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The Advantages of Integrating Denmark



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The Advantages of Integrating Denmark

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AT A GLANCE

Denmark could add 75 billion Danish kroner (DKK) to the economy by attaining full integration, with employment being the main value driver. The predicted need for an additional 70,000 workers in 2025¹ provides Denmark with a golden opportunity to meet labor market demand by closing the employment gap between immigrants and Danes. Yet current efforts are fragmented and Denmark needs new ways to deliver these results and the associated positive social impact.

ACTION IS NEEDED NOW

The Danish economy is on an upswing with around 2% growth and 4% unemployment. Industries such as construction and transportation lack low-skilled staff. At the same time, raising employment rates for immigrants to match the one of ethnic Danes would require moving nearly 100,000 more immigrants into jobs.

DENMARK NEEDS A TRANSFORMATION EFFORT TO ADDRESS THIS

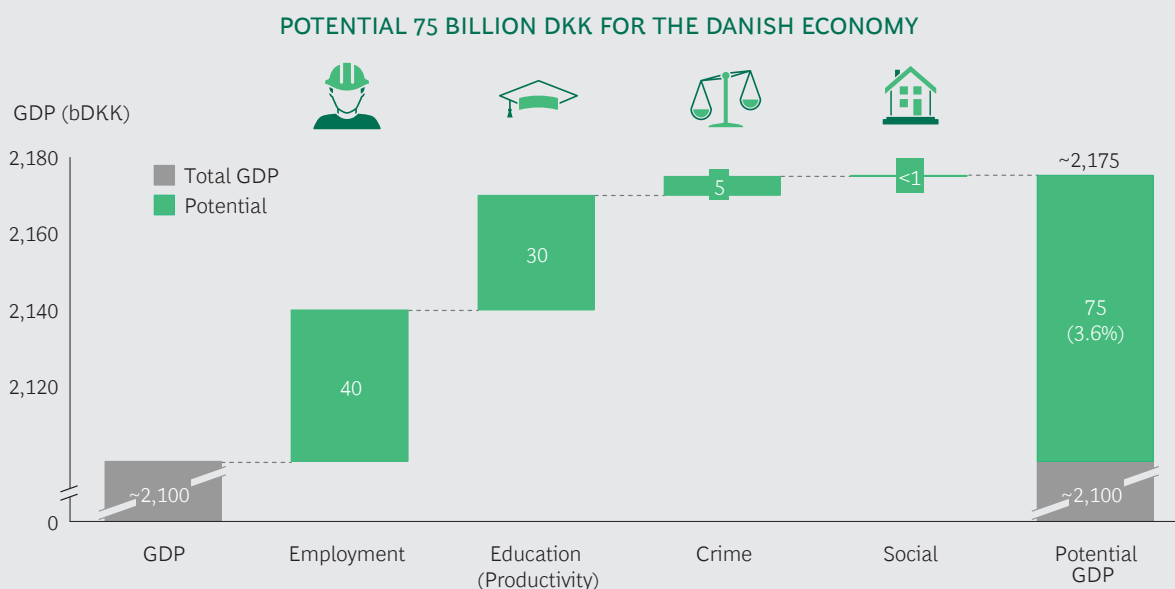
The job centers in Denmark play an important role, yet new technologies should be deployed to optimize job matching. Data-driven formulas can provide the large-scale cross-cutting solutions needed to provide companies with sufficiently qualified labor. Efforts should be targeted at all immigrants and could be funded via novel ways of financing social impact.

THE DANISH NATIONAL ECONOMY could see a 75 billion DKK improvement if it capitalized fully on integration. This represents a GDP increase of 3 to 4%, not to mention the additional positive non-monetary ripple effects. This potential could be unlocked by reaching full integration across employment, productivity², lower crime rates, and social affairs. (See Exhibit 1.)

The current level of integration in Denmark is 82%. This is a composite measure of underlying indicators for four dimensions, where the level for immigrants is compared with the level for ethnic Danes. Between 2014 and 2017 the level of integration improved by 2 percentage points. Accelerating the positive development even further holds tremendous promise for Denmark. (See Exhibit 2.)

