, regional gas and electricity</td>
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<td></td>
<td>monitoring the wholesale market</td>
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<td>2.4. Investments</td>
<td>- Commercial law and company law</td>
<td>- Development and maintenance of regional roads, sea ports, airports, urban and regional</td>
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<td></td>
<td>- Company taxation</td>
<td>public transport systems</td>
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<td>- SNCB</td>
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<td>Federal</td>
<td>Regions</td>
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<tr>
<td>2.5.a. Environment</td>
<td>Protection against ionising radiation</td>
<td>Environmental protection</td>
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<td>Waste transport</td>
<td>Waste policy</td>
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<td></td>
<td>Developing product standards</td>
<td>Environmental inspection of businesses</td>
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<td>Developing environmental taxes</td>
<td>Water policy</td>
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<td></td>
<td>Protection of the North Sea</td>
<td>Rural development and nature conservation</td>
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<td></td>
<td>Safety in the workplace</td>
<td>Agriculture and the environment</td>
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<td>Science research</td>
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<td>European and international environmental policy</td>
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<td>2.5.b. Energy</td>
<td>Electricity and natural gas charges</td>
<td>Electricity distribution and transmission via the network with a voltage equal to or less than 70 kilovolts (kV)</td>
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<td></td>
<td>The national equipment plan for the electricity sector</td>
<td>Natural gas distribution</td>
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<td>The high-voltage power network whose voltage is over 70 kilovolts (kV)</td>
<td>Renewable energy (environmentally-responsive energy and electricity from cogeneration)</td>
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<td>Storage and transmission of natural gas</td>
<td>Rational use of energy</td>
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<td>Electricity production (apart from environmentally-responsive energy)</td>
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</table>
## 2. Powers: employment

<table>
<thead>
<tr>
<th>Responsible for...</th>
<th>Federal government</th>
<th>Walloon Region (Walloonia)</th>
<th>Brussels Capital Region (BCR)</th>
<th>Flemish Region and Dutch-speaking Community (Flanders)</th>
<th>German-speaking Community</th>
<th>French Community (Brussels-Wallonia Community)</th>
<th>French Community Commission (COCOF) for the Brussels Capital Region</th>
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<tr>
<td>Employment service</td>
<td>ONEM/RVA</td>
<td>FOREM</td>
<td>Actiris</td>
<td>VDAB</td>
<td>Arbeitssamt</td>
<td>(Bruxelles Formation)</td>
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<td>Unemployment</td>
<td>Unemployment benefit</td>
<td>Support for the unemployed</td>
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<td>Availability checks</td>
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<td>Use of unemploy-</td>
<td>Active labour-market policy</td>
<td>Direct job-creation</td>
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<td>Retirement</td>
<td>Regulations on</td>
<td>Review of employment plans</td>
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<td>Outplacement:</td>
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<td>Cost reductions</td>
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<td>Tax legislation and benefits</td>
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<td>Social security:</td>
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<td>Taxation (incl.</td>
<td>reduction in tax burden)</td>
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<td>Whole of Belgium</td>
<td>French- and German-</td>
<td>Bilingual Brussels area</td>
<td>Dutch-speaking area and Dutch-speaking institutions in Brussels</td>
<td>German-speaking area</td>
<td>French-speaking area and French speakers in Brussels</td>
<td>French-speaking institutions in Brussels</td>
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<td>Equal opportunities and work-life balance</td>
<td>Time credit</td>
<td>Additional policy on time credits</td>
<td>Childcare places</td>
<td>Gender mainstreaming</td>
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<td>Integration of less-favoured groups</td>
<td>Gender mainstreaming: tackling discrimination</td>
<td>Diversity policy</td>
<td>Social economy</td>
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<td>Social support (integration allowance) and incentives</td>
<td>Cooperation re. integration allowance</td>
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<td>Entrepreneurship</td>
<td>Support for start-ups</td>
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<td>Entrepreneurship in education</td>
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<td>Regulations on unemployment when starting a business</td>
<td>Support for jobseekers starting their own companies</td>
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<td>Employment legislation</td>
<td>Regulations</td>
<td>Recognition (including temporary work)</td>
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<td>Monitoring</td>
<td>Additional monitoring</td>
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<td>Geographical mobility</td>
<td>Regulations on migration</td>
<td>Issuing of work permits and identifying ‘bottleneck’ professions</td>
<td>Naturalisation policy</td>
<td>Mobility of employees and job-seekers</td>
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<td>Wage determination</td>
<td>Legislation and social consultation</td>
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</table>

Only entities with legislative authority in the field of employment are included. Grey areas: no powers in this field.
