

Activation and Public Employment Services in Poland

ENHANCING LABOR MARKET POLICIES FOR THE OUT-OF-WORK POPULATION



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Disclaimer: This analytical note was prepared between January 2013 and May 2015, using the most recent data available until the time when this report was completed. This includes the LFS 2013, as well as EUROSTAT data for 2012 on EU-wide expenditures in social and labor programs. Some changes in activation policies took place in May 2014, that this report documents and discusses, but which the analytical data is not able to capture.

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Overview

The aim of this note is to inform the design and implementation of activation measures for the vulnerable population in Poland. For that purpose, the note provides a profile of the out-of-work (OOW) in Poland (which constitutes one-third of the work-able population, see figure 0.1), and in particular of the beneficiaries of Public Employment Services (PES). Against this background, the state of key activation policies is analyzed: PES, active labor market measures, and the incentive compatibility of cash benefits with employment. The note discusses how these policies could be strengthened in light of international good practices and of the specific constraints faced by different typologies of out of work to be connected to jobs.¹

The challenges of high inactivity in a rapidly aging country

In the past decade, job creation has been dynamic and sustained in Poland, including during the financial crisis years. Currently, unemployment is decreasing and in 2014, at 9 percent, it was below the EU15 average (10.2 percent). However, a number of challenges still remain and only if participation rates change significantly, will Poland be able to stave off a significant decrease in its labor force and achieve the Europe 2020 goals.

Virtually all of the jobs created since 2001 are temporary in nature and the employment of more than one million workers—a vast majority of whom are low skilled—is now regulated by Civil Law Contracts, also known as ‘junk contracts’, with limited protection and little or no access to social security. Moreover, the employment rate—although growing—is still low, especially among older women.² In around half million people, discouragement is significant and growing since 2009, affecting especially older workers and women with medium skills. Together with the openly unemployed, this makes up to almost 2 million Poles who would like to have a job but do not have one. Long-term unemployment continues to be a concern, indicating potential skills mismatches. Most importantly, inactivity is high. All of these factors play out in a context of high regional disparities and of a rapidly aging population.

Who are the 7 million Poles out of work and what are their barriers?

A significant care burden, but only moderate benefit disincentives

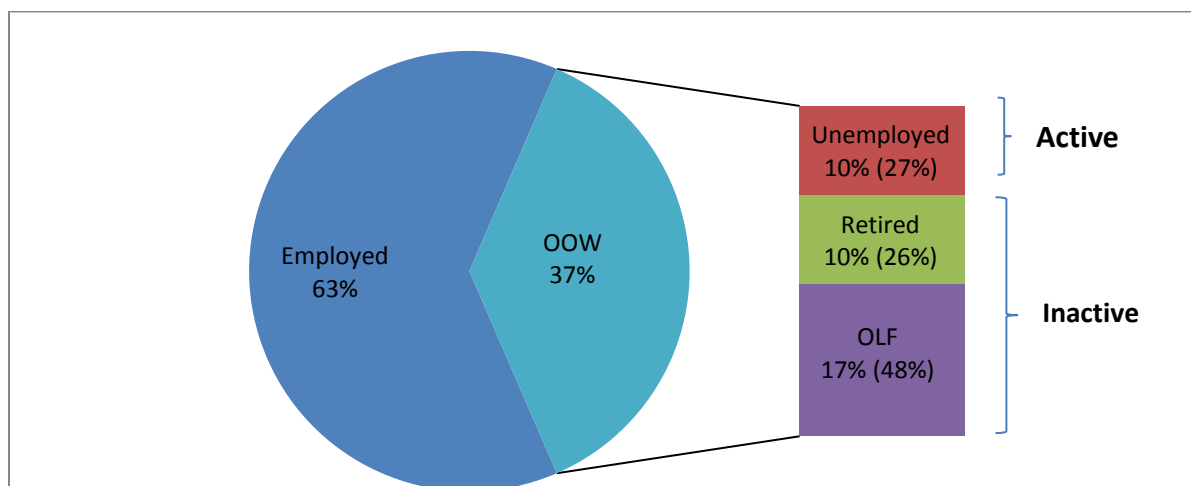
There is substantial potential for employment to continue to grow and the reservoir from which to draw on is large. Currently, 7 million Poles are out of work—around 30 percent of the population who can be presumed to be ‘work-able’. Only a quarter of the out of work - those relatively younger and better educated—are actively seeking employment. The rest are either relatively young retirees (55–64 years

¹ This note was prepared in the period preceding the October 2015 elections, hence it take stock of these issues with the latest data available until then.

² Since the inception of its mandate in November 2015, the new government of Poland has implemented a number of measures to reduce the abuse of these contracts. While important, these measures and their impact are outside the scope of this note.

old, about 30 percent) or fully inactive individuals (about 45 percent), with an overrepresentation of women. Once retired individuals are counted out, family and care responsibilities are the primary reason why people are not looking for a job. This is particularly the case for women, and especially those in the 25–34-year age range. Another common reason, affecting one-fifth of the inactive, is discouragement from job search.

Figure 0.1. Work-able Working-age Population, by Labor Force Status (2013)



Source: Labor Force Survey (LFS) Poland, 2013.

In addition to care responsibilities, other potential barriers can limit participation and access to productive employment. In many countries, a frequent concern is that social assistance (SA) benefits, while they protect the most vulnerable from risk and destitution, might generate dependency. The evidence suggests that these types of disincentives in Poland are modest.³ Only about 12 percent of OOW live in a household that receives any social transfer and, with about a quarter of them actively looking for a job, they display job-search patterns that are similar to the broader OOW population.