Employment is key to delivering on the integration potential. Full labor market integration alone would add 40 billion DKK to the country's GDP. Within the employment dimension, first generation non-Western immigrants are the most valuable to address, they participate 67% as much in the labor market as do ethnic Danes³.

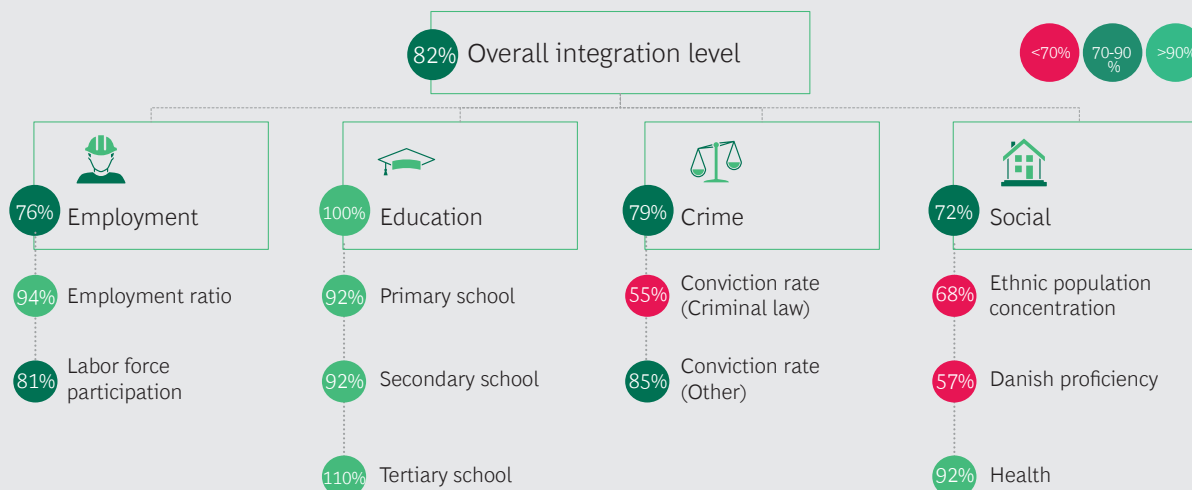
EXHIBIT 1 | Upside for the Danish economy of full integration on four dimensions



Source: Statistics Denmark, Integrationsbarometer.dk, Danish Ministry of Finance, economist expert interviews, BCG analysis.

EXHIBIT 2 | Overall level of integration across dimensions and sub-dimensions

THE OVERALL LEVEL OF INTEGRATION IS 82%



Source: Statistics Denmark, Integrationsbarometer.dk, Jobindsats.dk, BCG analysis.

The Time for Action is Now

The Danish economy is on an upswing, with around 2% growth and 4% unemployment. Industries such as construction and transportation lack low-skilled staff and 70,000 additional workers will be needed by 2025 to fill expected labor market demands.

At the same time, raising employment rates for immigrants to match the one of ethnic Danes would require moving 90,000 more immigrants into jobs.

Thus, it is essential and urgent to address this issue by reducing the immigrant employment gap. The gap includes around 70,000 first generation non-Western immigrants, which matches the increase in labor market demand expected by 2025. (See Exhibit 3.)

Current efforts could benefit from being more coherent and systematic. Most immigrants show motivation to work, but are insufficiently linked to the labor market, and companies have difficulty finding immigrants with the needed qualifications.