Annex 2: Most important measures in the Progress Report

This publication is accompanied by a CD-ROM which also contains a file with the most important measures in each field treated in this Progress report. The form in which this is done, was imposed by the European Commission and is not quite user-friendly. Therefore, this annex synthesises the most important information. Below the table an explanation is provided on the information presented in the last 5 columns: Application (AP), Integrated Guidelines (IG), Key Challenges (KC), Country Specific Recommendation (CSR), Points To Watch (PTW).

<table>
<thead>
<tr>
<th>ID</th>
<th>Description</th>
<th>Rationale</th>
<th>AP</th>
<th>IG</th>
<th>KC</th>
<th>CSR</th>
<th>PTW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Workers established in the Flemish Region benefit from a lump-sum reduction in the personal income tax introduced by the Flemish government. First targeted on low-income workers, it will be extended to all workers in 2009.</td>
<td>Reduce the tax burden on labour, avoid job traps and make work pay</td>
<td>FL.R.</td>
<td>3, 5, 19</td>
<td>2, 3</td>
<td>1</td>
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<tr>
<td>2</td>
<td>Increase in the rate of the exemption from payment of the withholding tax on premiums for shift and night work from 5.63 to 10.7%</td>
<td>Reduce the tax burden on labour, enhance the competitiveness of enterprises and increase the flexibility of the labour market</td>
<td>all</td>
<td>3, 5, 17</td>
<td>2, 3</td>
<td>1</td>
<td></td>
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<tr>
<td>3</td>
<td>Two increases in the first bracket of deductible lump-sum expenses (each time by 1.1 percentage point)</td>
<td>Reduce the tax burden on labour and make work more attractive</td>
<td>all</td>
<td>3, 5, 19</td>
<td>2, 3</td>
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<tr>
<td>4</td>
<td>Tax incentive for overtime work have been reinforced: the rate of the tax reduction for the employee is increased, as well as the rate of the exemption from payment of the withholding tax for the employer</td>
<td>Reduce the tax burden on labour and make work more attractive</td>
<td>all</td>
<td>3, 5, 19</td>
<td>2, 3</td>
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<tr>
<td>5</td>
<td>Employers benefit from an exemption from payment of the withholding tax on the salaries of researchers having a Master in determined scientific disciplines</td>
<td>Reduce the tax burden on labour and stimulate research and development</td>
<td>all</td>
<td>3, 5, 7</td>
<td>2, 4</td>
<td></td>
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<tr>
<td>6</td>
<td>In the field of fundamental research, the amount of employers' social security contributions can be reinvested to create new posts of researchers</td>
<td>Reduce the tax burden on labour and stimulate research and development</td>
<td>all</td>
<td>3, 5, 7</td>
<td>2, 4</td>
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<tr>
<td>7</td>
<td>A structural reduction of charges (technically a exemption from payment of the withholding tax) has been introduced to reduce the impact of the Intersectorial Agreement for the employers (wage costs)</td>
<td>Increase the competitiveness of enterprises by a reduction in labour costs</td>
<td>all</td>
<td>22, 5, 17</td>
<td>2, 3</td>
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<tr>
<td>8</td>
<td>The social partners agreed upon a indicative margin for hourly pay rises of maximum 5% for the period 2007-2008</td>
<td>Preserve the competitiveness of enterprises and curb labour costs</td>
<td>all</td>
<td>22, 4, 5</td>
<td>3</td>
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<tr>
<td>ID</td>
<td>Description</td>
<td>Rationale</td>
<td>AP</td>
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<td>PTW</td>
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<td>9</td>
<td>Two Increases in the amount of the minimum wage (each time by €25)</td>
<td>Avoid job traps and make work pay</td>
<td>all</td>
<td>5,</td>
<td>17,</td>
<td>2, 3</td>
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<tr>
<td>10</td>
<td>Advantageous tax rate on the use of undistributed profits placed in reserve on the liabilities side of the balance sheet of enterprises (i.e. tax-exempt reserves)</td>
<td>Encourage business investment</td>
<td>all</td>
<td>3,</td>
<td>15,</td>
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<td>11</td>
