



cutting through complexity

KPMG INTERNATIONAL

New approach to activating the unemployed: European and international experiences

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Contents

Introduction	3
Key findings	5
1 The problem of unemployment	7
1.1 Unemployment in Europe	7
1.2 Major conclusions and observations	12
2 A new approach to activating the unemployed	15
2.1 Profiling the unemployed	15
2.2 Assessing the efficiency of the activation measures	16
2.3 Activation of difficult groups of the unemployed by a non-public operator	18
2.4 Expected benefits from the implementation of the new approach	21
3 Examples of implemented solutions	23
3.1 Poland	23
3.1.1 Introduction	23
3.1.2 The pilot program carried out by the Ministry of Labour and Social Policy – “Partnership for jobs”	24
3.1.3 The pilot program percentage in the Małopolskie voivodship – “Express train to employment – an innovative model of activation of the unemployed”	27
3.2 International experiences	30
3.2.1 United Kingdom	30
3.2.2 The Netherlands	34
3.2.3 Australia	36
3.2.4 France	38

Introduction

The difficult economic situation in many countries worldwide, in Europe in particular, has severely dampened growth rates in the economy which, in turn, has translated into rising unemployment. This global problem has become a major challenge for governments and international organizations alike. According to the International Labour Organization, almost 202 million people were unemployed in 2013 around the world.¹ Out of this figure, 40 million are long-term unemployed (staying out of work for over 12 months). Those who have remained far from the labor market have even slimmer chances of finding employment. At the same time, governments are forced to seek savings and to improve the efficiency of their policy mechanisms in order to reduce deficits and to balance their national budgets. In the light of the aforesaid, it becomes even more important to fight unemployment and the search for new, more effective forms of activation has become a necessity.

Our report presents examples from some countries who have found solutions leading to effective activation of the unemployed. We also identify essential issues, such as profiling of the unemployed, opening up the employment services market, or changing the performance verification of employment services. In our view, those issues need to be addressed to improve the quality and effectiveness of efforts aimed to bring the unemployed back to work.

We invite readers to study our report and to track progress of pilot projects described here, which aim to test new activation tools and methods, adding a new dimension to the collaboration between labor market institutions, both public and non-public. We believe that this will help to encourage decision-makers to introduce the mechanisms described here and to enhance the exchange of international experience in this field.



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¹ Eurostat – Unemployment statistics. http://www.ilo.org/wcmsp5/groups/public/-dgreports/-dcomm/-publ/documents/publication/wcms_233953.pdf.



Key findings

The high unemployment rates experienced in many European countries have brought about the impoverishment of citizens and social tensions. High unemployment also entails greater burdens for the social benefits system (at present) and for the pension system (in future). In view of the alarming situation on the labor market, it becomes crucial to seek new and effective ways to activate the unemployed and, consequently, to curb the high unemployment. Failure to undertake such activities may bear very serious consequences, both in the social and in the economic domain.

If measures to activate and engage the unemployed are to be effective, they should address the needs and specific situations of the unemployed while also taking account of the particularities of local labor markets. The experience of many countries has demonstrated that in order for employment services (both public and private) to undertake effective activation measures, it is crucial to ensure proper profiling of the unemployed and, in consequence, to adapt activation forms, tools and instruments to the needs

of specific profiles (groups) of the unemployed. This will help to maximise the effectiveness of measures while minimising the related costs.

Another way to enhance the efficiency of efforts to fight unemployment is to open up the employment services market to non-public actors, including third sector, and to tighten the collaboration between all the market participants. The experience of many countries has shown that non-public institutions, such as private employment agencies, may actively play an active part in returning the unemployed to work, in particular by providing services to those who are furthest from the labor market and, as such, most difficult to activate.

In different regions and different countries, several models have been tested and implemented. The tested solutions have one aspect in common: the remuneration for employment agencies is dependent on outcomes, more specifically defined as unemployed citizens taking up and maintaining a job. Conclusions from the current projects should be instrumental in developing

amendments to legislation which would help to open up or further develop the employment services market and, in consequence, to improve the efficiency of efforts made to fight unemployment. Implementation of such solutions should bring benefits to all the stakeholders: the government, employment services and, first and foremost, all those remaining out of work.

For employment services to operate effectively, they must be equipped with efficient tools to motivate the unemployed and to apply sanctions. On the one hand, unemployed individuals must be motivated to undertake specific steps and, on the other, they must be aware of sanctioning mechanisms which will be applied in case the unemployed person shirks active participation in the activation process.



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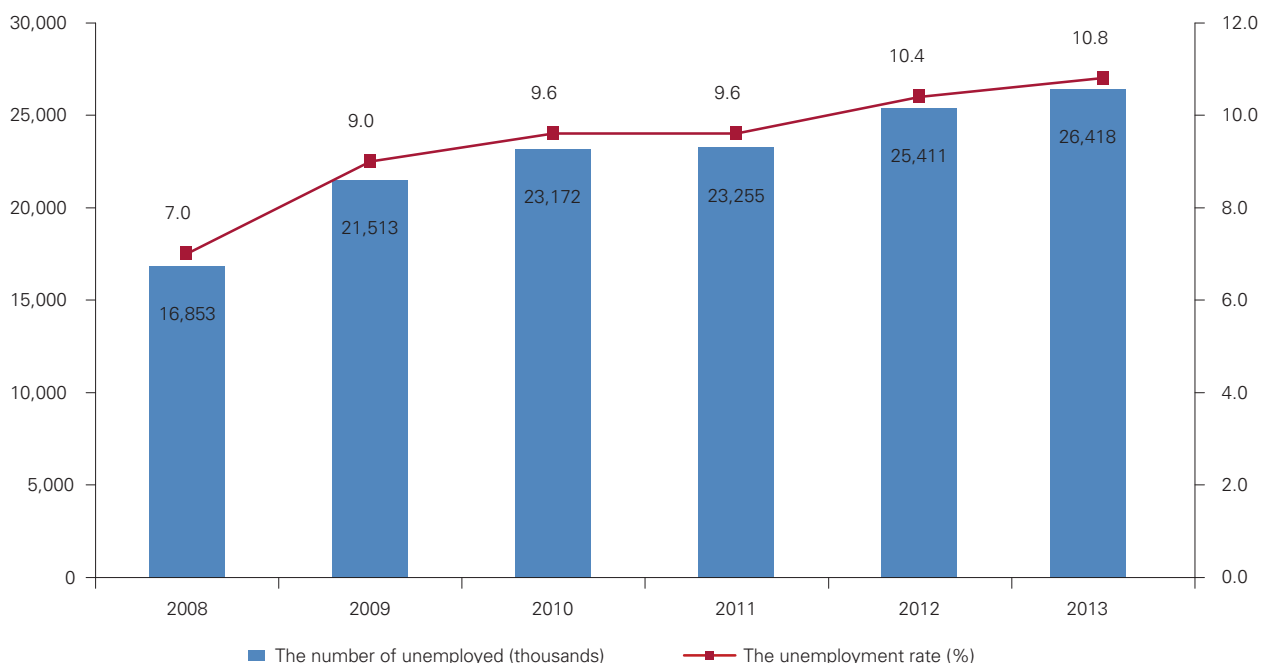
The problem of unemployment

1.1. Unemployment in Europe

Despite some positive signals, the economic situation in Europe remains weak since the Global Financial Crisis (GFC), which is reflected in the high unemployment rate in the European Union. Compared with the period before the financial crisis started (2007), the unemployment rate grew by 50 percent,

reaching average annual level of 10.8 percent in 2013. Such significant increase of the unemployment in the European Union is largely due to the sudden rise of the unemployment in south European countries, most acutely affected by the financial crisis and the debt crisis, i.e. the so-called PIGS countries: Portugal, Italy, Greece and Spain. The total unemployment figure in the European Union reached a record level of 26.6 million (10.9 percent) for the

Figure 1. The number of the unemployed and the average unemployment rate in the EU 2008–2013 (according to LFS)²



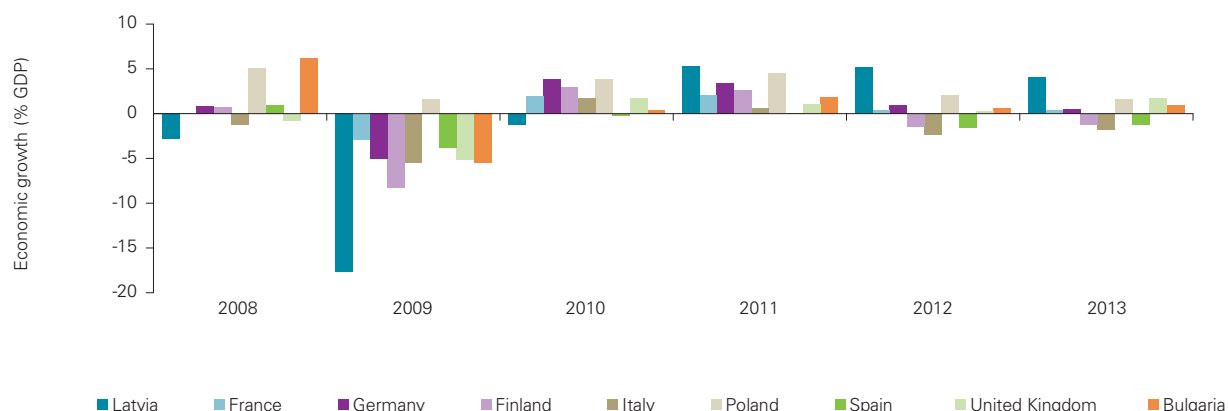
Source: Eurostat data

first quarter of 2013. Since then the rates started to decrease, reaching 10.8 percent at the end of the year 2013 and 10.2 percent in July 2014.

The economic situation, in particular the rate of economic growth in individual countries, is of key significance for the decline or growth of the unemployment

rate. Many economists believe that only the economic growth rate at the level of 3–4 percent (reflected in the GDP growth) allows to create a significant number of new jobs, which in turn makes it possible to capture those seeking employment and to gradually decrease the unemployment level in a country.

² Based on Eurostat data.

Figure 2. Economic growth in the years 2008–2013 in selected EU countries

Note: Real GDP % change

Source: The Economist Intelligence Unit data

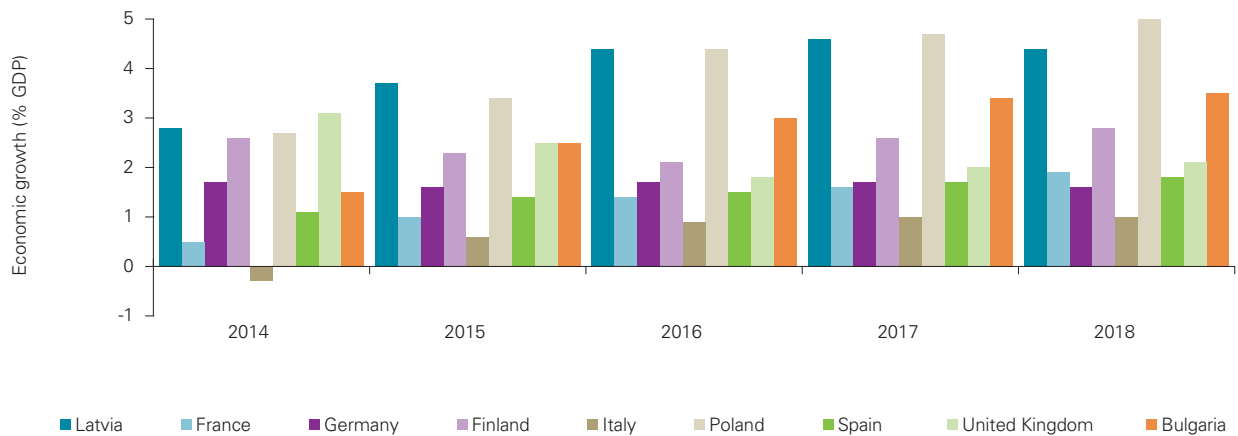
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Starting from 2014 we might expect a higher rate of economic growth, which should translate into a relevant change of trends on the labor market.

The period of financial crisis and debt crisis has had a significant impact on the economies of individual countries. The year 2009 brought a recession in many of them, while the years 2010–2011 gave an opportunity for just a minor growth impulse. 2012 and 2013 have been years of very low economic growth, or stagnation, or even recession in select countries. In such situation, an increase of the unemployment rate is imminent. It clearly leads to increased social tensions, destabilization of the political situation, loss of credibility in the eyes of investors and, as a consequence, even more acute economic problems.

Starting from 2014 we might expect a higher rate of economic growth, which should translate into a relevant

change of trends on the labor market. Considering this, it seems essential to seek new and effective ways to activate the unemployed and, therefore, to fight the growing unemployment obviously waiting for the “good old times” to return is not enough. Apart from activities intended to restore the financial credibility of the Union and its individual members, to restore the stability in the Union or to stimulate economic growth, governments as well as the authorities of the European Union should also focus on actively combating unemployment. Failure to undertake such activities may lead to very serious consequences, in particular, in the PIGS countries, where unemployment rates are at record levels.