Digital Disruption Can Be a Trigger for Transformation of Integration

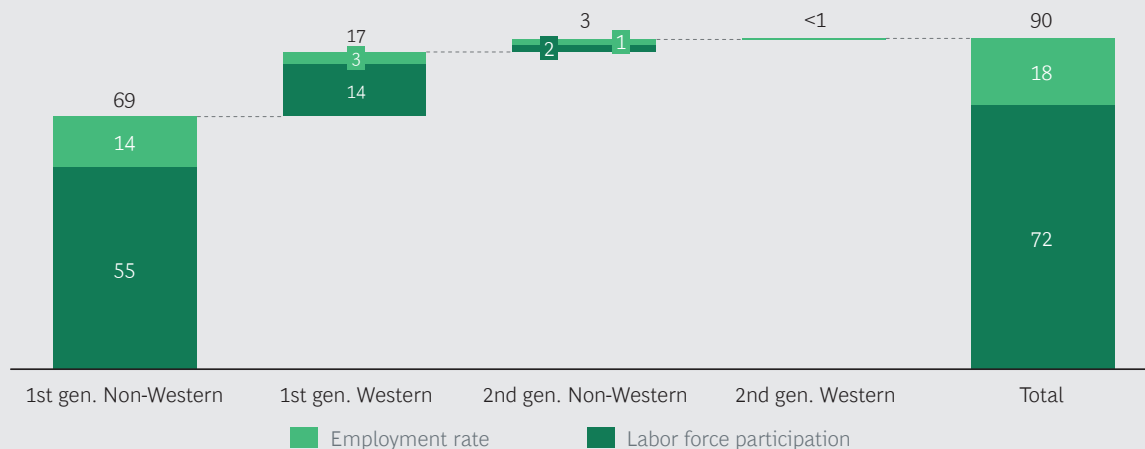
Four ambitions can guide the next wave of value creation for Denmark through integration:

- **Integration for all.** Denmark is ready for a new wave of policies to bolster integration across all immigrant groups, even beyond refugees.

EXHIBIT 3 | Additional immigrants in job to close employment gap

90,000 IMMIGRANTS IN JOBS TO CLOSE EMPLOYMENT GAP

Number of employed people required to close gap to ethnic Danes ('000)



Source: Statistics Denmark, Jobindsats.dk, BCG analysis.

- **World-class job placement services.** Denmark must transform job centers by optimizing strategy, effectiveness, and accountability to outcomes, and creating an operating model focused on industry sectors that cuts across municipalities.
- **Leverage digital technologies.** Denmark must develop a new digital platform tailored to job placement of immigrants so as to leapfrog service delivery and create the momentum for change.
- **Novel ways of financing social impact.** Denmark is ready to introduce Social Impact Bonds on a national scale as a way to pay for actual value creation. A digital platform can be the right pilot testing-ground to introduce them.

Transformation of the job centers and digitization will be at the core of change. New technologies can optimize job matching, and data-driven solutions can provide the large-scale, cross-cutting solutions needed to provide companies with sufficiently qualified labor.

Denmark is at a turning point. Now is the time to disrupt social impact delivery and break the cycle, to enable Danish society to fully capitalize on the 75 billion DKK advantage.

APPENDIX: How We Arrived at our Figures

The 75 billion DKK. There would be a GDP increase of 3 to 4% upon reaching full integration of immigrants across employment, education, crime, and social affairs. This is calculated by imagining the hypothetical situation where the level of indicators for immigrants across dimensions is equal to the level for ethnic Danes. Employment is the biggest contributor, at 40 billion DKK, followed by 30 billion DKK from education.

The current level of integration is 82%. Across the four dimensions and underlying sub-dimensions of integration, the indicators for immigrants are on average 82% compared with the levels for ethnic Danes.

Overall, first generation non-Western immigrants stand out as the least integrated group, especially when it comes to employment, where first generation non-Westerners have an overall employment KPI of 67% compared with ethnic Danes. The employment KPI for first generation non-Westerners has been relatively stable throughout the last ten years, but has improved since 2014 by 4 percentage points.

The 90,000-person employment gap. Reaching full integration requires around 90,000 additional immigrants to be employed, with around 70,000 of them first generation non-Westerners. Of the 90,000 immigrants, 80% (72,000) currently do not participate in the labor force.

The total of 110,000 first generation non-Western immigrants currently not employed can be divided into seven personas based on their current likelihood of entering employment. (See Exhibit 4.) The personas show that 12% of the total group aged 25 to 64 are early retirees considered unable to work. The remaining personas have varying degrees of possibility of employment, but reaching full employment is feasible for most.