Simulations on the effects of tax and benefits with the Organisation for Economic Co-operation and Development (OECD) methodology suggest that moving from inactivity to a minimum-wage job is not prohibitively costly, mainly because SA benefits are not generous and eligibility for unemployment benefits is seldom assigned to this group of workers. For those moving from inactivity to formal employment regulated by labor contracts, this tax wedge is mainly driven by social security and income taxes. For those who transition to employment regulated by civil contracts—which are common in these segments of the population—this wedge has been lower (though this will increase in 2016). However, other factors might not make ‘formal work pay’ for vulnerable/low-skilled populations. These include the opportunity costs of letting go of informal work (5 percent of those living in households receiving SA and

³ The government of Poland is planning to introduce a new family benefit, known as the 500+, starting April 1, 2016. The discussion in this paper refers to the system of social benefits that pre-dates the introduction of the 500+ program.

registered as unemployed report working, most likely informally), transportation costs to access jobs in different locations where SA beneficiaries live, and the cost of hiring professional care when both parents are employed. Around 60 percent of beneficiaries of SA report care as the primary reason for not looking for work, a higher rate than that observed among the general population.

Redesigning the structure of SA benefits to allow for an in-work benefit is likely to further facilitate transition to employment, especially on the intensive margin of additional worked hours. Recent changes in the family benefit withdrawal rules, combined with the reform of the child tax credit to become less regressive, represent important steps to improve the returns from labor for low-income households in Poland. The literature on in-work benefits suggests that these instruments have positive (though at times marginal) impacts on labor force participation, especially in flexible labor markets.⁴ Given the very modest amount of the current family benefit compared to a minimum wage, the labor supply incentive effect may manifest itself more on the intensive margin, but it would hardly discourage the participation decision.

Finally, in many localities the number of formal jobs available is low, as reflected by high and enduring disparities in employment, across regions as well as between urban and rural areas.

The role of active labor market programs in Poland

In combination with the appropriate benefit design, active labor market policies and effective intermediation services can play an important role in reducing structural unemployment and promoting access to employment, especially among the most disadvantaged.⁵

Limited spending on labor markets, with a strong emphasis on active policies

At 0.7 percent of gross domestic product (GDP), spending on labor market policies in Poland is low compared to other European Union (EU) countries. With regard to spending composition, Poland also stands out as an outlier for having the second highest share of labor market spending directed to active measures (50 percent—mainly directed to support for disable individuals and subsidies), low spending on passive measures (primarily unemployment insurance), and low funding for PES. These spending patterns

⁴ Kenworthy (2015) finds that in the relatively flexible labor markets of the United States and the United Kingdom, an employment-conditional earnings subsidy increases employment among the poorer households, but at the same time reduces slightly the low-end wage level. In countries with less flexible labor markets in-work benefits tend to be small and temporary, but in Germany that implemented larger program the positive effect on employment and slight reduction of wages among poorer households was also observed. However, Haan and Myck (2007) show that in Germany the UK-style in-work support in Germany had a positive effect on single individuals labor supply, but at the same time reduced the supply of labor among individuals living as couples, thus having a much smaller net effect.

⁵ There is a large body of international literature on the effectiveness of active labor market policies. In his meta-analysis from EU15 countries Kluve (2010) finds that certain program types (private sector incentive programs and services, and sanctions) are more successful in yielding positive impacts on post-program employment rates compared to traditional training programs. A recent report on organization, profiling, and targeting of training provision by the EU (2015) shows that training measures which are tailored to the specific needs of both job-seekers and employers yield more positive results.

result from multiple factors, including the design of the unemployment insurance benefit and the extensive access and use of European Social Funds, of which Poland is the largest recipient in the EU, but that cannot be used for passive policies. Even in this context of relatively high spending on active labor market policies, Poland remains in the cluster of countries that spends relatively little per unemployed. When comparing the expenditure per unemployed per different categories of programs, Poland spends relatively less on PES compared to other countries, which may hamper their capacity to target and manage effectively the Active Labor Market Programs (ALMPs) budget.

A decentralized network of Public Employment Services which has been significantly reformed

With around 340 offices, Poland has a large network of PESs, which was first established in 1919. PESs are highly decentralized, with a two-tier system of regional (voivodship) offices with primarily a coordination role and reporting to the region marshalls, and local (poviat) offices reporting to the poviat government, which administer unemployment insurance benefits and provide an array of intermediation services and active labor market interventions. The recent Employment Law (2014) has introduced important reforms to the PES, including better profiling of the needs of beneficiaries, higher involvement of the private sector to support insertion of the ‘hard to place’, and strengthened incentives with pay for performance.

Old and new challenges to improving the effectiveness of PES

However, important challenges remain. Some are hardwired to the institutional setup in which PES operates. First, those OOW who cannot rely on contributions made on their behalf by a partner or parent need to register as unemployed *even if they are not looking for a job* to be eligible for health insurance. This requirement clogs the rosters of PES with people who are not interested in receiving support. Secondly, a weak monitoring and evaluation (M&E) system that is not (yet) devised to effectively guide policymakers’ choices. This exacerbates the extent to which the Ministry of Labor—which is responsible for the overall policy framework—can actually shape labor market policies implementation, since decentralization makes the relationship between the central ministry and the offices at arm’s length, at best. Finally, with few exceptions, PES offices do not have a tradition of engaging closely with employers, which limits vacancy collection, effective matching of skills with labor demand, and placement.

Other challenges are linked to the implementation of the 2014 Employment Promotion Law. While the changes introduced by the law go in the direction suggested by good international practices, some adjustments are needed to make sure that its implementation can fully capitalize on the new opportunities it provides. First, the profiling methodology needs to be validated quantitatively, especially since the heterogeneity of the pool of those registered in PES (driven also by the health insurance registration requirement) weakens the effectiveness of the tool. Moreover, because of the slow implementation of new performance-based contracting, those who need the services the most (hard-to-place) are currently provided with little or no support, as the new provisions remove them from the responsibility of the PES and put them in the responsibility of either SA offices (without however providing them with funding) or of private providers, who operate in a market that is still thin.⁶ Finally, the current monitoring indicators of gross placement—to which a small performance-based reward is associated—

⁶ See the companion note on Social Inclusion (World Bank 2015) on the collaboration between SA offices and PES.

skews PES offices incentives toward placing those beneficiaries with the best chances, rather than the hard-to-place.