Figure 3. Economic growth in the years 2014–2018 in selected EU countries

Note: Real GDP % change

Source: The Economist Intelligence Unit data

The increasing unemployment affects various age groups in different ways. There is no doubt that the skyrocketing

unemployment among young people is the most serious problem. Another group that is particularly affected by

rising unemployment is mature citizens (aged 55+).

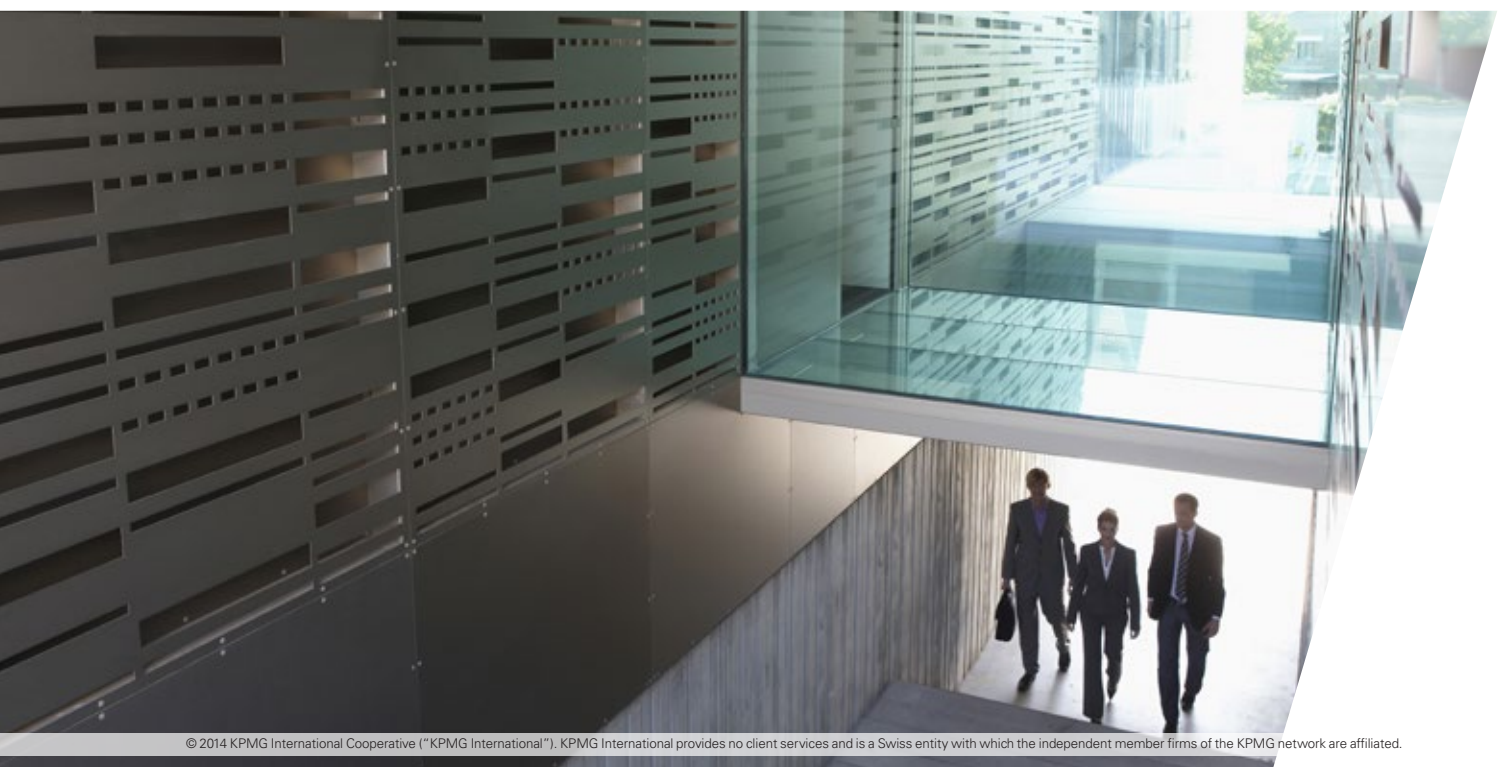
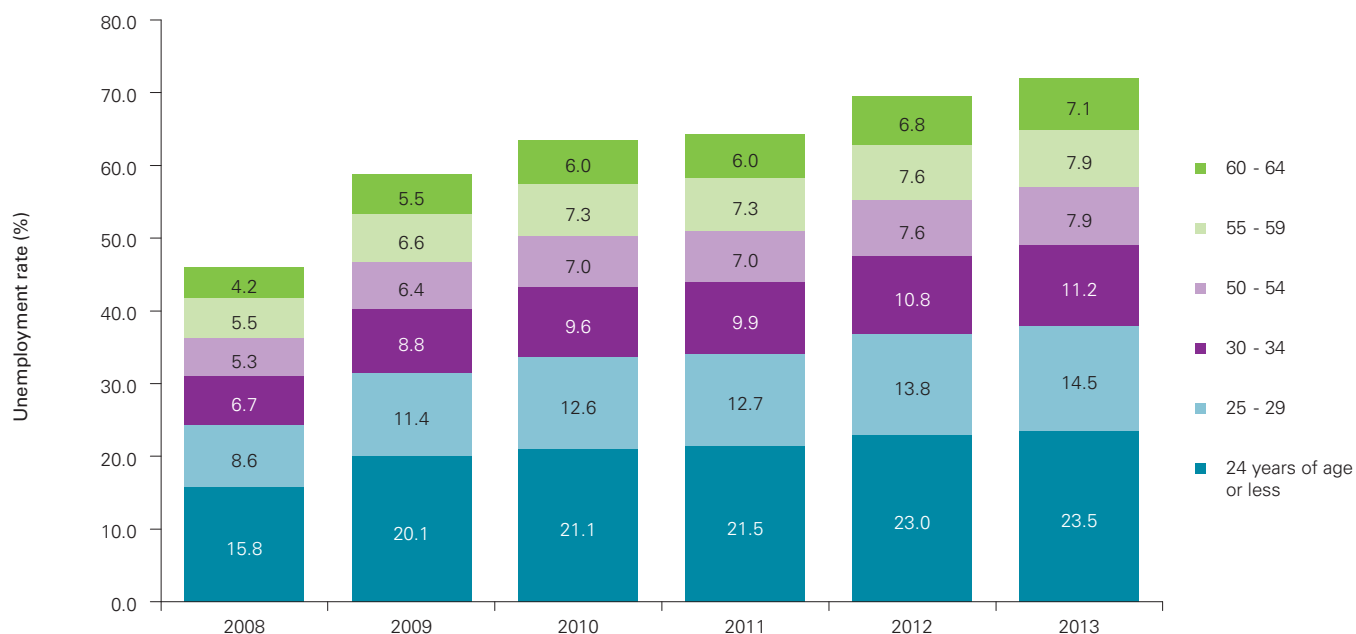


Figure 4. Unemployment rate in selected age groups in the EU

Source: Eurostat data

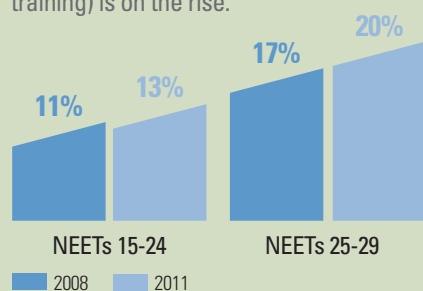
It is quite clear that the unemployment rate grew in nearly all age groups and the upward tendency persists. The unemployment levels among the youngest participants of the labor market and among those under 34 are particularly troubling. It is important to bear in mind that the said data

present the averaged values for the entire European Union. There are some member states, such as Greece and Spain, where youth unemployment exceeds 50 percent.³ In the case of the latter countries we may easily say that the situation on the labor market is disastrous.

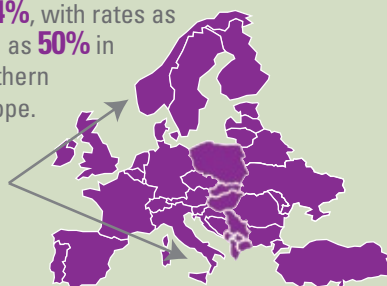
The European Union has developed a category denominated as NEETs (young people not in employment, education or training) to fully capture levels of disengagement from both the workforce and society in general. Eurostat found that the NEET rate rose from 11 percent of 15–24 year-olds and 17 percent of 25–29 year-

Workforce challenges for young people:

In Europe, the rate of **NEETs** (young people not in employment, education or training) is on the rise.



As of January 2014, the European unemployment rate for adults 15–24 (as a proportion of the labor force) was **23.4%**, with rates as high as **50%** in southern Europe.



In Europe, the total economic loss due to disengagement of young people from the labor force was estimated at **€153 billion** in 2011.



³ Eurostat News Release 30/2014, 28 February 2014, p. 2.

olds in 2008, to 13 percent and 20 percent respectively in 2011, and it continues to rise.⁴ In Europe, the total economic loss due to disengagement of young people from the labor force was estimated at 153 billion Euros (EUR) in 2011.⁵

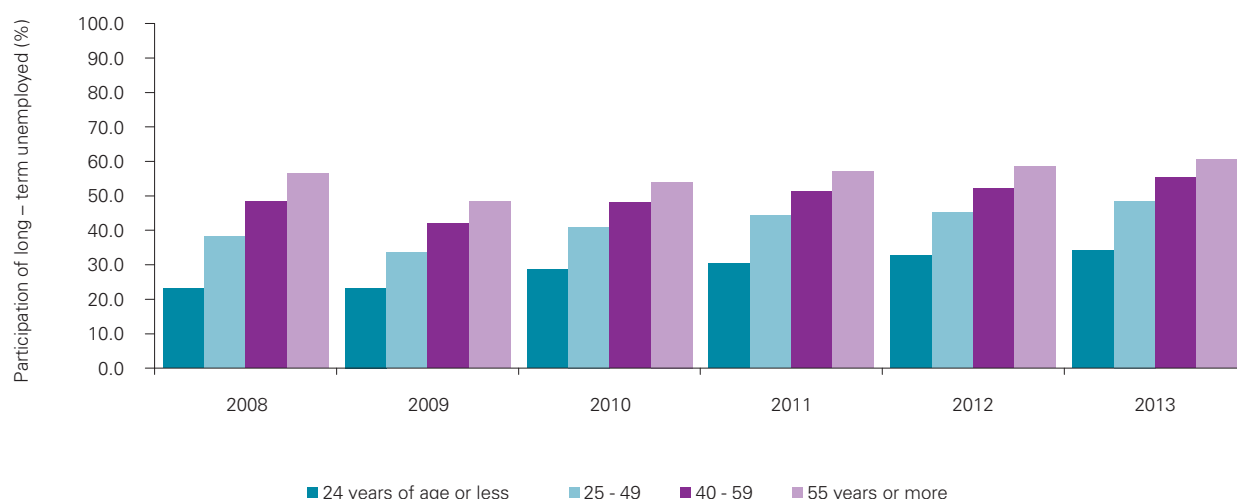
The European Union is aware of this problem, therefore measures are being taken to help young people in particular. One example is the Youth Guarantee. It is a new approach to tackling youth unemployment which ensures that all young people under 25 – whether registered with employment services or not – receive a high quality, concrete offer within 4 months of them leaving formal education or becoming unemployed. Moreover, there are also initiatives of individual countries, with the joint proposal of Germany and France serving as an example. It constitutes part of a joint initiative of the two countries, referred to as the “New European Order”;

similar to the policy intended to reduce unemployment in the US under the rule of President Franklin Roosevelt in the 1930s. The European Investment Bank (EIB) is also to join that initiative, releasing billions of Euros to companies that would create new jobs for the young.

Another problem that must be tackled in the context of unemployment is the so-called long-term unemployment.⁶ In a situation of employment being increasingly difficult to find, the long-term unemployed figure is growing. On the one hand, it is caused by the decreasing number of jobs and the intensifying competition on the labor market, while, on the other hand, the challenging economic situation stimulates the growth of shadow economy, which absorbs a significant proportion of the long-term unemployed (registered in labor offices while, at the same time, undertaking unofficial work in the shadow economy).

The long-term unemployed undoubtedly experience more obstacles when trying to return to the labor market: they often cannot demonstrate professional experience or education, they sometimes have health problems (e.g. people with disabilities), they have a difficult personal experience behind them (e.g. former prisoners) or they simply lack motivation. Looking at the figure below, we can see that long-term unemployment is an acute problem among the unemployed aged over 40, and particularly among the unemployed aged over 55. In the latter group, long-term unemployment in the years 2010–2012 remained at the level of over 50 percent of the total unemployment. If we consider an additional aspect, i.e. the increase of retirement age in most countries, we might expect this problem to aggravate further in the future.

Figure 5. The share of long-term unemployed in total unemployed, by age group



Source: Eurostat data

⁴ “Young people not in employment, education or training: Characteristics, costs and policy responses in Europe,” European Foundation for the Improvement of Living and Working Conditions, 2012, p. 1.

⁵ “Young people not in employment, education or training: Characteristics, costs and policy responses in Europe,” see footnote 4, p. 2.