<td>Introduction of a tax deduction for income stemming from the development or acquisition of patents by enterprises</td>
<td>Stimulate research and development</td>
<td>all</td>
<td>3,</td>
<td>7,</td>
<td>8</td>
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<td>12</td>
<td>Creation of a Fund to guarantee the future of the health care system</td>
<td>Preserve the sustainability of the health care system to cope with the challenge of ageing population</td>
<td>all</td>
<td>2,</td>
<td>1,</td>
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<td>13</td>
<td>Launching of a forum on R&amp;D bringing together federal government, regional governments and representatives of the private sector</td>
<td>Stimulate research and development</td>
<td>all</td>
<td>3,</td>
<td>7,</td>
<td>8</td>
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<tr>
<td>14</td>
<td>Development of competitiveness and competence poles bringing together businesses, training centres and public and private research centres</td>
<td>Achieve excellence in key sectors at international level</td>
<td>all</td>
<td>7,</td>
<td>8,</td>
<td>10</td>
<td>4</td>
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<tr>
<td>15</td>
<td>Exemption from tax and social security contribution on innovation premium</td>
<td>Stimulate innovation</td>
<td>all</td>
<td>8,</td>
<td>3,</td>
<td>2</td>
<td>1</td>
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<td>16</td>
<td>Distinct advantageous tax rate (33%) on researchers’ income, which is linked to the exploitation of their research results and paid by an university, a higher education establishment, the FNRS or FWOV</td>
<td>Stimulate the enhancement of research</td>
<td>all</td>
<td>7,</td>
<td>3,</td>
<td>2, 4</td>
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<td>17</td>
<td>Tax credit on the purchasing of ‘Internet for all’ packages</td>
<td>Bridge the digital divide</td>
<td>all</td>
<td>9,</td>
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<td>18</td>
<td>The creation of the Crossroads Bank for Enterprises, the creation of unique contactpoints for enterprises and the creation of eDEPOT for notaries</td>
<td>Reduce time to create an enterprise</td>
<td>all</td>
<td>15,</td>
<td>14,</td>
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<tr>
<td>19</td>
<td>Simplification of existing measures on economic expansion</td>
<td>Simplify legislation on economic expansion</td>
<td>BC.R</td>
<td>14,</td>
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<tr>
<td>20</td>
<td>Reduction of administrative charges, simplification of legal and technical texts, analysis of the effects of new regulation</td>
<td>Reform regulation management</td>
<td>FL.R</td>
<td>14,</td>
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<td>21</td>
<td>Administrative simplification</td>
<td>Administrative simplification, E-Gouvernement</td>
<td>BC.RWA.R</td>
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<td>22</td>
<td>Subsidies for SME’s that invest abroad, subsidy to Business Angels Network, tax reduction to investors who give a loan to enterprises (Flanders). Creation of risk-capital fund (Brussels)</td>
<td>Improve availability of risk-capital</td>
<td>FL.R</td>
<td>15,</td>
<td>14,</td>
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<td>23</td>
<td>BELPEX: Extension of electricity exchange to the Netherlands, France, Germany and Luxembourg</td>
<td>Improve working of electricity market</td>
<td>all</td>
<td>12, 16, 13</td>
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<td>24</td>
<td>Transposition and application of directives in gas and electricity markets</td>
<td>Improve competition in gas and electricity markets</td>
<td>all</td>
<td>12, 13, 14</td>
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<tr>
<td>25</td>
<td>Extended rail access to the National Airport (acronym Diabolo)</td>
<td>Better access to the airport; improvement of mobility in the metropolitan area</td>
<td>all</td>
<td>11, 14, 16</td>
<td>4, 6</td>
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<tr>
<td>26</td>
<td>Modernisation of the Brussels suburban rail network of (acronym GEN/RER)</td>
<td>Improvement of mobility in the metropolitan area</td>
<td>all</td>
<td>11, 14</td>
<td>6, 4</td>
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<tr>
<td>27</td>
<td>Extended interconnection with the French electricity network (TEN-E priority project no.EL1)</td>