Understanding the characteristics and needs of PES beneficiaries: a latent class analysis

One-third of the OOW and the large majority of the active jobseekers, are registered in the PES, which is a remarkable level of outreach. However, one-third of the PES customers are not looking for work for a variety of reasons including because they only register to access free health insurance.

The existing fragmentation of the information system of PES offices prevents from fully leveraging administrative data to draw analytical profiles of the PES population at the national level. Latent class analysis (LCA)—when applied on the Labor Force Survey for the population registered in PES—allows such an exercise by grouping together clients who exhibit similar patterns on a number of indicators, such as job-search intensity and prior distance from the labor market. The analysis suggests that PES clients could be divided in four clusters that require different levels of attention and activation policies.

A first group of PES beneficiaries consists of men and women with work experience but a long history of detachment from the labor market and with a mixed record of current job search (women with particularly low job-search intensity)—a quarter of whom receive SA. This is also the group that includes the highest share of people with moderate disability. This first group will benefit from policies that support reentry in the labor force, coupled with re-skilling interventions.

The second and largest set of PES clients are active jobseekers (nearly all not on SA benefits): these are mostly between 25–54 years old, with medium skills and previous job experience, who in general should be supported especially with regard to active job-search assistance methods. There is also a set of very young unemployed with only lower secondary education who are active jobseekers, have no work experience, and are particularly vulnerable. The latter would benefit from well-designed interventions for young people with low skills (for example, a mix of soft skills, vocational skills).

The third group is represented by highly skilled unemployed, including university graduates, and active jobseekers on unemployment benefit. This cluster could be directed more explicitly to forms of self-directed job-search to spare human resources for the most difficult cases discussed earlier.

Finally, a fourth group is represented by those who are not looking for work at all, often because they already work on the side, or prefer to stay inactive while they receive unemployment benefit (UB). Many in this group would be likely to leave the PES if they were to face a more demanding set of requirements to maintain registration.

What could help to increase employment in Poland?

Given the profile of its OOW population, there are a number of policy options that the government of Poland might want to consider to increase employment and continue to increase the effectiveness of its labor market-oriented policies. These are highlighted below.

Investing in quality care. A first consideration is that, in Poland, inactivity rather than unemployment is a key challenge. The vast majority of the inactive—and of inactive women, overwhelmingly—report family and household responsibilities as the key barrier to accessing employment. As such, strengthening the supply of quality care services—both for children and for the elderly—seems to be a promising way to relax these constraints. Progressively shifting the provision of care from families to organized care could impact employment significantly, also because those joining the labor force could actually be employed in the care sector. Early childhood education is also one of the most cost-effective investments for the future cognitive development of children, and there is a clear rationale to subsidize this service especially for families at risk of social exclusion.

Enhance employability of the unemployed with low skills, through a reduction in the cost of labor at low wage and greater emphasis on skills building. While the disincentives associated with SA benefits are not excessive, there is also room to better ‘make-work-pay’ for low-skilled workers in two complementary ways: By introducing in-work benefits and by lessening the income tax burden on low-income earners. At the same time, enhancing productivity of this group will necessarily require a much greater investment in skills-building programs, which currently form only a very small share of ALMP spending.

Decongest and improve customer profiling in the PES, to better focus scarce resources. Continuously improving the effectiveness of PES in the current decentralized institutional setup will require a number of further investments. First, Poland should consider the benefit of delinking health insurance provision from PES registration to decongest the system. This could be achieved either by shifting registration for subsidized health insurance to other institutions (as it was done in the case of the former Yugoslav Republic of Macedonia), or potentially by moving to a universal health system (as in the case of the United Kingdom or Italy). Second, the newly introduced qualitative profiling system for customer segmentation could be re-calibrated through quantitative data. Finally, stronger monitoring should be in place to ensure that those classified as the most vulnerable have access to activation programs at least as much as those in the second group.

Building evaluation capacity. There are two key complementary angles to this agenda: Investing in a strong M&E system for PES offices, including enabling the newly structured IT systems to support access to integrated administrative data, as an essential mechanism to provide feedback to policymakers on the effectiveness of interventions and fostering a culture of rigorous impact evaluation, building capacity at the regional level. The decentralized use of EU funds provides a unique opportunity to experiment, but only by deriving causal evidence through evaluation with a counterfactual (impact evaluation, with experimental or quasi-experimental methods) will allow policymakers to identify what works and why and make evidence-based decisions.

The lively and high-capacity academic community in Poland has the tools to design and carry out world-class impact evaluation exercises, but capacity needs to be built systematically among policy and decision makers—including at the local level—so that they are best placed to commission, appreciate, and use the results of these evaluations. Contextual to strengthening counterfactual evaluation, will be for PES to switch toward indicators that measure net effectiveness of active labor market policies (that is, measuring

their impact on beneficiaries employability and earnings compared with a suitably selected counterfactual) rather than gross placement (proportion of beneficiaries with employment out of total beneficiaries).

Finally, **piloting further modalities for a closer collaboration with employers**—including investing in sector-specific training—to better tailor interventions to the needs of the market is likely to improve the effectiveness of active labor market policies.

1. Introduction

The aim of this note is to inform the design and implementation of activation measures targeted at vulnerable populations in Poland. For that purpose, the note provides a characterization of the OOW population in Poland, identifies recent reform trends of the current structure of PES and potential options for further strengthening of the implementation of the Law, and discusses international good practices of what activation services are most effective to connect specific vulnerable groups to jobs within the big picture of what could work for Poland.