Calculation of the GDP potential from full integration on the employment dimension is based on full closure of the employment gap and an average salary level for immigrants. To calculate the economic potential from full integration on the education dimension, an increase in productivity matching ethnic Danes is assumed, whereby immigrants would match the average salary level for ethnic Danes. In relation to crime, the benefits of reduced crime levels are calculated based on the savings in costs to prisons and the judiciary system; and for social affairs, the decline in use of the health care system was considered.

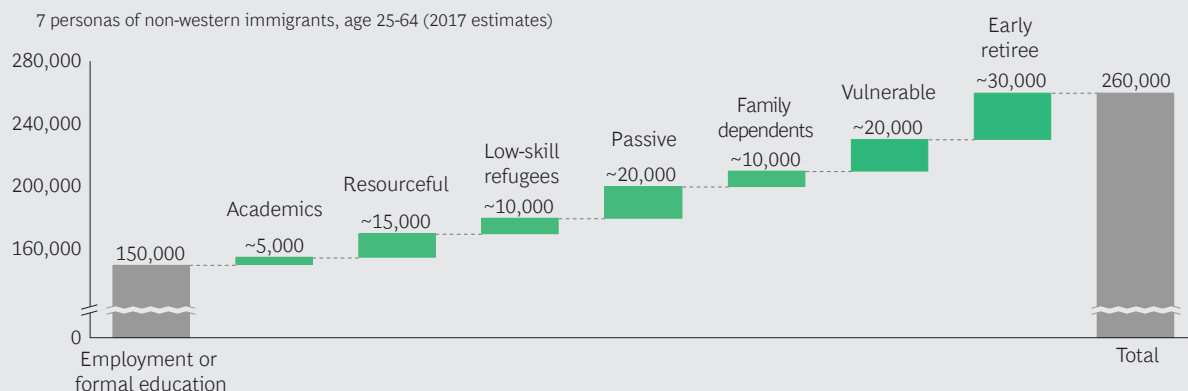
We then added an economic multiplier. This included positive spillover effects on the economy from increased income. It is important to note that a multiplier is in theory only present in the short term and that the calculations illustrate the hypothetical gain to the economy as a whole.

NOTES

1. The Danish Economic Council, 2017.
2. Reflected by salary level. Education used as proxy in KPI framework.
3. Overall employment KPI for first generation non-Western immigrants. Composite measure of employment rate and labor force participation rate compared with ethnic Danes.

EXHIBIT 4 | Non-Western immigrants outside employment divided into seven personas

110,000 FIRST-GEN NON-WESTERNERS NOT EMPLOYED



Source: Statistics Denmark, Jobindsats.dk, BCG analysis.

METHODOLOGY

Analyses were conducted in December 2017 (and updated in May 2018) based on data from Statistics Denmark, the Ministry of Employment (Jobindsats), the Ministry of Immigration and Integration (Integrationsbarometer), and the Ministry of Finance. Integration was analyzed across four main dimensions and ten sub-dimensions, where immigrants were measured *relative* to ethnic Danes. (See Exhibit 5.)

- Employment: Employment ratio and labor force participation ratio
- Education: Primary, secondary, and tertiary school completion
- Crime: Conviction rates for criminal law and other laws
- Social affairs: Population concentration, Danish language proficiency, and health

EXHIBIT 5 | The level of integration is measured relative to ethnic Danes

THE LEVEL OF INTEGRATION IS MEASURED RELATIVE TO ETHNIC DANES

Example: Labor force participation

Immigrants		Ethnic Danes		Level of integration
67%	/	83%	=	81%
<100%		100%		>100%
Partially integrated		Fully integrated		100% More than integrated

Source: Statistics Denmark, Jobindsats.dk, BCG analysis.

Note to the Reader

At The Boston Consulting Group, we work with the social, public, and private sector to drive positive impact for society. We invest in providing services locally and globally to nonprofit projects that have the greatest impact. Therefore, we decided to provide an added external fact base to the public debate on integration in Denmark. To do this, we established a panel of stakeholders consisting of the Danish Refugee Council (Integrationsnet), Trygfonden, Bikubenfonden, Realdania, CBS, Kommunernes Landsforening (KL), Danmarks Almene Boliger (BL), and Dansk Supermarket Group. The project was conducted on a pro bono basis.

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