<td>Strengthening of the integrated European grid; smoothening of the internal market functioning</td>
<td>all</td>
<td>16, 12</td>
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<td>3</td>
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<tr>
<td>28</td>
<td>Extension of the Zeebrugge LNG terminal (TEN-E priority project no.NG4)</td>
<td>Diversify and secure the supply of LNG; improving competition</td>
<td>all</td>
<td>16, 13, 12</td>
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<td>29</td>
<td>More flexible gas exchange between the Zeebrugge terminals</td>
<td>Easier access to the terminals; more flexible use of the network</td>
<td>all</td>
<td>14, 12, 13</td>
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<td>30</td>
<td>Extension of capacity on the major East-West gas pipeline</td>
<td>Demand growth, as revealed from market survey</td>
<td>all</td>
<td>12, 16</td>
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<td>31</td>
<td>Connection of the Port of Antwerp to the Dutch gas network</td>
<td>Alternative source of gas supply for major industrial users</td>
<td>all</td>
<td>13, 12, 16</td>
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<td>32</td>
<td>Measures to improve the energy efficiency of transport</td>
<td>Sustainable use of resources</td>
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<td>11, 6</td>
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<td>Measures to improve the energy efficiency of buildings</td>
<td>Sustainable use of resources</td>
<td>all</td>
<td>11, 6</td>
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<td>34</td>
<td>Roundtable to modernise economic legislation</td>
<td>Simplification of legislation</td>
<td>all</td>
<td>14, 15, 12</td>
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<td>35</td>
<td>Federal level: Reduction of employers' social security contributions</td>
<td>Reduce the high level of labour costs</td>
<td>all</td>
<td>22, 19, 7, 4</td>
<td>1</td>
<td>4, 1</td>
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<tr>
<td>36</td>
<td>Federal level: Reduction of employees' social security contributions (work bonus) for low wage earners</td>
<td>Tackle the unemployment trap and encourage hiring of less productive workers</td>
<td>all</td>
<td>19, 22, 3, 2, 7</td>
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<td>37</td>
<td>Federal level: New system for the follow-up of the unemployed, with periodic interviews by the federal PES, better data transmission between the federal and the regional PES and reinforced guidance by the regional PES</td>
<td>Adjust the balance between rights and obligations of the unemployed</td>
<td>all</td>
<td>19, 21, 3, 8</td>
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<td>38</td>
<td>Federal: Tighten access conditions to normal early retirement. From 2008 on, early retirement will only be accessible for workers that are 60 years old with 30 years of seniority (or 58 years old with 35 years of seniority). From 2012 onwards, these criteria will be tightened further.</td>
<td>Encourage active ageing</td>
<td>all</td>
<td>18,</td>
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<td>39</td>
<td>Federal level: The service voucher: a consumer subsidy for household services</td>
<td>Tackle undeclared work, create jobs for vulnerable groups and allow a better combination of work and family life</td>
<td>all</td>
<td>19,</td>
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<td>40</td>
<td>Federal level: Higher minimum pensions</td>
<td>Tackle poverty of elderly people</td>
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<td>41</td>
<td>Federal and regional level: Employment cells for restructuring enterprises. Access to early retirement is only possible for workers after a 6 month passage through the employment cell with intensive guidance.</td>
<td>Encourage active ageing</td>
<td>all</td>
<td>21,</td>
<td>3,</td>
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<tr>
<td>42</td>
<td>Regions: cooperation agreement on the systematic exchange of (bottleneck) vacancies</td>
<td>Encourage regional mobility of the unemployed</td>
<td>all</td>
<td>20,</td>
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<tr>
<td>43</td>
<td>Communities: Investment in the technological equipment of technical and vocational schools and reinforcement of cooperation among them and with the PESS</td>
<td>Improve the image of technical and vocational schools and facilitate transition from school to work</td>