⁶ According to the definition applicable in Poland, a long-term unemployed person is a person who has been registered in the registry of the local labor office (as an unemployed person) for a total period of over 12 months over the period of the past 2 years, excluding the periods of internships and adult vocational education. Legal basis: The Act of 20 April 2004 on promotion of employment and labor market institutions.

1.2 Major conclusions and observations

The data and analyses presented above clearly show that the unemployment problem in the countries of the European Union, including the countries of the Central and Eastern Europe, has been growing. The picture that emerges as a consequence of the crisis includes the declining household revenues, the highest unemployment in 20 years and the growing threat of poverty. This aggravates the risk of social exclusion for large groups of the citizens, in particular citizens of countries that are in a particularly difficult economic situation.

Of course, the continuing crisis is only one of the causes of the current status quo, nevertheless the negative consequences for the levels of employment and living standards caused by budgetary cuts and tax rate increases are increasingly felt in Member States. Undoubtedly, we can also see the consequences of the lack or insufficient systemic solutions designed to combat unemployment, limited efficiency of vocational activation methods in use until now, the education system that is not adapted to the needs of the labor market, or lastly, limited freedom to run business in many countries.

In the current situation it is necessary for governments to undertake attempts and investments, seeking a way to induce growth that contributes to social inclusion and giving their citizens an opportunity to live a dignified life. On the other hand, attempts should be made to improve the efficiency of vocational activation of the unemployed and to help them return to the labor market. Such assistance should be adapted to individual groups

and problems they face in returning to work. This is particularly important for those groups of the unemployed that are furthest from the labor market: the long-term unemployed, very mature or people, the latter often being inexperienced and not fully educated.

Undoubtedly, the most acute problem today as regards unemployment in the European Union is the constantly growing unemployment among young people. Its level reached such high values in some Member States that it poses a threat of escalation of social disturbances, and, as a result, destabilization of entire economies. Looking from the perspective of the entire Union, unemployment among young people aged 15–25 reached 23.4 percent in January 2014. Moreover, the periods of unemployment for young people are becoming ever longer. This tendency constitutes a serious threat of excluding young people from the labor market and from the society as a whole. The 8 million young people under 25 who have no job and are not at school or training (NEET), is a serious source of concern.⁷

” In its efforts to combat unemployment among young Europeans, the European Union intends to introduce employment guarantee systems for the young.

In its efforts to combat unemployment among young Europeans, the member states of the European Union are introducing employment guarantee systems for the young. In fact, the European Commission has just reviewed

18 youth guarantee pilot projects. The Commissioner for Employment, Social Affairs and Inclusion, Laszlo Andor, estimated that unemployment among young people entails a loss of gain for the economies and benefit payments which cost the Member States approximately EUR153 billion per year.⁸

Looking from another perspective, long-term unemployment is becoming a very important problem. This category encompasses a wide range of unemployed groups, including the growing ranks of young people. Paradoxically, diversity is a characteristic feature of that population, which means that barriers preventing their return to the labor market are varied and, as such, it is difficult to select effective forms of vocational activation. In many countries, people from that part of the population are covered by standard forms of support, which are also available for the remaining groups of the unemployed. However, they often turn out to be ineffective, which results in a growing share of long-term unemployed in total unemployment figures.

The next section of our report will focus on presenting selected aspects of the new approach to combating unemployment, targeted in particular at those who are in a challenging situation on the labor market. We will discuss the main elements of the new approach to activating the unemployed, we will also present examples of solutions applied or implemented in selected countries.

⁷ A European Commission press release, 26 March 2013.

⁸ http://forsal.pl/artykuly/677625,bezrobocie_w_europie_coraz_wiecej_mlodych_polakow_nie_ma_pracy.html.





2

A new approach to activating the unemployed

2.1 Profiling the unemployed

Unemployment is not a homogeneous problem. Individual groups of the unemployed, or even individuals, face various barriers preventing them from returning to the labor market, and as such, they need varied approaches, adapted to their needs. In order to undertake effective activities intended to activate the unemployed it is necessary to adapt them to the needs and the situation of the unemployed person, also taking into consideration the particularities of the labor market.

The experience of many countries shows that the key to enabling efficient labor services (both public and private) working towards the activation of the unemployed is to ensure proper profiling of such persons, thus providing support that best meets their particular needs. Here, 'profiling' means defining a particular number of groups or collective groups (called 'profiles'), having distinct features, and then assigning the unemployed to those profiles. In the context of the unemployment, profiling generally focuses on those factors which, once assessed, will allow to verify how far a person is from the labor market. The key here is to ensure a proper diagnosis of the current situation of the unemployed person including, among others, their level of motivation, professional experience and barriers to work. Such assessment makes it possible to identify those who are motivated and act reasonably well on the labor market without the need for major support, or people who need minor, but very specific

support, as well as those who require advanced activation methods and tools.

Profiling may be carried out in many ways: from systemic solutions that provide for standard profiling of all unemployed and dividing them between a small number of profiles, to actions taken at the level of selected groups or selected labor market participants. Profiling may also be used to determine the rules of cooperation between the public and private labor service providers: the unemployed then have the opportunity to receive support from such an employment market participant who is able to provide the support aligned with their needs to the highest extent possible.

In general, profiling allows for more targeted support to be provided to the unemployed. It is also believed to foster better efficiency and improve employment services performance. The approach towards profiling differs among countries and in some cases it is not being used at all. However, where it is being used, profiling typically optimizes the cooperation between the unemployed and the employment services – specific programs, tools, and services tend to be allocated to corresponding profiles where such instruments can be most productive. However, profiling may also pose an issue with sensitive personal data and data protection.

Section 3 of this report describes the experiences from selected countries and also comments on the issue of profiling, discussing the approach to this problem applied in Poland, the United Kingdom, the Netherlands, Australia and France.

2.2 Assessing the efficiency of activation measures

When combating unemployment, in particular in the context of the difficult economic situation in Europe, as much emphasis as possible must be put on undertaking effective and cost-efficient activation measures.

The funds available for allocation are limited, the number of available services and instruments is relatively large and will continue to expand, and, at the same time, the measurable effects of combating unemployment are expected, as the growing unemployment becomes an increasingly serious social problem. In this context, it is necessary to constantly monitor the efficiency of solutions being applied, both at the level individual labor market participants and at the level of individual instruments and services.

There is no common approach to measuring and promoting performance and efficiency. Individual countries have their own solutions but most of them are looking at or already taking measures to increase the efficiency of their activation services. In many cases, the system of measuring and assessing efficiency focuses on cost-efficiency and employment effectiveness of the individual labor market instruments. In this way, it puts more emphasis on the efficiency of spending than on the actual outcomes of measures, understood as helping an unemployed person to find employment or to overcome certain barriers on the path to effective vocational activation.

What is advisable here is adopting the approach that provides for measuring the actual outcomes of the activities undertaken by labor offices or of the instruments applied by them. It is necessary to shift the emphasis to the

outcome, understood as a situation when an unemployed person finds employment (or is able to remove certain barriers to employment). Support methods and instruments should be adapted in such a way so that it would be possible to achieve the best outcomes while involving the least amount of funds possible (better value for money).

Changing the approach to monitoring the efficiency of the activation measures in itself will not be effective enough. More profound changes in the way the labor services operate are needed, in particular as pertains to:

- reducing the bureaucratic load in labor offices, reducing the administrative operations to a minimum and releasing the resources to conduct real activation activities,
- changing the way the funds are allocated and distributed to the performance of services and applying the labor market instruments,
- changing the way in which labor office employees are remunerated, by introducing incentive component, connected with achieving the set efficiency objectives (such as bringing the unemployed to finding employment),
- increasing the freedom in selecting the activation services and instruments, considering their efficiency adaptation to the individual needs of the unemployed person,
- making it possible to contract activation (welfare-to-work) services out to specialized non-public providers, settled and remunerated based on real effects of their actions (payment by result).

In order for labor services to act efficiently, it is also necessary to equip them with effective incentive tools and

the tools to sanction the unemployed. On the one hand, an unemployed person must be motivated to undertake certain actions, while, on the other hand, that person must be aware of the existence of sanctioning mechanisms which will be applied if he/she evades active participation in the process. It is clear that the problem is complex and requires coexistence of a range of solutions. Only then will we have an effective activation process for the unemployed.

The experience of other countries shows that effective monitoring and settlement of the activities of labor services is a necessary process. Nevertheless, this process does not have to be complex and complicated. In each case, the basic requirement is to define the main objective of the activation measures, and consequently, design adequate efficiency monitoring processes and tools. The objective should cover, in particular, reducing the unemployment by effectively supporting the unemployed in returning to the labor market.

Today, in many countries, the public labor services are held accountable for measures they have undertaken (e.g. the number of people trained, the number of internships organized or progress in spending available funds). Such objectives do not necessarily represent sufficient motivation for increasing the efficiency of the activation measures. It seems appropriate to adapt the approach, used, e.g., by public labor services in the United Kingdom, where labor services (JobCenter Plus, JCP) have concrete performance objectives, connected, e.g., with the percentage of the unemployed leaving the register of the unemployed within 3 months after registration. Thus, emphasis is put on the expected outcome, not the form of measures to be undertaken.



2.3 Activation of difficult groups of the unemployed by a non-public operator

As mentioned above, different groups of the unemployed require different support. Those who are in a particularly difficult situation on the labor market, being far from the market, constitute a very specific group in this respect. Such people face various barriers that prevent them from returning to the labor market, and as such require an individualized approach from

the employment service providers. At the same time, they are not motivated to look for a job, and in the case of the developing markets, they often work in the shadow economy. It is no coincidence that the unemployed citizens who are far from the labor market are called “difficult group of the unemployed.” In many countries, this group consists of the long-term unemployed in particular, who, as shown in the first part of this report, constitute about 50 percent of registered unemployed in total.

Activating those belonging to the “difficult group” is generally associated with the necessity to intensify the measures: it may require considerable time and generate significant costs. At the same

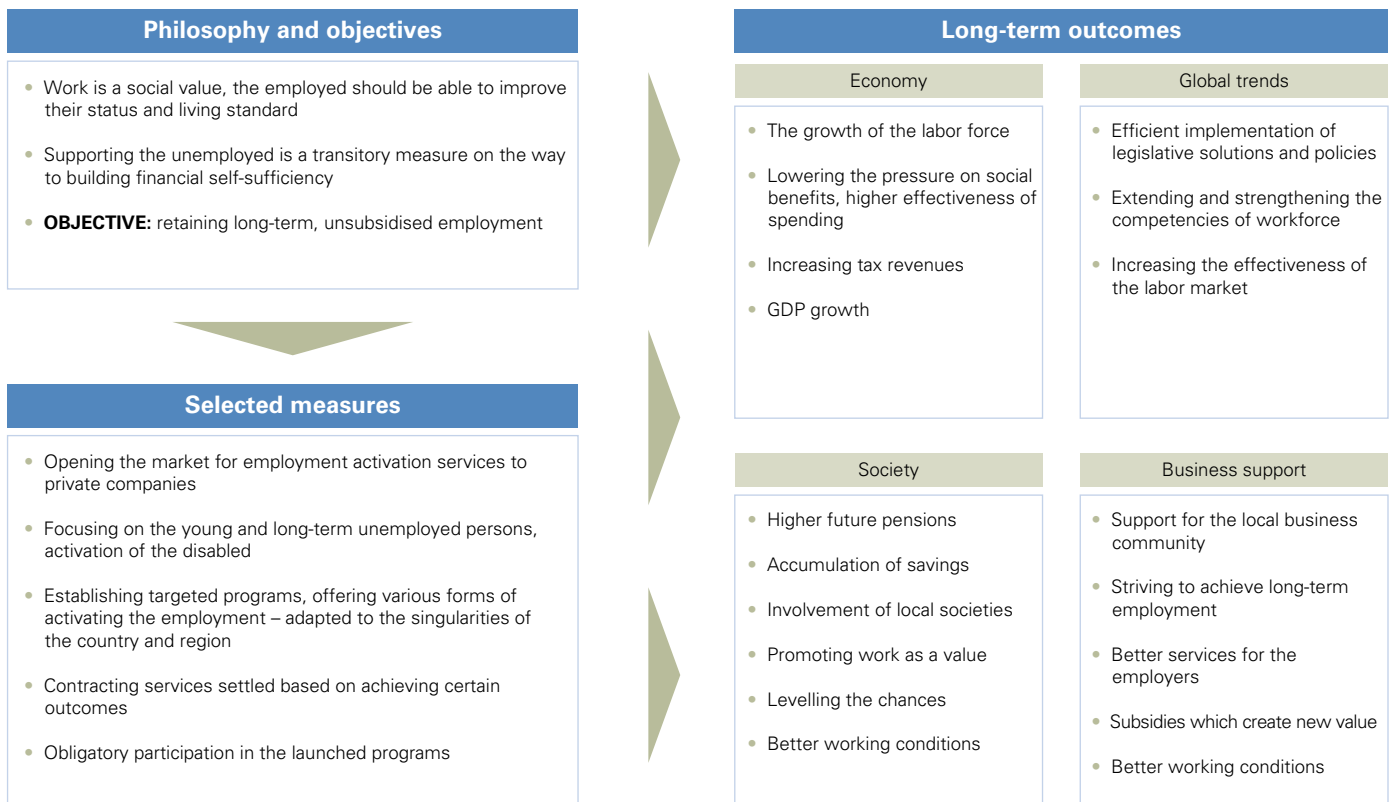
time, achieving the objective in the form of bringing such a “difficult client” to find employment is moderately likely at best. A question thus arises in what way the limited measures and resources available to the public employment services should be distributed: should they be focused on those who are closer to the labor market, who can be helped faster and easier, or should they be concentrated on more difficult cases. This dilemma is even more problematic if the labor office and its employees are responsible for the outcomes of their actions (performance levels), with no differentiation as regards the various groups of the unemployed to whom the assistance is provided.