Activation programs aim to provide specific groups of people with weak labor market attachment the opportunity to access the job market. They attempt to do so primarily by intensifying the job-search behavior of individuals and by connecting them to job opportunities.⁷ The recent country-specific recommendations (CSR) for Poland from the European Semester policy coordination process highlighted the importance of increasing the activation of the OOW population. In particular, the 2014 CSR highlighted as priorities increasing the participation of women in the labor force and tackling rising youth unemployment. In addition, the 2012 CSR recommended reducing the incidence of in-work poverty through a better use of the benefit system policy tools.

Activation programs are common in OECD countries. In Western Europe, activation was strengthened in the early 2000s in Germany with the Hartz Reforms and in the United Kingdom with the New Deal reform. Activation is also a key part of social policies in Nordic countries, for example Denmark and Norway.⁸ One common feature of activation programs is the registration with PES as well as mandatory participation in social and employment services, if necessary. A violation often results in shortage or termination of benefits. Annex 2 summarizes country-specific behavioral requirements and benefit sanctions in selected EU and OECD countries and Western Balkan countries.⁹

This note is organized in six sections. Section 2 provides some background information on the macroeconomic, social, and labor market context in the country. This includes some descriptive statistics about the GDP growth rate, poverty, demographic development and labor market statistics, such as employment rates and labor mobility. Section 3 presents the profile of the OOW population in Poland. Taking advantage of the large sample of the LFS, the note identifies the size, labor market characteristics and constraints to employment of the potential targets of activation measures: The inactive and

⁷ OECD 2013a.

⁸ Almeida et al. 2012; Eichhorst and Konle-Seidl 2008; Van Berkel and Borghi 2008.

⁹ By prioritizing the hard-to-place among registered beneficiaries, PES can place resources where they are most needed. Profiling—statistical or non-statistical—is a tool that allows such prioritization. Profiling is the extrapolation of information about people’s characteristics that lead to defined different target groups. In the process of profiling, different statistical approaches can be implemented. Those approaches range from simple methods, with segmenting customers, for example, according to administrative rules (for example by demographics), to advanced methods, which are for example applied in Germany and Denmark. They make use of software as well as interview-based tools with regard to identification (Loxha and Morgandi 2014). Emerging economies like Poland can learn from those high-income countries how to improve their own interventions to help and classify jobseekers.

unemployed work-able individuals. Section 4 moves on to describe the institutional setup of PES in Poland, identifying some potential areas for improvement, and discusses the main trends in expenditure on activation programs. Section 5 uses Latent Class Analysis (LCA) to further study and categorize the profiles of OOW populations in Poland, and provides separate policy recommendations for the activation of each of the different groups identified by the analysis. A detailed profile of the large population registered in PES, as well as jobseekers and inactive individuals of working age that are not registered, is presented, with an emphasis on showing the heterogeneity within these groups, who are often lumped together in general statistics. The lack of a centralized labor market information system in the highly decentralized PES network in Poland makes the exercise particularly useful to understand the stock of the registered unemployed. The information on these potential 'target groups' is later contrasted with the menu of active labor market measures offered by the ministry (on which the team collected detailed administrative data). This information is then used to provide recommendations on how to improve the effectiveness of the PES system for different segments of clients. Annex 2 describes international good practices in identifying what interventions are most effective with some specific vulnerable groups.

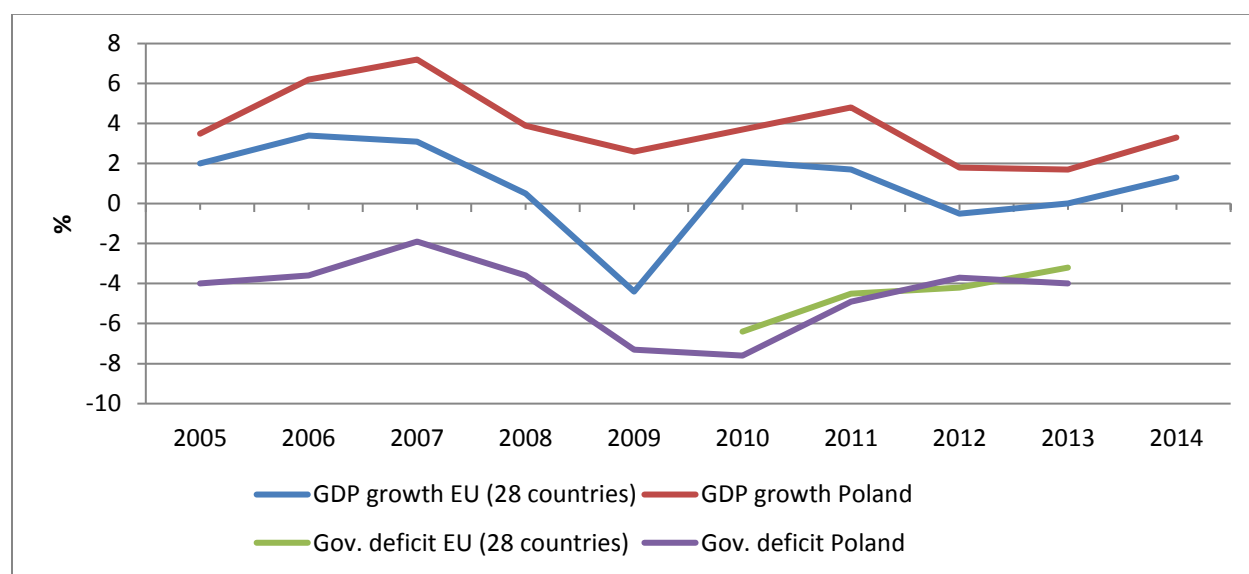
2. Macroeconomic, social and labor market context

Despite the relatively strong macroeconomic performance of Poland in recent years, important labor market challenges remain, including shrinking of working-age population driven by aging and low fertility, low rates of employment and high rates of unemployment for some groups, especially among low-skilled workers, skills mismatches, regional gaps and labor market segmentation, and high in-work poverty prevalence.