<td>all</td>
<td>23,</td>
<td>24</td>
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<tr>
<td>44</td>
<td>Communities: Raise the number of places in childcare structures by 13000</td>
<td>Increase the female employment rate and facilitate the combination of work and private life</td>
<td>all</td>
<td>18,</td>
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<tr>
<td>45</td>
<td>Brussels region and French-Speaking Community Commission in Brussels (COCOF): Reinforced cooperation between training providers and labour market organisations</td>
<td>Improve coordination in order to respond better to labour market needs and tackle labour market bottlenecks</td>
<td>BC.R</td>
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<td>46</td>
<td>Brussels region: All young unemployed are invited to sign an individual agreement at the start of their unemployment spell, with a monthly follow-up. All adult (&gt;25) unemployed get the same offer after 3 months of unemployment, with a 3-monthly follow-up.</td>
<td>Individualise guidance of the unemployed while respecting the voluntary nature of their commitment</td>
<td>BC.R</td>
<td>19,</td>
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<td>47</td>
<td>Brussels region: Common public-private administration of the labour market (involving the PES, municipalities, social services, NGOs, temporary work agencies...)</td>
<td>Improve coordination in order to offer a better service to vulnerable groups</td>
<td>BC.R</td>
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<td>48</td>
<td>Flemish region: All low-skilled unemployed are obligatorily integrated in a tailored integration course from the first day of unemployment onwards. All other young unemployed enter this approach in the third month of unemployment, as do the low-skilled adult unemployed. The other adult unemployed are integrated in this approach during the sixth month of unemployment.</td>
<td>Individualise guidance of the unemployed and reinforce the equilibrium between rights and duties</td>
<td>FL.R</td>
<td>19, 18</td>
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<td>49</td>
<td>Flemish region: Positive overrepresentation of vulnerable groups in the ALMPs of the PES</td>
<td>Improve the labour market position of the low-skilled, the elderly, the handicapped and the unemployed of foreign origin</td>
<td>FL.R</td>
<td>19, 24</td>
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<td>50</td>
<td>Flemish region: Reinforcement of the system for individual work floor-based vocational training of the unemployed in cooperation with public and private labour market parties</td>
<td>Assure the participation to the system of more unemployed and better target it towards the vulnerable groups</td>
<td>FL.R</td>
<td>19, 20</td>
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<td>51</td>
<td>Walloon region: All new young unemployed are invited for an interview during the first month of unemployment. The low-skilled among them get a bi-weekly follow-up and a new interview in the fourth month, the others get one follow-up and an interview in the third month. The other young unemployed are invited for collective information sessions during the ninth or tenth month, the older unemployed during the fifteenth or sixteenth month. If necessary, a formal agreement is signed.</td>
<td>Individualise guidance of the unemployed and prevent entrance into long-term unemployment</td>
<td>WA.R</td>
<td>19, 18</td>
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<tr>
<td>52</td>
<td>Walloon region: Integrated measure for social and professional integration. This measure intends to integrate the most vulnerable unemployed through a better coordination between different training and integration pathways. The beneficiaries get an individual contract that guarantees a tailored follow-up by a single case-manager for a two years period, including a six month work experience</td>
<td>Improve the labour market position of the low-skilled, the long-term unemployed, the social assistance beneficiaries, the handicapped and the unemployed of foreign origin</td>
<td>WA.R</td>
<td>19, 24</td>
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<td>53</td>
<td>Walloon region: Training voucher. The training voucher allows the enterprise to pay for vocational training of its employees</td>
<td>Stimulate training for the employees of SMEs (with particular attention for language courses)</td>