A solution to this problem, used successfully in many countries in the entire world, is to open the market for employment services to non-public operators,⁹ together with working out a cooperation model between the public employment services, social

aid institutions, non-governmental organizations and non-public operators. Different countries adopt different solutions—the next section discusses selected models. Nevertheless, the most frequently applied approach is to enable non-public operators to be contracted

with the provision of activation services, in particular those applicable to “difficult groups of the unemployed.” Below is a comparison of the main principles, philosophies, objectives and expected outcomes of such solutions in the world.



Source: KPMG analysis

As shown here, the model assuming cooperation between the public and non-public employment services may

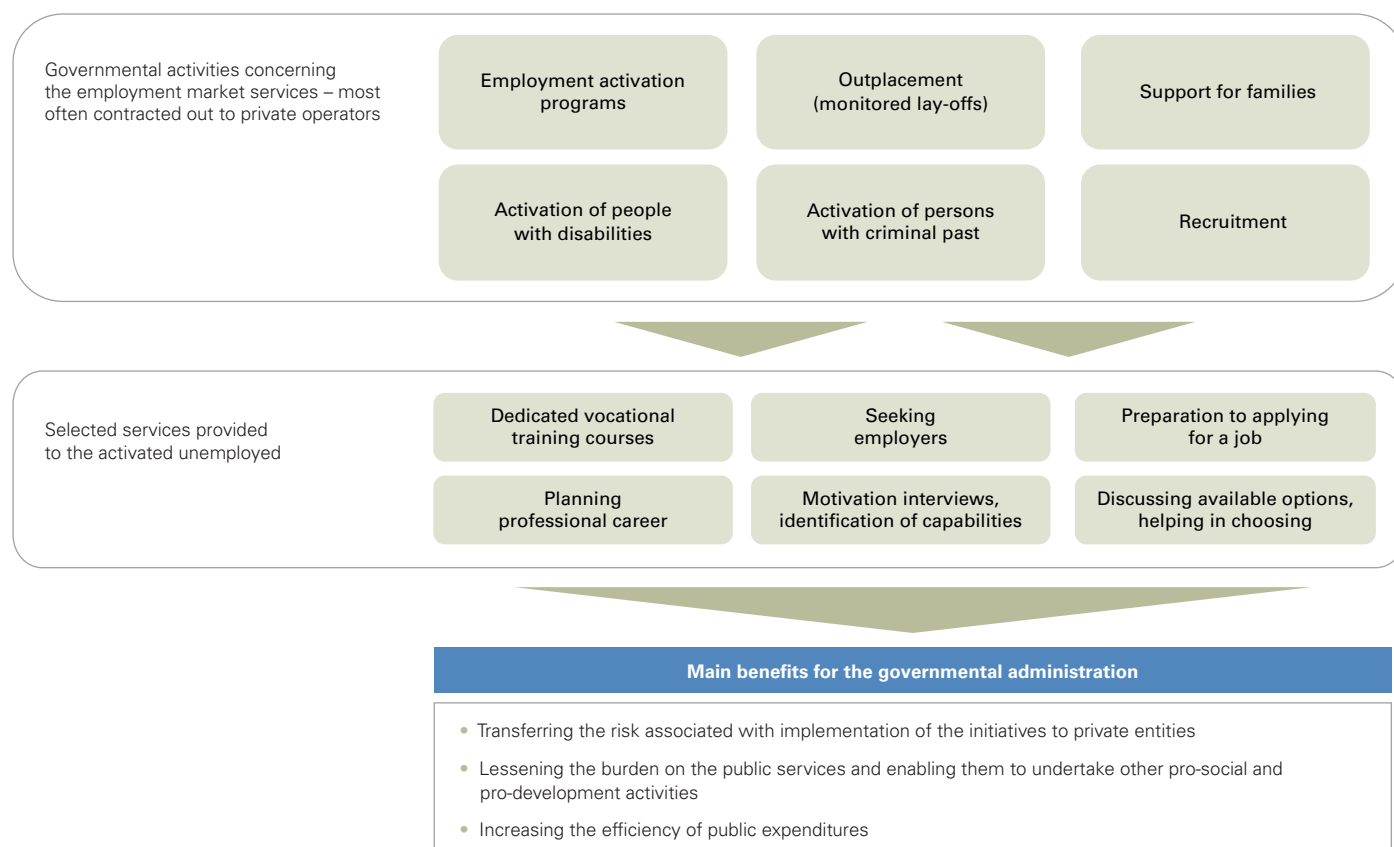
bring multi-dimensional effects. It also gives the chance to achieve the objective that should be on the top of all activation

measures – maintaining long-term, unsubsidised employment.

⁹ An “operator” is a specialized company, institution or non-governmental organization which receives contracts for performing activation services (bringing people to find employment) for a given group and number of the unemployed.

Below is a summary of the main actions undertaken by the

governments in the opening the market for labor services.



Source: KPMG analysis

One of the most important principles, underlying the model whereby activation services for the unemployed are contracted out, is to increase the efficiency of public spending. At the moment, the solutions applied in many countries differ in the details, yet they generally base a significant part of the operator's remuneration on the outcomes of the operator's activities. It is only after a particular outcome is achieved, most often in the form of bringing an unemployed person to find employment or to sustain the

employment within a designated period of time that the operator is entitled to apply for a portion of remuneration. The share of performance-based remuneration in the total fee paid to the operator varies, depending on the model, nevertheless such payments usually constitute a major part of the remuneration.

From the perspective of the state budget, we observe a very desirable situation: if the activities of the operator bring no outcomes, the remuneration

(or its significant portion) is not paid (high efficiency of expenditure), and, on the other hand, the payment of the remuneration and achieving the employment objective means that the state budget will benefit from reduced payments of unemployment benefits or from increased revenues in the form of taxes and social insurance contributions (positive net result for public finances).

Application of a model where the employment service market is opened for non-public operators fosters the

efficient allocation of resources and individualized approach to activating the unemployed persons. Here, it must be emphasized once again that it is extremely important to ensure proper profiling of the unemployed, along with allocating relevant methods, forms and tools of support. The properly designed model of contracting out such services should promote cooperation and limit negative competition between the public and non-public employment services. Different countries apply different approaches in this regard—more detail is presented in the next section.

2.4 Expected benefits from the implementation of the new approach

The new activation model of the unemployed, assuming the cooperation between the public and non-public sector of the employment market services, creates new opportunities and chances for the unemployed, in particular those in a difficult situation.

From the viewpoint of an unemployed person, the expected benefits from the implementation of the new approach include, in particular:

- Increasing the chances to find employment – non-public operators have more opportunities to reach potential employers, in particular by establishing long-term relations or holding dialogue at the B2B level.
- Real opportunities of overcoming barriers on the path to sustainable employment through access to new forms of activation and the individualized approach of the operator,

focused on the particular person, his/her chances or problems.

- Improvement of the living standard and occupational conditions through increasing the motivation level and obtaining the skills necessary to navigate the labor market, as well as through sharing experiences with other unemployed.

From the viewpoint of the employment services, the expected benefits from the implementation of the new approach cover, in particular:

- Increasing the efficiency of operations, by adapting the forms and tools of support for the unemployed to their distance from the labor market and to the barriers that prevent them from returning to the market.
- Optimizing the activities of service providers through potential cooperation and sharing experience between the public and the private sectors.
- Assuring comprehensive and complementary services of the public sector, by facilitating the cooperation between employment and social services.
- Improving the perception of the employment services, resulting from improving the efficiency of the operations and aligning the services to the expectations of the labor market participants in a better way.

From the viewpoint of the state, the expected benefits from the implementation of the new approach cover, in particular:

- Increasing the efficiency of expenditures, by settling the outcomes of the undertaken actions and by promoting efficiency in finding employment.

- Increasing the efficacy of combating the unemployment by implementing innovative solutions and by adapting the applied forms of activation to the needs of individual groups of the unemployed in a better way.
- Relieving the burden on the state budget by effectively allocating the funds and generating additional tax and quasi-tax revenues and savings in the expenses (lower costs of maintaining an unemployed person, increased consumption of the persons returning to the labor market).
- Positive social reception of the activities undertaken by the government: making an effort to meet the expectations of labor market participants.



3

Examples of implemented solutions

3.1 Poland

3.1.1 Introduction

The problem of unemployment in Poland, despite positive signals resulting from the recovering economy, is still a major issue, which may result in social tension and disturbances. Globalization of the economy, growing competitiveness and the speed of the changes increasingly require adaptation skills from today's employees. These processes are particularly difficult for the long-term unemployed, as they are being moved farther away from the labor market.

The current model of combating unemployment tackles only some needs of the labor market participants, which does not assure the support adapted to the needs of various groups of the unemployed. Hence, the efficiency of spending funds on combating unemployment is limited, and the effectiveness of such actions diverges from the expectations.

Local labor offices are commonly criticized by their limited activity in activating the unemployed and low efficiency of their actions. In reality, the efficiency of labor offices mostly depends on the bureaucratic burden, excessive number of clients in relation to the number of employees, now motivation of many clients or the catalogue the services provided that is limited by law. On the one hand, largely due to imperfect legal regulations, local labor offices hardly

use the available means of involving other labor market institutions to cooperate (also under commercial terms) within activating the unemployed.

The number of the unemployed, in particular the long-term unemployed, has been growing until recently and the local labor offices cannot find the answers to their problems, due to the reasons discussed above, but also due to the limitations of the insufficiently flexible solutions under the Act of 20 April 2004 on promoting employment and labor market institutions (the Act).

Taking the aforementioned into consideration, it is necessary to start looking for new methods and solutions for that group. Such activities are, indeed, undertaken. The two main initiatives include: the pilot program carried out by the Ministry of Labour and Social Policy "Partnership for jobs"¹⁰ and the pilot program carried out by the Małopolskie voivodship "Express train to employment – an innovative model of activating the unemployed."¹¹ Both initiatives are intended to test the cooperation model of the public employment services (PES)¹² with the non-public sector, with respect to the activation of the individual, difficult groups of the unemployed. A more extensive description of the initiatives is presented below.

Based on early experiences of the above-mentioned projects and taking into account challenges faced by employment services, the Ministry of Labour and Social Policy

¹⁰ Financial initiative from the funds of the Labour Fund.

¹¹ Financial initiative from the funds of the European Social Fund (ESF), under the Operational Program Human Resources (OP HR).

¹² Public (state) Employment Services – state institutions responsible for the registration of the unemployed, for providing them support in seeking employment and for paying benefits, abbreviated as PES.



The current role of labor offices requires a more strategic approach, which will make it possible to adapt them to the changes in the economy in general and in the labor market in particular. Such a strategic approach requires that a partnership is developed with other service providers from the public, private, NGO and non-profit sector.

introduced in May 2014 amendments to the Act, covering, among others:

- improving the effectiveness of labor offices, in particular by increasing the role of the voivodship local government in the labor market policies, changing the algorithms of allocating the funds of the Labour Fund, making the remuneration of labor offices conditional on outcomes of their activities;
- improving the quality of services provided to the unemployed according to their needs, e.g. by introducing the profiling the unemployed, improving the working standards of labor offices, cooperation between labor offices and the communes, as well as contracting activation services out to non-public entities;
- implementing new tools supporting the creation of new jobs and return of the unemployed to employment, including the subsidies for remote work, activation services, loans from the Labour Fund for creating new jobs or undertaking business activity or warranties granted by Bank Gospodarstwa Krajowego under the funds of the Labour Fund;
- supporting the employment among young people through implementing new instruments supporting the employment and solutions applicable to relieving the employers from paying or to refinancing the obligatory contributions paid by the employer;
- supporting employers who offer jobs to long-term unemployed aged 50 and more;
- establishing a National Training Fund, supporting investments in human resources, representing an element of the Europe 2020 strategy;
- changes as regards the access of foreign nationals to the labor market.

New regulations in the areas listed above should improve overall performance of employment services and allow for more targeted support being provided to the

individual unemployed. Some of the new tools will be available to employers for their use, providing them with an opportunity to influence the way funds are spent. However, these reflect only part of the changes that need to be introduced. Performance evaluation, evidence based methods, knowledge and best practice sharing, integration in the human and social services domain and process optimization are still to be addressed.