Before the last global financial and economic crisis, Poland experienced the strongest economic expansion among the new EU member states and showed a rapid convergence to EU income levels.¹⁰

While the outbreak of the global crisis in 2008 ended Poland's speedy economic expansion, the country managed to deal with a lasting difficult external environment better than its peers¹¹ and is currently set to recover over the medium term. In 2010–2011 Poland's economic growth recovered to close to pre-crisis levels, but the recovery was short-lived as the prolonged recession in the Euro Area, coupled with domestic developments (ongoing fiscal consolidation and the end of EU co-financed investment cycle) translated into an economic slowdown in 2012–2013. In 2014, Poland's economic growth was again rising, mainly as a result of an increase in domestic demand, which is expected to remain strong in the near future as it is supported by solid employment and real wage growth.¹²

Figure 1. GDP Growth Rate and General Government Deficit



Source: Based on Eurostat database 2014a.

¹⁰ GDP per capita increased from around 50 percent of EU average in 2004 to 67 percent in 2012. See Piatkowski (2013) for a discussion of Poland's post-transition and projected growth.

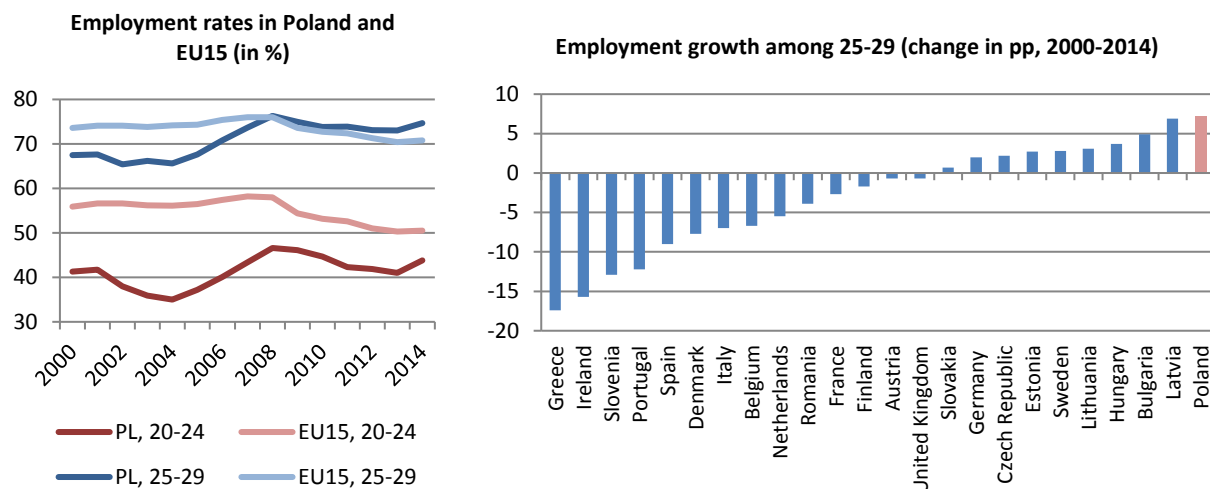
¹¹ In contrast to the EU27 average, Poland's growth only slowed down from an average of 5.4 percent growth to 1.6 in 2009, whereas the EU27 average interannual growth rate dropped to a negative 4 percent in 2009. (Eurostat 2014).

¹² European Commission 2015.

The Polish government achieved important progress to consolidate its fiscal accounts, although the fiscal deficit level¹³ at 4.3 percent of GDP in 2013, remains slightly higher than the EU average (Eurozone, 3 percent of GDP and EU, 3.3 percent of GDP).¹⁴ In the last three years the fiscal deficit came down from 8 percent in 2010 as a result of important efforts to consolidate public finances, among them, pension reforms, privatization, and the broadening of tax bases.

Poland experienced strong job creation in recent years. Employment rates grew among all age groups compared to the beginning of 2000, including for the young, whose employment rates over the past 14 years increased more than in any other country in the EU (figure 2). The picture is however slightly more nuanced when disaggregating for education. Employment among lower-secondary educated youth (who however represented only 6 percent of young people in 2014) fell slightly, while this increased significantly among secondary and tertiary educated. In 2014, 72 percent of the secondary educated, and 82 percent of tertiary educated aged 25–29 years were in employment, compared to only 42 percent of those with lower-secondary education.

Figure 2. Youth Employment Rates and Growth



Source: Based on Eurostat database 2015.

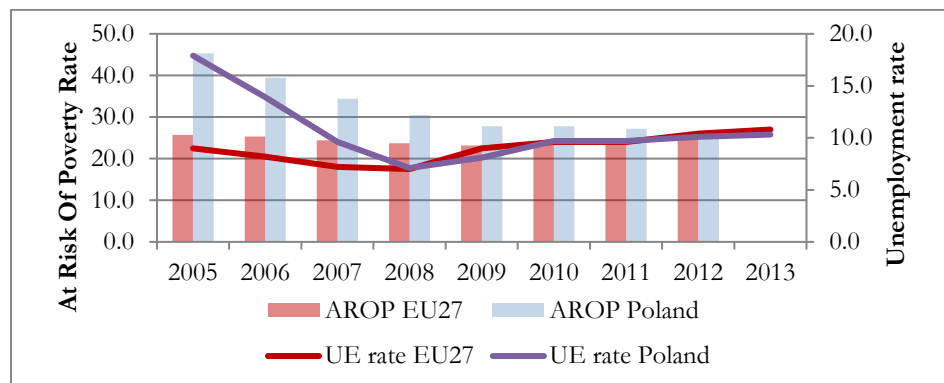
At the same time, recent economic growth had a weak impact on poverty. Although economic growth preceding the international crisis had reduced remarkably both the at-risk-of-poverty and unemployment rates in Poland, the economic recovery in both EU and Poland was not followed by a reduction in poverty and—until 2014—in unemployment (figure 3). Additionally, among the employed, productivity gains had

¹³ Following Eurostat, “the general government deficit/surplus is defined as [...] general government net borrowing/lending according. It is the difference between the revenue and the expenditure of the general government sector. The general government sector comprises the sub-sectors of central government, state government, local government and social security funds.” (Eurostat 2014b).