<td>WA.R</td>
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ID Description Rationale AP IG KC CSR PTW
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<tr>
<td>54</td>
<td>German-speaking community: All low-skilled unemployed are obligatorily integrated in a tailored integration course from the first day of unemployment onwards. Moreover, after the seventh month of unemployment they are invited for a collective information-session and for individual profiling, which in most cases leads to a tailored integration course. All adult unemployed get the same treatment after the thirteenth month of unemployment.</td>
<td>Individualise guidance of the unemployed</td>
<td>GE.C</td>
<td>19, 18</td>
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<td>55</td>
<td>German-speaking community: Reinforce the common base in secondary education, by defining obligatory core competences</td>
<td>Avoid youngsters leaving school with insufficient basic qualifications</td>
<td>GE.C</td>
<td>23</td>
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<td>56</td>
<td>French-speaking community: Integration of internships in secondary education - by 2009 all students in the last two years of secondary education should go through an internship period</td>
<td>Smoothen the transition from school to work</td>
<td>FR.C</td>
<td>23, 18</td>
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<tr>
<td>57</td>
<td>French-speaking community: Reinforcement of basic training in secondary schools and smoothen the transition from primary to secondary schools</td>
<td>Increase students' skills in French and mathematics</td>
<td>FR.C</td>
<td>23</td>
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<td>58</td>
<td>Flemish community: Guarantee apprentices' full-time commitment by offering more jobs or labour market integration courses</td>
<td>Avoid part-time students from becoming unemployed during their time outside school</td>
<td>FL.C</td>
<td>23, 18</td>
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<td>59</td>
<td>Flemish community: training vouchers</td>
<td>Stimulate training for the employees, with special attention for the low-skilled</td>
<td>FL.C</td>
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Application (AP):
Fed: Federal
FL.R: Flemish Region
WA.R: Walloon Region
BC.R: Brussels Capital Region
FR.C: French speaking Community
GE.C: German speaking Community
FL.C: Flemish Community

Integrated Guidelines (IG):
1. Macro economic stability
2. Economic and fiscal sustainability
3. Efficient allocation of resources
4. Stability and growth friendly wage developments
5. Coherence across policy areas
6. Well-functioning EMU
7. R&D
8. Innovation
9. ICT
10. Competitive industry
11. Sustainable use of resources
12. Deepen internal market
13. Competitive markets
14. Competitive business environment
15. Entrepreneurial culture and SME
16. EU infrastructure
17. Full employment
18. Life-cycle approach to work
19. Inclusive labour markets and make work pay
20. Matching
21. Flexibility and security
22. Labour costs
23. Human capital
24. Education and training

Key Challenges (KC):
1. Public finance sustainability
2. The reduction of labour costs
3. The creation of a more dynamic labour market
4. The stimulation of the economy through investment and reforms
5. Strengthening the social security system
6. Strengthening of synergies between environmental protection and growth
7. The Commission added: bringing down tax burden on labour (in the context of budgetary consolidation)
8. The Commission added: Tackle regional employment disparities

Country Specific Recommendation (CSR):
1. Reduce the tax burden on labour
2. Reducing regional disparities in unemployment and employment

Country Specific Points To Watch (PTW):
1. Ensuring the long-term sustainability of public finances
2. Identifying further emission reduction policies and measures
3. Improving competition in gas and electricity markets
4. Increasing the employment rate for older workers and vulnerable groups
Annex 3: Extra documents

The following documents can be found on the accompanying CD-ROM:
- Economic key-indicators
- Indicators for the European Employment Strategy
- Strategic report on social protection and social inclusion 2006-2008
- Assessing Business Start-up Procedures in the context of the renewed Lisbon strategy for growth and jobs Results for Belgium, June 2007
- Grid of most important measures in the Progress Report 2007