In our opinion, when planning the changes in the labor market regulations, or more extensively, social aid, it is important to consider the issue of consolidating the benefits paid out from various sources, in particular those connected with the unemployment and social aid, to people in a particularly difficult situation. The integrated system of benefits would make it possible to allocate funds more effectively, to reduce benefits fraud and to strengthen the support for those who need it the most. Implementation of such mechanism requires integration both in the case of the operational processes (cooperation between various institutions, changing the mode of operation) as well as in the case of IT solutions. By introducing a fiscal inspection mechanism into such a system, we receive additional way to adapt the necessary level of support (benefit) to the material situation (the revenue) of the person on a current (or even automatic) basis. Such solutions are now being implemented in the United Kingdom; therefore, it is important to take a close look at the experience in this respect.

3.1.2 The pilot program carried out by the Ministry of Labour and Social Policy – “Partnership for jobs”¹³

3.1.2.1 Description of the solution

The pilot program entitled “Partnership for jobs” was used to design new cooperation mechanisms between voivodship labor offices, poviats labor offices, suppliers of activation services and other labor market partners, for supporting the return of the unemployed

¹³The details were prepared based on the document issued by the Ministry of Labour and Social Policy “Partnership for jobs. Pilot Project”, using selected sections of that document.

to work. It was assumed that the pilot program would result in the following:

- the Polish model of contracting out (commissioning) activation services (understood as a set of activities placing the unemployed on the labor market) would be tested, which was inspired by the solutions of cooperation between employment services and the non-public entities in other countries and the solutions developed at the national level,
- an assessment of the functionality and efficiency of the new suggested solutions concerning contracting out the activation service would be made, and, in particular, detailed principles and solutions necessary for the systemic implementation of this solution on the Polish labor market would be developed.

The pilot solutions included activation services addressed to the unemployed in particularly difficult situation on the labor market.¹⁴

The participants of the pilot program were groups of the unemployed defined on the basis of the analysis of the labor market, i.e. at least 50 percent of the pilot program participants constituted long-term unemployed, and the remaining participants (up to 50 percent of the participants) were those belonging to the following groups: unemployed women that failed to go back to work after giving birth to a child, unemployed over 50 years of age and the unemployed who are disabled. Afterwards, the operators of the pilot program, based on the percentage of the unemployed in specific target groups set by the Minister for the voivodship, set the groups and the number of participants in the pilot program for individual poviats in the voivodships. The number of participants of the pilot program and their structure, defined by the characteristics of the unemployed, varied from one poviat to another.

3.1.2.2 Cooperation model between operators and PES

The current role of labor offices requires a more strategic approach, which will make it possible to adapt them to the changes in the economy in general and in the labor market in particular. Such a strategic approach requires that a partnership is developed with other service providers from the public, private, NGO and non-profit sector. The target system will be based on further professionalization of labor office personnel, developing the counselling and mediation, better cooperation with employers and gaining the skill to address the services and labor market instruments so that the efficiency and sustainability of the active labor market policy are increased on a regular basis.

Services and instruments applied by labor offices should be supported by the services provided by the private sector, social partners and non-governmental organizations, specializing in activation of the unemployed. The achieved synergy effect must improve access to the labor market services and instruments for the unemployed, and, ultimately, it must build the market for activation services, which will be fully adapted to the needs of both job-seekers and employers.

The pilot solutions and first systemic solutions must be based on cost and employment optimization of the labor market policies, and, as the experience of other countries shows, the final model should be based on cost-optimization in the end and in the long-term perspective. Cost-optimization, as a rule, means that the efficiency is maintained at the same or lower level of expenditures. Activating people and finding employment for those at the risk of social exclusion is a choice, which will, in the end, cost less than long-term payment of social benefits.

The purpose of the cooperation in the area of employment services is improving the way in which the Polish labor market is supported, not the privatization of labor

offices. It is important to seek an effective way of contracting the services out and creating such a model that would be complementary on the one hand, and on the other, one that would enable actors to select partners individually to implement active labor market policies.

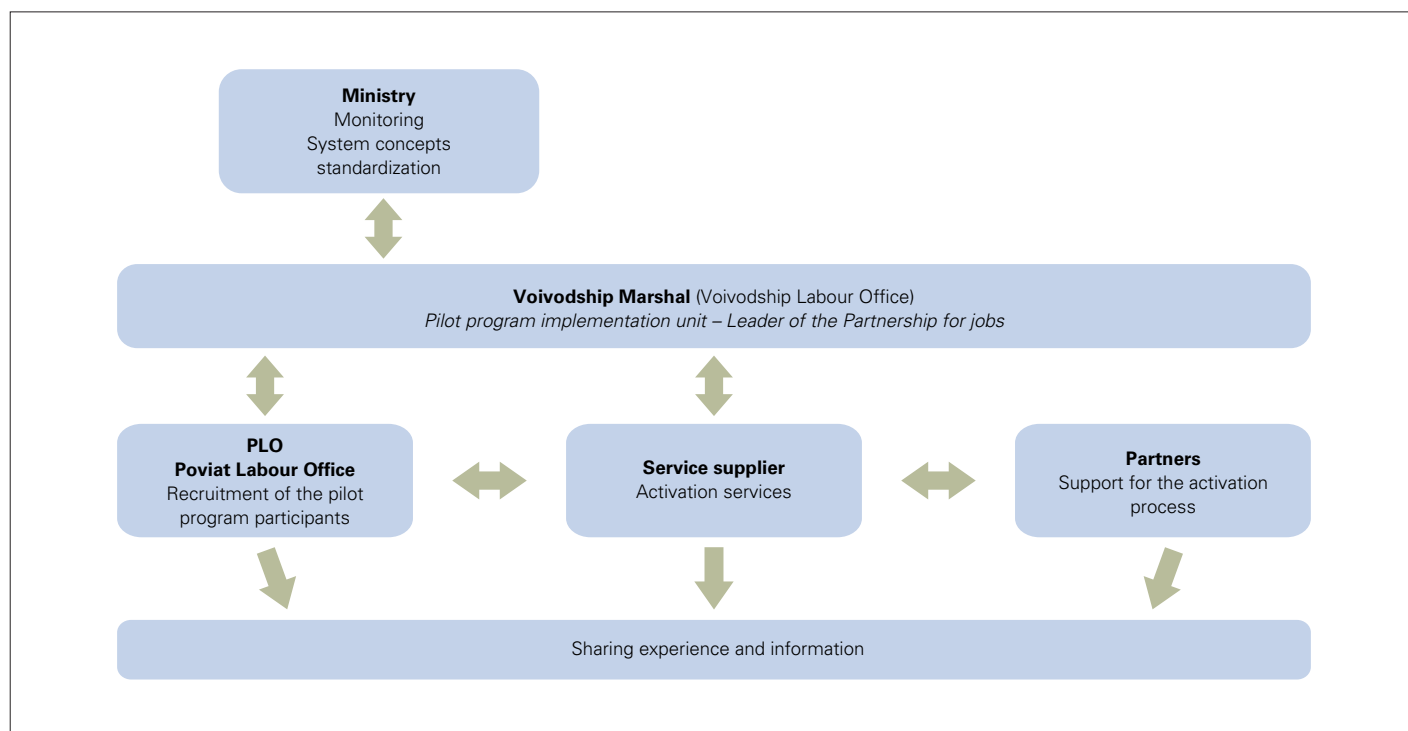
The cooperation between labor offices and other institutions working for the benefit of the labor market should be based exclusively on the principles of mutual agreement, trust and partnership, rather than on the basis of competing for clients on the labor market.

Provision of labor market services should be the joint responsibility of various entities and it should be based on the procedures that had been jointly drafted. Employment agencies do not have to be an alternative solution (rather, a complementary one), supporting the operations of labor offices. Poland is now in a good situation because our country might draw upon the experience of a few countries that had introduced contracting labor market services to the employment services models and thus increased the efficiency of the activation programs, and also frequently improved the quality of the services provided.

It seems optimal to recommend that activities intended to improve the situation on the labor market should be pursued as partnerships in the regions. The partnership leaders should be the voivodship labor offices, reporting to the Marshal, who will build the cooperation with the poviat labor offices and employment agencies from the viewpoint of the regional development strategy. Hence, the pilot program emphasized that the activities will be carried out as a partnership, assuming active cooperation between local governments of voivodships and poviats, employment agencies, non-governmental organizations, trade unions and associations of employers.

¹⁴ In accordance with the definition from the Act of 20 April 2004 on promotion of employment and labor market institutions.

The figure below presents a diagram of cooperation flow in the project:



3.1.2.3 Activation path

Participants of the project included the unemployed belonging to “difficult” groups (see section below on profiling). The basic criteria was being the client of a relevant labor office (participant in the project) and being without a job for the period of at least 12 months. Therefore the unemployed, project participants, had been earlier subjected to activation measures by the public employment services, yet those measures failed at leading to taking up employment by such people. After a person joined the project, for the duration of the pilot program (it was assumed to last 12 months), an unemployed person received support from an operator, employment agency, selected in a tender procedure.

In general, the activation path of an unemployed person would look as follows:

- before joining the project: activation by the public employment services (different duration of the unemployment, depending on their belonging to a group);

- after joining the project: activation by the non-public operator:

- **analysis of the status of the unemployed person** (in order to prepare the so-called opening balance) – that is the preliminary diagnosis of the professional and personal situation of the participant of the program and the participants motivation to take up employment and the chances to find a place on the labor market as well as the proposal of the forms and methods of activation, necessary to introduce the participant to employment,
- **commencement of activation measures** – implementing the proposed forms and methods of activation, required to introduce the participant to employment,
- **active participation in the activation measures** proposed by the operator and seeking a job,
- **finding employment** or commencing business activity,

- **cooperating with the operator and the employer** in order to improve the chances to stay in employment (the objective of the project was to sustain employment or run business activity for the period of at least 3 months).

3.1.2.4 Profiling

No target profiling of the unemployed was performed for the purposes of the pilot project. As mentioned in section 3.1.2.1 above, as a result of the analysis, it was decided to include selected groups of the unemployed in the pilot program.

At the same time, while presenting the preliminary concept of amendments to the Act, the Ministry of Labour and Social Policy proposed a new approach to profiling the unemployed – information on this topic is presented in section 3.1.4.

3.1.2.5 Financing model

The remuneration model of the operator under the program “Partnership for jobs” provided both for the payments

for the performance of services and for the payments for achievement of certain measurable outcomes of the activation measures by the operator (finding and maintaining employment by the participants of the pilot program). The emphasis was put equally on both types of payment.

The remuneration for the service supplier (employment agency) was to be paid in four instalments:

A. instalment I – Amount due for the opening balance – constitutes 20 percent of the gross amount offered by the selected service supplier, up to PLN 2,000 per one participant of the pilot program,

B. instalment II – Amount due for the activation balance – constitutes 30 percent of the gross amount offered by the selected service supplier, up to PLN 2,000 per one participant of the pilot program, towards whom activation measures were undertaken,

C. instalment III – Bonus I – constitutes 25 percent of the gross amount offered by the selected service supplier, up to PLN 2,500 per one participant of the pilot program that found employment,

D. instalment IV – Bonus II – constitutes 25 percent of the gross amount offered by the selected service supplier, up to PLN 2,500 per one participant of the pilot program that maintained employment for the period of at least 3 months, provided that the indicator of maintaining employment of the pilot program participants is achieved at the level no lower than the one declared in the offer.

The value of the instalments III and IV depends on the outcomes of finding employment by the pilot program participant and sustained employment performance, achieved by the service supplier. The instalments were settled and paid after the implementation of the pilot program was completed, when

the project implementation unit verified the level of the indicators achieved by the service supplier. In particular, the operator was not entitled to receive the payments of those instalments, if:

- the operator failed to achieve the employment efficiency level declared by the service operator (for instalment III) in the offer or
- the operator failed to achieve the employment maintenance indicator in the case of the pilot program participants declared by the service operator (for instalment IV).

Moreover, if the employment efficiency level indicator of the service provider was lower than declared in the offer, the service supplier was supposed to return the amount of the funds equal to the value of the percentage difference between the employment efficiency indicator declared in the offer and the one actually achieved by the service supplier (paid from the amount received under instalments I and II).

3.1.3 The pilot program in the Małopolskie voivodship – “Express train to employment – an innovative model of activation of the unemployed”

3.1.3.1 Description of the solution

The objective of introducing innovation in the form of the model where the tasks of leading to the unemployed finding employment are contracted out to non-public entities is to improve the quality of the tasks undertaken for the activation of those people and becoming involved in opening the labor services market, which should result in increasing the efficiency of the activation measures.

The innovativeness of the solutions contained in the “Express train to employment” project consists in:

- opening the market of activation measures for the unemployed and of finding employment to private

companies, through establishing flexible conditions on e.g. periods of employment, remuneration paid to the operator (contrary to the approach stipulated in the Act, where the conditions are inflexible, e.g. the requirements include full-time employment, a minimal one-year employment period; as a result it is not applied);

- freedom to select activation mechanisms and tools by the non-public operators – the approach is in the “black box” system; the operator does not have a set of particular services to perform. The emphasis is put on the outcomes of the operator’s activities i.e. participants’ finding employment;
- defining a minimal catalogue of services in order to ensure the transparency of actions and uniform operating frameworks;
- contracting out services settled based on achieving clear outcomes – the basic principle of settlements with the operators (the majority of the remuneration) will be the “payment for outcomes”; understood as the return of an unemployed person to the labor market and maintaining unemployment for a set period of time;
- focusing the activities for the groups of the unemployed, whose activation is the hardest, that is those who are far from the labor market;
- an individualized approach to providing employment agency services towards the representatives of individual groups;
- introducing a principle of monitoring the fate of the project participants after finding employment, arising from the adopted remuneration model.