¹⁴ Eurostat 2014a.

translated only to a limited extent in higher real wages.¹⁵ Poland's UE and AROP rates are now close to the respective average of EU27 countries.¹⁶

Figure 3. At-Risk-of-Poverty (AROP) and Unemployment (UE) Rates in Poland, 2005–2013



Source: Staff compilation based on Eurostat.

One of the social groups at highest risk of poverty in Poland is families with many dependents.¹⁷ The presence of children and other dependent persons decreases the probability of exiting poverty, which indicates a severe shortfall of the Polish system of support for families with children, especially in its tax dimension. In 2011, the percentage of people at risk of relative poverty in households with three or more children amounted to 36 percent, and it was much higher in rural areas than in cities (39 percent compared to 32 percent). The presence of many dependents has also been identified as a leading cause of high in-work poverty rates, of which Poland had one of the highest levels across the EU in 2011 (11.1 percent).¹⁸

While unemployment has been decreasing, structural challenges remain in Polish labor markets:

Employment rates continue to be low. In 2013, Poland employment rate was 60 percent, well below the EU28 average of 64.1 percent. This is due in part to the lower employment rate of females (53.3 percent) and lower employment rates among the young (aged between 15 and 24 years) (less than 25 percent) and elderly workers (aged between 55 and 64 years) (40 percent). In contrast, prime-age workers (aged between 25 and 54 years) have an employment rate of slightly more than 75 percent, which is comparable to the EU average.¹⁹ The employment rate of workers with poor educational attainment,²⁰ at 38.5 percent,

¹⁵ OECD 2014.

¹⁶ See World Bank 2013, 2014.

¹⁷ According to HBS data, the poverty rate among children in 2010 in Poland amounted to 20.2 percent (23 percent in 2009 according to Eurostat on the basis of EU-SILC data) and it is one of the highest in the EU (Magda et al. 2013).

¹⁸ IBS 2014; EC 2012.

¹⁹ Eurostat 2014a.

²⁰ Poor educational attainment refers to pre-primary, primary, or lower-secondary education (ISCED levels 0–2).

is low, and represents about one-quarter less than the EU average. On the other hand, the employment rate of highly educated people, at 84.8 percent, is slightly higher than the EU average.²¹

Unemployment rates also show some distinct characteristics between certain groups of people. For example, in 2015 the youth unemployment rate—at 21 percent—is almost three times higher than the unemployment rate of prime-age individuals. Low-educated individuals have an unemployment rate of about 20 percent, whereas higher-educated individuals experience a markedly lower incidence of unemployment. Long-term unemployment rate (more than 12 month) in Poland, at about 40 percent, is comparable to the EU average.²²

Rapid ageing and the shrinking of the labor force will require policy and behavioral changes to prevent potentially negative impacts on growth. While life expectancy has increased, fertility rates in Poland have generally remained below the simple replacement rate since early 1990s, reaching 1.30 in 2012. Moreover, significant skill gaps exist for the older population, as highlighted in the recent PIAAC Survey of Adult Skills 2013. Population ageing poses a challenge for future economic growth, further improvements in living standards, and the sustainability of public finances.²³

Labor markets appear to be segmented in several dimensions—across contracts and geographically. A first important dimension is the labor market segmentation caused by the dual legal system provided by both the Labor Code and the Civil Law. The share of temporary employment in total dependent employment is above 25 percent, fostered by lax regulations covering fixed-term contracts. In addition, self-employment remains high, at 22 percent of the employed population—after peaking at 30 percent in the 1990s.²⁴ Secondly, there is clear gap in employment (and poverty) rates across regions, and across urban and rural towns within regions (figure 4a). Labor mobility remains relatively limited, even among youth, in spite of the recent introduction of ALMPs to compensate young people for moving (figure 4b).

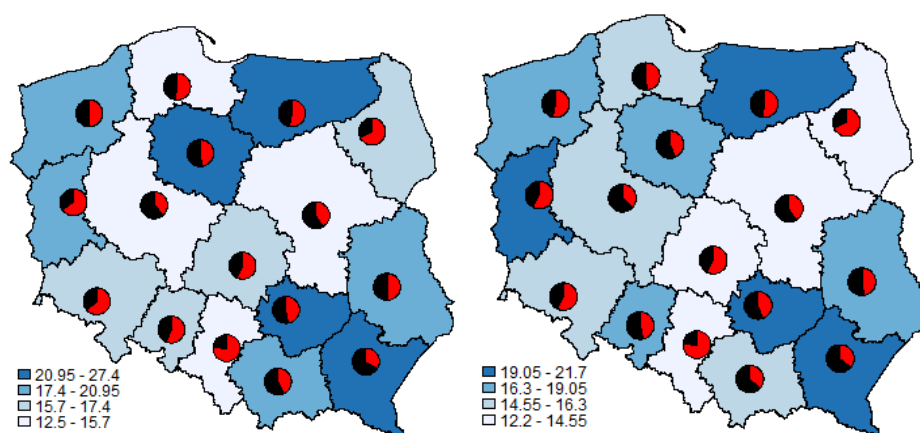
²¹ Eurostat 2014a.

²² Eurostat 2014b.

²³ World Bank 2014d.

²⁴ See World Bank 2014e, forthcoming.

Figure 4. Geographic Distribution of Joblessness among Adults (a) and Youth (b)



Source: Authors, based on 2013 LFS. Left panel show unemployed plus discouraged, as percent of the extended labor force; right panel shows Not in Education, Employment or Training rates for youth 15-29. Red area: urban share, Black area: rural share.