The approach is modelled after the British model but it considers the singularities of the Polish labor market.

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The unemployed who were sent to participate in the activation measures carried out by the operator will continue to be clients of the relevant labor offices, and the latter will be entitled to apply pre-defined motivating and sanctioning mechanisms to project participants, thus supporting their motivation to actively participate in the project.

3.1.3.2 Cooperation model between operators and PES

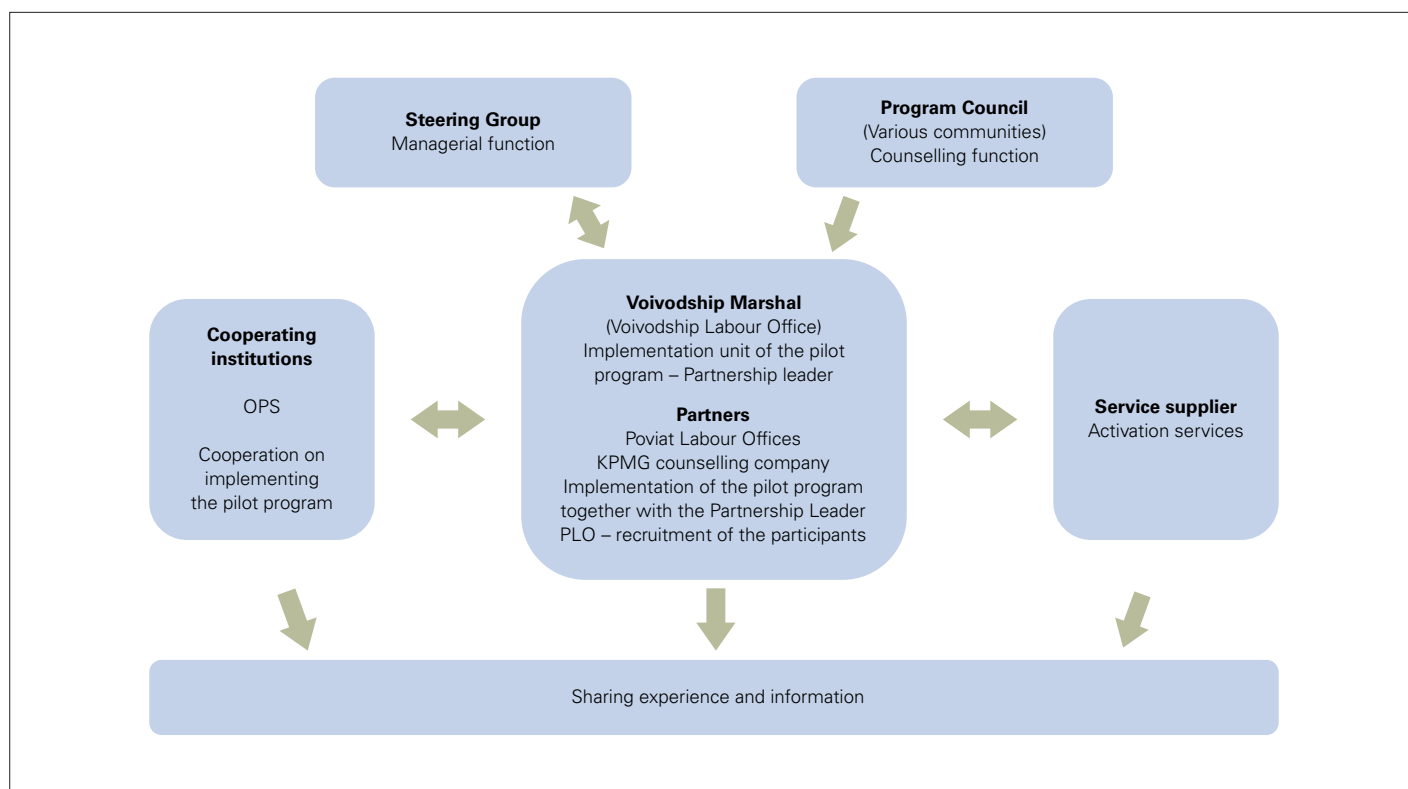
The implementation unit of the project is the Voivodship Labor Office in Kraków, along with its partners:

KPMG and poviats labor offices (PLO) participating in the project.¹⁵ The project also assumes strict cooperation between labor offices and social assistance institutions (SAI).

Project partners, through extensive consultations with the representatives of various communities, including academic circles, labor market institutions and social assistance institutions, representatives of the local and regional authorities, representatives of the employers, potential operators, developed a model of contracting out the services intended to lead the unemployed to finding the employment. This model, comprising multiple elements defining the cooperation principles, the principles of monitoring and settling the outcomes or the principles of recruiting the participants to the project, will be tested under the pilot program.

At the stage of the pilot program, the employment agency (operator) selected in a public tender procedure will carry out activation measures for a group of 1,250 project participants, unemployed for at least 12 months. At this stage, the cooperation between the public employment services and the operator will apply both to the recruitment of the participants to the pilot program, as well as the current monitoring of the outcomes of the operator's activities. The unemployed who were sent to participate in the activation measures carried out by the operator will continue to be clients of the relevant labor offices, and the latter will be entitled to apply pre-defined motivating and sanctioning mechanisms to project participants, thus supporting their motivation to actively participate in the project.

The figure below presents a diagram of cooperation in the project:



¹⁵ Powiat labor offices in Tarnów, Dąbrowa Tarnowska, Nowy Sącz, Bochnia, Gorlice, Chrzanów, Oświęcim.

3.1.3.3 Activation path

The participants of the project include the unemployed belonging to “difficult” groups (see the section below on profiling). The basic criterion is defined as being a client of a relevant labor office (participant in the project) and being without a job for at least 12 months. Therefore the unemployed, i.e. project participants, had been earlier subjected to activation measures by public employment services, yet those measures failed to lead to their employment. After a person joined the project, for the duration of the pilot program (it will last 18 months), he/she would receive support from an operator, an employment agency selected in a tender procedure.

In general, the activation path of an unemployed person looks as follows:

- before joining the project: activation by public employment services (the duration of unemployment of at least 12 months);
- after joining the project: activation by a non-public operator:
 - **analysis of the status** of the unemployed person, that person’s professional and life situation and the potential barriers in returning to the labor market,
 - **preparation of an individualized career plan**, considering the types and schedule of actions planned in order to restore the unemployed person to the labor market,
 - **active participation in the activation measures** proposed by the operator and making efforts to seek a job,
 - finding employment,
 - **cooperating with the operator and the employer** in order to improve the chances to stay in employment (the objective of the project is to sustain employment for a period of at least 6 months).

3.1.3.4 Profiling

In order to select participants for the project, the total population of the unemployed was divided into four profiles, depending on their distance from the labor market. Therefore, Profile I covers the unemployed that are closest to the labor market, while Profile IV covers the unemployed requiring extensive support in finding employment. It was assumed that the Profile I covers people who will be supported exclusively by the poviats labor offices due to the fact that those offices dispose of instruments that might lead the Profile I people to finding employment easily. The situation on the labor market is more difficult for the other profiles and those groups are further away from the labor market. Moreover, the profiles were divided into groups, depending on the characteristics of the unemployed, including education, age and duration of unemployment. A total of four groups were selected to participate in the program, classified to Profiles III and IV (i.e. covering those who are farthest from the labor market):

- those aged 18–24, unemployed for a period from 12 to 24 months, regardless of other factors,
- those aged 25–44, unemployed for a period from 12 to 24 months, regardless of other factors,
- those unemployed for a period exceeding 24 months, regardless of age and other factors,
- those aged 45+, unemployed for a period from 12 to 24 months, regardless of other factors.

Since the recruitment of the unemployed from the groups selected above was random to a certain extent, the participation in the project was open to the representatives of the majority of the groups recognized by the Act as citizens in a particularly difficult situation on the labor market, e.g. long-term unemployed, people without qualifications or vocational experience, people without high-school

education completed, single parents, women returning to the labor market after giving birth to a child, people with disabilities or former prisoners.

3.1.3.5 Financing model

The remuneration model for operators under “Express train to employment” includes both payments for the performance of services and payments for achievement of certain measurable outcomes of the activation measures by the operator (finding and maintaining employment by the participants of the pilot program).

Under that model, certain events are defined and after they have occurred the operator will be entitled to apply for payment of a portion of the total remuneration. The operator’s total maximum unit fee applies to one project participant and it is divided into five instalments:

- A. the first instalment (20 percent, 2000 PLN net) will be paid out for performing the assessment of the potential of the project participant and preparing a career plan of an unemployed person,
- B. the second instalment (25 percent, 2500 PLN net) will be paid when the participant finds employment,
- C. the third instalment (encompassing three partial payments) will be paid for sustaining employment and will be paid out in accordance with the following pattern: after 2 (10 percent, 1000 PLN net), 4 (15 percent, 1500 PLN net) and 6 months (30 percent, 3000 PLN net) of sustained employment. The size of the second and third instalments (including partial payments) will depend on the amount of the remuneration received by the project participant.

The difference between this arrangement and “Partnership for jobs”

is that the payment of instalments which are conditional on the outcomes (in the form of bringing project participants to finding employment and maintaining that employment) will be made on an ongoing basis, in the course of the pilot program.

3.1.4. New regulations introduced in May 2014

As mentioned in the section 3.1.1, the Ministry of Labour and Social Policy introduced a series of amendments in the regulations applicable to the labor market. In particular changes included a new approach to profiling the support for the unemployed, introducing three profiles:

- unemployed with a high level of activity in looking for a way to resolve their work situation,
- unemployed who require support, using the existing labor market services and instruments, and
- unemployed who are far from the labor market, who require specific support to be obtain it in the course of dedicated programs initiated in cooperation with other institutions, including the social aid institutions.

There is no doubt that the latter group will require the most support from the employment services. The objective of that support will be to restore (or build) motivation to be active, professionally and socially, and to build the ability to function in the labor market from scratch. Such activities will be undertaken after having identified individual barriers against professional activity.

The first two profiles of the unemployed would be activated using the forms of support available so far, however, they

would be better adapted to the needs of a particular group. The third profile, i.e. citizens who are far from the labor market (second-chance unemployed), would be activated using new forms of support:

- commissioning activation services to private operators: employment agencies, which will provide support to the unemployed who have been referred to them,
- covering the unemployed by the Activation and Inclusion Program (AIP).

While commissioning activation services is a common solution in the world, it is only now being tested in Poland: two such initiatives are discussed in the above sections. The next section also presents the experience of other countries.

AIP is an activity directed at the long-term unemployed who use the services of social aid program. Its essence is the integration of activities carried out by public employment services and social assistance for the purposes of social and vocational activation of those persons.

Profiling will allow labor offices to focus on those whom they will be able to help fast and effectively, at the same time providing tools for effective assistance to people who are in the most difficult situation on the labor market. Profiling should also make it possible to identify those who are not interested in vocational activation and seeking jobs, and therefore, the labor services should not actively work with such people. This will release resources that could be allocated to helping those that actually need them.

3.2. International experiences

Analyzing the experiences of other countries in the implementation of various solutions in regard to activation of the unemployed, for the purpose of this report we focused on four countries: the United Kingdom, the Netherlands, Australia and France.

Information included in this section is based on analysis carried out by KPMG and uses parts of the study "Analiza doświadczeń międzynarodowych. Modele aktywizacji osób bezrobotnych uwzględniające udział sektora prywatnego" (Analysis of international experiences. Models for activation of the unemployed taking into account the private sector), prepared by KPMG in cooperation with the Regional Labor Office in Cracow. Quoted study is one of the attachments to the report entitled "Diagnoza i analiza problem. Raport Końcowy" (Diagnosis and analysis of the problem. Final Report) and forms the element of a comprehensive analysis conducted by KPMG, the Regional Labor Office in Cracow and selected local labor offices under the "Express to employment – an innovative model of activation of the unemployed", co-funded by the European Social Fund. KPMG in Poland is a partner in this project, and the project itself is described in more detail in section 3.1.3 of this report.

3.2.1 United Kingdom

3.2.1.1 Description of the solution

The United Kingdom has involved private suppliers to provide vocational

activation services to the unemployed since the early 1990s. Over that period, a few initiatives have been undertaken, with the intention to support the return of the long-term unemployed to the labor market. The most recent one is the so-called 'Work Programme', introduced in 2011. It is based on the principle of payment for outcomes, combining long-term incentives for service providers with the freedom to develop innovative approaches and methods of working with the unemployed.

In the United Kingdom, the "black box" approach was applied, according to which PES¹⁶ are required to select such support for the re-integration process which would be based on the needs of the particular participants of the program. The UK authorities do not impose any particular measures to be undertaken for the purposes of reintegrating the unemployed. On the contrary, private suppliers have complete freedom in this respect: they are only limited by the economic model they adopt in the course of their operations.

3.2.1.2 Cooperation model between operators and PES

There is a clear division of tasks connected with the employment between the public services and private providers. A general authority for concluding contracts is the Department for Work and Pensions (DWP). DWP is responsible for supervising JobCentre Plus (JCP), a public organization supporting the unemployed in finding employment within the set time after registration and referring the unemployed to the program/service providers. JCP is also responsible for awarding social benefits.

For the purposes of this program, the United Kingdom was divided into 11 regions, the so-called "Contract Package Areas". Next, private employment agencies were invited to take part in the tender procedures for the provision of services in employment in those areas.

The winners of the tender procedures serve as "main service suppliers", responsible for managing large chains of supplies from the subcontractors and specialist service suppliers.¹⁷

3.2.1.3 Activation path

The unemployed citizens register with JCP in order to obtain the benefits available to the unemployed and the access to support. JCP counsellors, together with the clients (the unemployed), prepare an Action Plan and help them gain access to the support they need to come back to work. It is a relatively non-advanced service and the action plans prepared by JCP and the client are not disclosed to service suppliers under the Work Programme. When a set time lapses from the moment the clients register with JCP, depending on the type of benefit (see Table 1) and the barriers making finding employment harder, they are referred to a service supplier under the Work Programme. After receiving access to benefits under the Work Programme, the client receives support from the main contractor or from one of the subcontractors or their specialist support service suppliers, depending on the needs of that client.¹⁸

Below presented is a list of activation steps:

- Interview at JCP – the JCP counsellor works with the client to inform him/her about the program in terms of

its operations within support and job-seeking. Based on the interview, after the lapse of a set time from the registration with JCP, the client is ready to be referred to the Work Programme.

- Random allocation – the JCP counsellor enters the DWP system to input the name of the client. The system randomly allocates the service supplier within the Contract Package Area. The JCP counsellor provides the client with the information about that supplier (e.g. in the form of a leaflet). The next step involves contacting the client with the supplier.
- Conversation between the client and the service provider – the supplier contacts the client to arrange a meeting at a local centre. When the client meets the service provider, the client officially joins the program.
- Action plan – Service providers assess the client in order to determine the support required for his/her vocational activation.
- Activation measures – the service provider renders activation services and actively supports the participant in finding employment.
- Employment and monitoring – after the participant finds employment, the service provider is obliged to monitor the participant's situation and to offer support, if needed, to maintain the employment.

After joining the Work Programme, clients stay on the program for a period of 2 years (even if they have found employment).

¹⁶ Private Employment Agency.

¹⁷ At the moment, there are 18 main suppliers and about 1000 subcontractors on the British market, where about half of them belongs to small companies, while the other half – to non-governmental organizations (The Work Programme, Department for Work and Pensions, 2011).

¹⁸ Work in Progress. Fulfilling the potential of the Work Programme, CBI, 2012.

3.2.1.4 Profiling

The Work Programme is strictly connected to the social benefits system. The type of the granted benefit is the basic criterion for participant profiling. In order to apply for a benefit, the unemployed must register with their local JCP, which classifies the unemployed person as eligible for a relevant benefit (e.g. Jobseekers' Allowance, Employment Support

Allowance, for the people whose health constrains employment options).

In the United Kingdom, the participants of the program were divided into eight groups, the criteria being: type of benefit received by the unemployed person, age and distance from the labor market. The payment groups correspond to the relative probability of finding employment by the program participants, and significant

differentiation of the payments is intended to reduce "creaming" and "parking" the clients by the main contractors. At the same time, this approach aims to ensure the support for those who are farthest from the labor market.

The table below presents the criteria of allocating the participants to individual groups.

Client group	Period from the registration at JCP	Basis of the delegation	Payment group
Clients of the Jobseekers' Allowance aged 18 – 24	from 9 months	Obligatory	1
Clients of the Jobseekers' Allowance aged 25 and more	from 12 months	Obligatory	2
Clients of the Jobseekers' Allowance, having significant problems (e.g. young people with significant barriers, former offenders)	from 3 months	Obligatory or voluntary, depending on the circumstances	3
Clients of the Jobseekers' Allowance who have recently transferred to that benefit from receiving the Incapacity Benefit	from 3 months	Obligatory	4
All Clients of the Employment Support Allowance, who will not be capable to work in short-term perspective	At any time	Voluntary	5
Clients of the Employment Support Allowance	At any time	Obligatory or voluntary, depending on the circumstances	6
Former clients of the Incapacity Benefit, Employment Support Allowance (dependent on the revenues)	At any time	6	7
Applicants for the Incapacity Benefit; single parents, care-takers, clients with educational needs.	At any time	Voluntary	8

Source: KPMG analysis, based on the Work Programme, Department for Work and Pensions, 2011

3.2.1.5 Financing model

The Work Programme is conducted on the basis of the outcomes-based payment. Payment for outcomes requires that the risk is transferred on to the contractors and requires establishment of a “market,” where the financial conditions control the behavior of the contractors. The remuneration for placing an unemployed in a job is paid out 4 instalments:

- Connection payment – a preliminary fee paid out to the supplier in advance

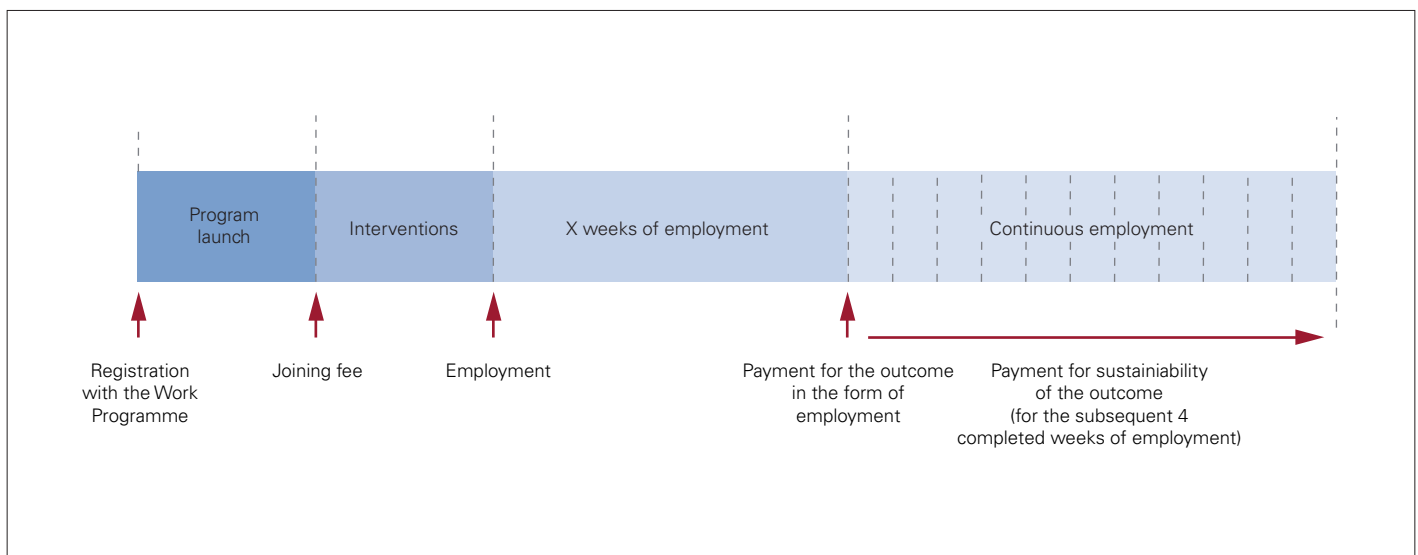
for each new program participant. This fee will decrease each year and will disappear after 3 years.

- Payment for outcomes in the form of employment – payment for outcomes is made in the 13th or 26th week, depending on the group to which the activated person belongs.
- Payment for the sustainability of the outcome – will be made in 4-week intervals, when the client maintains employment for 13 or 26 weeks,

depending on the type of the person that found employment.

- Impulse payments – are available to suppliers that have high efficiency for people eligible to the Jobseekers’ Allowance aged 18–24, people filing for the Jobseekers’ Allowance aged 25+, and client flows of the Employment Support Allowance.

The following diagram shows the payment mechanism described above.



Source: KPMG analysis

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In accordance with the program principles, after the expiry of 3 years from its commencement, the remuneration becomes entirely conditional upon the outcomes.

In the British model, the price for service provision is not set arbitrarily and it constitutes an element of the tender procedure. PES only stated the upper limits of remuneration sums for individual instalments for various groups of unemployed citizens.

In the British model, the ratios between individual instalments depend on the groups. It might be estimated that about

20 percent of the total remuneration for placing in employment constitutes fixed payments (“for services”), while the remaining 80 percent is conditional upon the service provider’s performance. In accordance with the program principles, after the expiry of 3 years from its commencement, the remuneration becomes entirely conditional upon the outcomes.

3.2.2 The Netherlands

3.2.2.1 Description of the solution

The Dutch model is an example of partial privatization of the employment market. In this system, public employment services and private agencies work together at various levels. The suppliers may serve both as subcontractors of simple services and they may also accept contracts for placing the unemployed in a job. At the same time, public institutions retained the capability to manage the process of finding employment, granting extensive competences to their social workers (the so-called client managers).

3.2.2.2 Cooperation model between operators and PES

The model presented in this section features a division of the market into two independent areas, according to the type of the principal. The Unit for Managing Employees' Insurance (Uitvoering Werknemersverzekeringen – UWV) is responsible for the former, dedicated to those who are eligible for the unemployment allowance and to people with disabilities. The second one, dedicated to those ineligible for any benefit, lies within the competences of local governments.

In the Netherlands, it is not obligatory to contract out the employment services. It is the social workers (client managers) that design the entire path of bringing the unemployed to finding a job, monitor the progress along that path and are responsible for selecting reintegration tools, including the referral of the unemployed to private employment agencies.

As a result of that decision being left in the hands of the UWV employees

and local governments, the issue of competition between them and PES was eliminated. The agencies act as subcontractors, both as regards placing in employment as well as less comprehensive services (training, internships).¹⁹

Both UWV and local governments regularly organize regional tender procedures for the provision of reintegration services for a set pools of the unemployed with similar problems in finding employment.

3.2.2.3 Activation path

In the Netherlands, all the unemployed are obliged to register with UWV. That unit performs a preliminary classification of the unemployed person (profiling). If the person meets the requirements for the unemployment allowance or the disability allowance (provided that the person can work), he/she is allocated to a manager within the UWV structures. If the person is not eligible for any of those benefits, he/she is delegated to a local government unit.

In both cases, the unemployed are placed under the care of a social worker – a personal manager that is responsible for the unemployed until that person finds employment. In the Netherlands, the practice is that the job-seeker contacts one social worker.²⁰ That social worker conducts an interview with the unemployed concerning the vocational experience, qualifications and education, life situation, etc.

Based on that interview, the manager and the jobseeker make decisions concerning the individual path to employment. They create a “scenario” comprising subsequent steps the unemployed person should take in order to find employment within the next 12 months.

The manager may (but does not have to) use the services provided by the employment agencies that won the regional tender.

Moreover, since 2004, the unemployed have had the opportunity to ask UWV to conclude an individual reintegration contract (*Individuele Reintegratieovereenkomst – IRO*) on their behalf with a selected PES out of those that won the local tender.²¹ This contract is signed between the unemployed and PAZ and defines the measures to be undertaken to bring the unemployed person to finding employment provided that the subsidised work cannot represent part of the reintegration program. At the same time, the unemployed declares his/her readiness to actively participate in the performance of the actions listed in the contract. The contract is concluded for a finite period of time (up to 2 years maximum).

Individual contracts became much more popular than originally anticipated and in the course of just a few months after their introduction, more unemployed citizens expressed their interest in an IRO than in the offer provided by suppliers selected by the managers.

3.2.2.4 Profiling

In the Netherlands, jobseekers and the unemployed are allocated to a few groups. The classification is made during their first interview with the social worker at UWV. Based on preliminary analysis, the unemployed are classified as belonging to one of four groups, later on simplified into two categories:²²

¹⁹ Zofia Szymańska, Joanna Tyrowicz, 2008, Klantmanager pomaga znaleźć pracę, czyli jak to się robi po holendersku? [Klantmanager helps to find a job, that is how do they do that in the Netherlands?], FISE, 2008.

²⁰ Ibidem.

²¹ Dan Finn, Differential pricing in contracted out employment programs: Review of international evidence, Department of Work and Pensions, Norwich 2009.

²² Ibidem.



Category	Group of the unemployed	Description
A	Group 1	The clients in this group are closest to the labor market and should find a job quickly on their own. In their case, counselling is usually limited to employment mediation. They are also entitled to counselling (on request).
B	Group 2 and 3	The clients from those groups require reintegration assistance – the higher the group number, the more extensive and advanced the support must be. In the case of those groups, the unemployed are offered training and assistance in gaining experience, e.g. through internships.
	Group 4	The participants of in that group have the most significant problems in finding employment. The clients in this group have problems not only with finding employment but also with living in the society – e.g. people with disabilities.