3. A profile of Poland's out-of-work population

This section examines the profile of the one-third of the working-age population in Poland that remains out of work. The majority of OOW people are not looking for a job. For males, age appears to be the main correlate of inactivity, with the propensity of job search being already low for men of mid-age, while for women education also bears an effect. The most commonly cited reasons for inactivity are early retirement and care duties. As many as 31 percent of people registered with PES are not actively looking for a job, which is likely due to the requirement of registration for health insurance eligibility. Young and better-educated individuals are less likely to register in PES to look for a job, and the majority of individuals resort to multiple job-search channels. Regression analysis confirms that better education, young age, and being a man make it more likely for an individual to look for a job while social transfers and taking duties reduce the probability of being on job search.

3.1. Introduction

Increasing employment rates in Poland is a strategic objective from multiple standpoints. Poland's demographic transition underscores the importance of identifying policies and instruments to increase employment. Assuming no major changes in labor force participation across gender and age groups, Poland's labor force will shrink by 5.1 million workers over the next 50 years (Gruen 2015), with significant implications for growth if behavioral and policy changes do not take place. Moreover, employment has been the key channel to reduce poverty in the Polish context,²⁵ and thus plays a central role for the inclusion of disadvantaged individuals in society.

Around 83 percent of the working-age population (WAP) in Poland could be considered work-able from the perspective of labor market policy. As shown in the figure 4, the large majority of working-age individuals in Poland could be considered work-able, that is, not in full-time education and not reporting a severe level of disability (see box 1). While clearly a synthetic and imperfect proxy for work ability, this definition allows characterizing the extent of the employment gap with more accuracy than simply considering the working-age population.

This section focuses on understanding the characteristics of the one-third of the work-able who are OOW, their constraints to employment, and their involvement in labor policies. About two-thirds of the work-able population are already employed in Poland. The purpose of this analysis is to improve the understanding of the profiles of the remaining one-third who are OOW, and the obstacles they face to access the labor market. This group includes both those who are actively looking for work, and those who are inactive but could potentially join the labor force. In addition, the data allows exploring the characteristics of those who are making use of PES or receiving social benefits. The results of the analysis presented in this chapter can be useful to inform the appropriate mix of different activation measures, as well as their targeting and their potential interaction with social benefits. The section is organized as follows: part 2 presents an overview of the OOW work-able population. Part 3 provides an overview of

²⁵ see World Bank 2015

PES registration, while part 4 focuses on the heterogeneities of PES-registered individuals. Finally, part 5 offers information about social allowance receipt among individuals that are registered with PES.

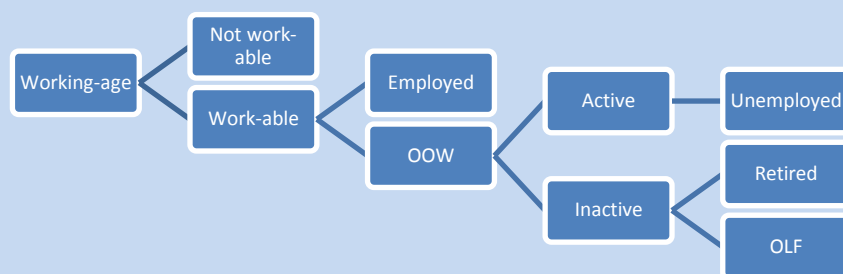
Box 1. Definitions

The **working-age population (WAP)** in Poland is defined as all individuals who are older than 15 years and younger than 65 years old.

The **work-able population**, instead, is defined in this paper as those among the WAP who are not in full-time education and not reporting a severe level of disability. To define the latter, we use survey questions on self-reported health status. According to Poland's LFS (2013), about 1.8 percent of the WAP self-reports to be severely disabled. Only 0.2 percent of severely disabled are working and 4.2 percent are out of work. To break down those numbers even further, 0.4 percent of this group is long-term unemployed, 0.2 percent short-term unemployed, and 5 percent are out of the labor force (OLF). Note that this definition does not question the ability to work of persons with severe disabilities, but rather acknowledges that this population may not be *expected* to seek or find employment as a condition to receive public support. The EU is trying to improve the position of people with disabilities, who currently face a variety of barriers in the 15 member states. Therefore, minor and moderate disabled persons are included in the work-able population.

Furthermore, work-able individuals in this paper are classified as **OOW**, if they are not employed, regardless of their level of participation in the labor force. Within this group, **unemployed** individuals are all those OOW who look for employment, and are ready to start working within two weeks. In addition, individuals who are no longer on job search because they already found employment and are about to start working are also classified as unemployed. They are considered active.

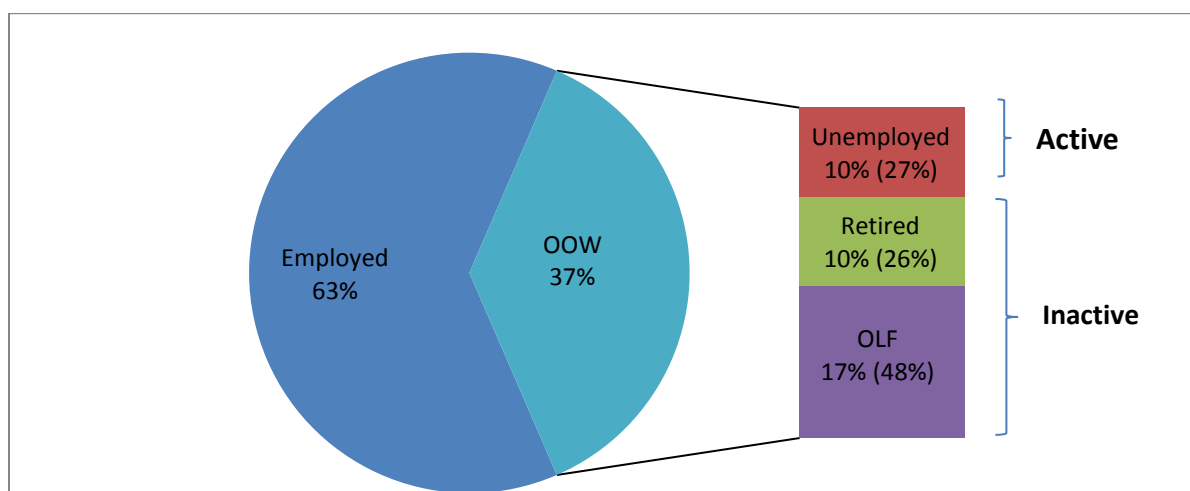
Retired individuals are all those individuals of the OOW population who are inactive due to (early) retirement. Individuals who are classified as **OLF** belong to the OOW population, yet, are neither unemployed, nor retired. They are also considered inactive.