Source: KPMG analysis

3.2.2.5 Financing model

In the case of all support services except for the support in seeking job offers and bringing to finding employment, the service providers are eligible for remuneration for the sole fact of organizing an undertaking (training, internship, a meeting with a counsellor) and for the unemployed citizens' participation in the undertaking. In the case of the service consisting in bringing the unemployed to finding a job, there is the tendency to make the payments conditional on the outcomes.²³

A positive outcome is understood as a situation where an unemployed person finds employment and maintains it for a period of at least 6 months. The difference between the local governments and UWV lies in the fact that UWV needs the conclusion of a contract for a specific period to pay out the remuneration, while the local governments actually require that the unemployed person retains employment for 6 months.²⁴

There are no fixed rates for the services of private agencies in the Netherlands. UWV and the local governments set maximum amounts for individual services in the inquiry, while the suppliers set their rates. The price is one of the assessment criteria for bids submitted in tenders.

Therefore, it is difficult to clearly determine the ratio between the fixed remuneration and the outcome-dependent remuneration. The shares of each of those elements might vary but they are usually similar in their levels.

3.2.3 Australia

3.2.3.1 Description of the solution

The Australian model is one of the oldest and the best prepared systems of contracting private suppliers in employment services. It involves total privatization of the employment market, and as such, transfer of almost entire responsibility for taking care of job seekers onto private companies. The only stage of the process of reintegrating the unemployed person with the labor market, where the state institutions are actively involved is the classification of the unemployed to a relevant group and delegating that person to an employment agency.

3.2.3.2 Cooperation model between operators and PES

There are three players in the Australian model: Centrelink – a state institution responsible for the registration of the unemployed and delegating them to the service suppliers, the Department of Employment – responsible for organizing tenders for external service suppliers and monitoring the market, and employment agencies, associated as Job Services Australia.

The relationships between the public institutions and private market participants are strictly determined and regulated by the state. The participation of players in the process of reintegrating an unemployed person depends on the

stage of that process. The competences of Centrelink and of the employment agencies do not overlap.

The tasks of Centrelink include:

- registration and classification of the unemployed,
- contracts with beneficiaries (mutual obligations),
- granting and paying the benefits,
- managing the national database of vacancies (open access to job seekers and employment agencies).

The tasks of the employment agencies include:

- performance of the employment agency services and training in the skill of job seeking,
- extensive care in the period of seeking a job.

The Department of Employment is responsible for contracting, with the participation of Centrelink. The contracts are concluded for a period of about 3 years (as a result of the tender procedures for new contracts or extending the validity of the existing ones). Relatively long contracting period is to support the stability of the market.

The offers submitted by PES apply to the provision of services in individual regions, areas with a specific postal code, locations or places. Centrelink, which indirectly participates in organizing tender procedures, disposes of detailed

²³ Ibidem.

²⁴ Ibidem.

information about the singularities of the labor market in individual regions, which are sent by PES belonging to Job Services Australia along with the offer inquiry.²⁵

3.2.3.3 Activation path

Centrelink is the institution that decides on the participation of the person in the reintegration programs, classifying the unemployed person to one of the 4 streams (see section 3.2.3.4).

In another step, the unemployed is delegated to the employment agency. In the case of stream 1 (see section 3.2.3.4), it takes place only after the first 3 months after registration, during which that person is under the care of Centrelink, which counsels the unemployed in finding employment fast.

During the first meeting with the supplier, the so-called Employment Pathway Plan is drafted. This document contains information about:

- the frequency of meetings between the job seeker and the vocational counsellor,

- the plan of training courses, internships and other activities the unemployed person undertakes to do,

- activities under the program Work Experience.

The cooperation of the unemployed with the employment agency is based on regular, monthly meetings with a vocational counsellor who verifies the progress of the unemployed in the process of vocational reintegration.²⁶

Regardless of the stream to which the unemployed belongs after the lapse of 12 months from the moment the person is classified to a relevant group (18 months in the case of stream 4), the unemployed person is transferred to the so-called Work Experience stage. It is an activation program consisting in selecting training courses and internships for the unemployed that are intended to help that person return to the labor market

If, after the lapse of a set period of time (e.g. 12 months), the unemployed does not find any employment, he/she may be transferred to another stream, a step which entails intensification of assistance measures undertaken by the employment agency.²⁷

3.2.3.4 Profiling

Centerlink uses the Jobseeker Classification Instrument – JSCI to profile its clients. This instrument is a questionnaire consisting of approximately 30 questions concerning more than ten aspects of the jobseeker's life (e.g. experience, age, criminal liability, origin). Based on the questionnaire, the unemployed receive points that determine their "distance" from the labor market and classify them as belonging to one of the four groups ("streams"). An unemployed person from stream 1 is treated as being "close" to finding employment, while an unemployed person from stream 4 is recognized as "being far from the labor market" and requires much more extensive support from the employment agency. After the lapse of 12 months, an unemployed person may be transferred to another stream or, more frequently, that person may be obligated to take part in a special internship program, the so-called Work Experience.

The table below shows the division of the unemployed into groups.

Group of the unemployed	Description
Stream 1	The unemployed that do not require extensive support. Frequently all they need is job mediation, i.e. presentation of job offers. The agencies help them in creating an electronic Curriculum Vitae, which is then published on the Department of Employment recruitment website. This stream encompasses about 53 percent of the newly unemployed.
Streams 2 and 3	People who face moderate and significant problems in finding a job. The employment agencies are obliged to provide them with extensive support, intended to find a job for them. The tasks of the employment agencies in this respect include training and vocational internships. In the case of those groups, the counsellors put the emphasis on resolving vocational and non-vocational problems experienced by the jobseekers. These streams encompass approx. 32 percent of the newly unemployed.
Stream 4	People who have the most significant problems in finding employment. The problems might be connected with e.g. mental health, disability, homelessness, drug/alcohol abuse, etc. The service provider's role is to work with such a person to first resolve the most urgent problems/barriers, which prevent that person from returning to the labor market. This stream encompasses approx. 15 percent of the newly unemployed.

Source: Department of Education, Employment and Work Relation, Job Services Australia Request for Tender 2012-2015 Information Session, 2011

²⁵ Zofia Szymanska, Raport dotyczący organizacji i działania rynku usług zatrudnienia w warunkach wolnej konkurencji oraz doświadczeń niekomercyjnych organizacji pozarządowych działających na tym rynku w poszczególnych krajach (Holandia, Australia, Dania, Wielka Brytania, Stany Zjednoczone) [Raport on the organization and operations of the labor services market in the freedom of competition and non-commercial experiences of NGOs operating on that market in individual countries (the Netherlands, Australia, Denmark, the United Kingdom, the United States)], FISE, Warsaw, 2005.

²⁶ Dan Finn, Job Services Australia: design and implementation lessons for the British context, Department for Work and Pensions, London 2011.

²⁷ Dan Finn, Differential pricing in contracted out employment programs: Review of international evidence, Department of Work and Pensions, Norwich 2009.

3.2.3.5 Financing model

The remuneration model for the operators (employment agencies) in Australia is complex and comprises a few types of payments (depending on their purposes). These include:

- remuneration for services – funds paid out in advance, for each 13 weeks of the process of reintegrating the unemployed. It is a refund of certain services, such as assessment of skills and extensive activities supporting job-seeking, performed by the employment agencies.
- remuneration for finding a job – the condition for receiving that remuneration is proving that the job seeker spent at least 10 business days in the employment.
- bonus for 13 weeks of employment – it depends on: the period of unemployment in the case of a specific person before finding a job; the stream the candidate belonged to; the type of activities undertaken by the service supplier (support or agency services in finding a job); type of employment (full time, part time but with a prospect of full time employment).
- Employment Pathway Fund – EPF – a flexible pool of resources, using which the supplier may purchase a wide range of supportive measures for job-seekers, based on individual needs and barriers against employment.

The remuneration values are set by the Department of Employment. The employment agencies may use public funds for the purposes of assuring additional services (apart from finding employment). These services include, for example, training in job-seeking skills. The supplier receives financing for each 13 weeks of taking care of an

unemployed person in advance. The maximum financing rates are set by the Department of Employment and depend on the stream to which the unemployed was classified. The supplier is obliged to prove that the purpose of the financing (e.g. a training course) was attended by the unemployed person.

All services provided by the supplier are subject to inspections by the Department of Employment, and, therefore, the agencies have to report all activities undertaken in the course of reintegrating the unemployed. Otherwise they might not be eligible for remuneration.

The proportions between the fixed and outcome-dependent remuneration varies, from a balanced proportion to a higher share of the outcome-dependent element.

3.2.4 France

3.2.4.1 Description of the solution

It has been possible to involve private agencies to find employment for the unemployed in France since 2005. Before 2005, ANPE, a public institution, was the only one that could render employment services. A year later, the state institution Unédic (responsible for paying the benefits, currently Pôle-emploi) announced a tender for reintegration of 41,000 of the unemployed at risk of long-term unemployment. The experiment that was launched in 2007 turned out to be a success, which led to long-term cooperation between Unédic (currently Pôle-emploi) and PES.

3.2.4.2 Cooperation model between operators and PES

There are no framework solutions in France which would determine particular

situations where contracting out a private supplier would be required. It depends on the decision of the public employment services (Pôle-emploi). In practice, such solutions are applied mostly in the case of those unemployed citizens who are far from the labor market, i.e. having numerous problems in finding employment, and cooperation with PES is often undertaken locally.

The French model, much like the Dutch model, is based on providing the unemployed with a personal vocational counsellor, provided that the contact between the social worker and the beneficiary will be more frequent and more “personal” than in the previous models. It is the social workers that are responsible for referring the unemployed to private suppliers.

Three types of cooperation of PES with private suppliers are distinguished, first of all: contracting short-term services. These include training courses, assessment of professional competences and support in seeking employment.

Secondly, there are partnerships of PES with networks of suppliers, specializing in “difficult cases.” The groups of the unemployed supported by those suppliers include: young unemployed (under 26 years of age) and people with disabilities. Cooperation in this form is mostly based on offering extensive vocational training courses.

Thirdly, there is contracting out comprehensive work placement services to private companies. The situation applies to long-term unemployed as well as people who are at risk of losing their jobs (e.g. as a result of group layoffs in companies with less than 1,000 employees). In this case, tenders for private suppliers are organized.²⁸

²⁸ Pôle – emploi, Partnership and subcontracting between Pôle emploi and private services, 2010.



As a rule, the social workers try to help the unemployed on their own. In the case of the long-term unemployed, with numerous problems in finding employment, a vocational counsellor might make a decision on delegating that person to one of the private service providers.

3.2.4.3 Activation path

The first step on the activation path in France is registration with Pôle-emploi. At that point, the unemployed meets the social worker for the first time, with the latter making the decisions on further activities intended to help the unemployed in finding a job.

As a rule, the social workers try to help the unemployed on their own. In the case of the long-term unemployed, with numerous problems in finding employment, a vocational counsellor might make a decision on delegating that person to one of the private service providers.

The private supplier is obliged to draft a job-seeking strategy together with the unemployed and to provide the unemployed with all and any tools facilitating job-seeking activities (including training courses, active support in searching for job offers, etc.).

The unemployed spends about 6–9 months under the care of the agency. If a job is found, the former unemployed person is monitored and supported in maintaining the employment for another 3–6 months.

In the case of the outplacement services, private agencies are obliged to provide support to those at risk of losing their jobs for a period of 12 months.²⁹

3.2.4.4 Profiling

France does not have a system of classifying the unemployed into groups. The unemployed are assessed individually, based on their life situation and the distance from the labor market. Private employment agencies receive contracts for comprehensive services in the case of:

- the unemployed with significant problems in returning to or entering the labor market, who have been unemployed for at least a year;
- employees to be laid off in the course of staff reductions (outplacement services).

3.2.4.5 Financing model

France uses a no cure – less pay remuneration system, i.e. private agencies are remunerated partially for the sole fact of accepting an unemployed person under their care (fixed remuneration), and partially for the outcomes (conditional remuneration). The objective of such a solution was to find a balance between the risk of “parking” an unemployed person (e.g. extended training courses, internships, without the option of finding a permanent position, in order to obtain partial remuneration) and the so-called “creaming” (i.e. helping find a job only to the unemployed that are close to the labor market, as it guarantees a more certain profit).

In the course of the pilot program held in 2007, the proportion between the fixed and outcome-dependent remuneration was set at 30–70 percent, where the second part was paid in two instalments: for finding employment and for maintaining employment for 6 months (both constituting 35 percent of the entire remuneration).

Currently, the ratio of fixed and outcome-dependent remuneration is set as 50:50.³⁰

The remuneration constitutes a tender element. The average remuneration for finding a job for the unemployed in 2009 ranged from EUR 3,000 to 3,947. A positive outcome is when employment has been found for a period of at least 6 months.³¹

²⁹ Ibidem.

³⁰ L. Behaghely, B. Crepon, M. Gurgand, Private and Public Provision of Counselling to Job-Seekers: Evidence from a Large Controlled Experiment, Paris 2012.

³¹ Ibidem.

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