3.2. The out-of-work population in Poland

Inactivity, more than unemployment, is an important issue in Poland. Almost three-quarters of the OOW population in Poland is not actively looking for work, either because they retired early or due to withdrawal from the labor force. As shown in figure 5, only slightly more than one-quarter of the OOW can be considered to be active jobseekers, according to the LFS definition.²⁶ Not all of the inactive could be expected to join the labor force, even if targeted by activation measures. In fact, a quarter of the OOW is in (early) retirement, and therefore is subject to high incentives toward inactivity. The remainder half of the OOW population is out of the labor force for other reasons, and it could be potentially targeted by further activation measures.

Figure 5. Work-able WAP Population, By Labor Force Status (2013)



Source: LFS Poland, 2013.

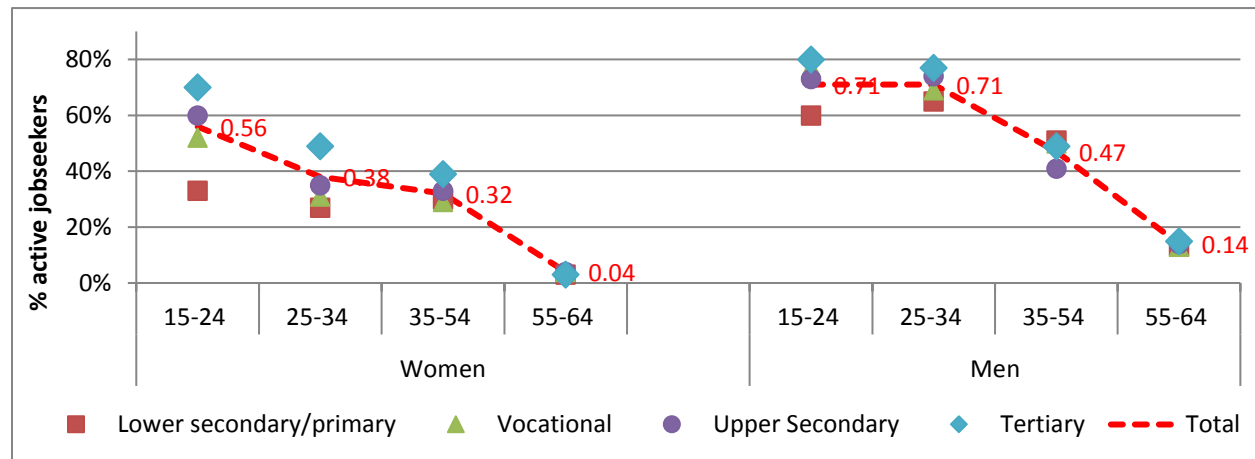
Among OOW men, age rather than education largely explains the wide differentials in the propensity to be looking for work. Figure 6 plots the probability among the OOW to actively engage in job search. The emerging picture is that the propensity to participate in the labor force among men is compressed around their age, while education has a relatively limited association with the probability to be looking for work, except among the very young.

Job-search propensity is surprisingly low already among men of mid-age (over 35 years), regardless of their education level, and decreases further as men approach retirement age. At the age of over 55 years, as little as 14 percent of men try to find employment when without a job. As discussed earlier, many of them are in early retirement. However, the rate of job search is surprisingly low even among mid-aged men 35–54 years, who cannot be possibly receiving a pension. In both cases, education has a very limited impact on participation in the labor force. One exception is participation among the very young (out of

²⁶ According to Eurostat an unemployed person is defined as “someone aged 15 to 74, without work during the reference week, available to start work within the next two weeks, actively having sought employment at some time during the last four weeks.”

school), which is more dependent on educational attainment. As many as 40 percent of the OOW with low education levels is out of the labor force.

Figure 6. Probability of Being Active Jobseeker among OOW Population, By Education, Gender, and Age 2013



Source: LFS Poland 2013. Includes only work-able OOW population.

The propensity to be active jobseekers among women OOW is, on the other hand, highly conditional both on age and on education. On average, women tend to participate less in the labor force than men. This gap is evident even among women with tertiary education, whose job-seeking rate drops substantially below 50 percent when reaching childbearing age (25–34 years) - 35 percentage points lower than men. However, education has an important impact on activity rates for women. Holding a tertiary education diploma is associated with a substantially higher propensity to look for work than for women with lower education. Such findings suggest that higher earnings prospects play an important role for women in their decision of whether to look for a job when not employed.

Early retirement and family commitments are the main reasons reported by the inactive for not looking for work. The most frequent explanation provided by the OOW for not searching for a new job is that they entered in early retirement. This is a status that is difficult to reverse from a public policy perspective, and that over time should diminish in importance due to the restrictions on early retirement. The second most important reason for inactivity is the need to care for other family members. This is particularly common among women, 38 percent of whom provided such response. Relatively few women, compared to men, can be considered ‘discouraged’ unemployed.

Figure 7. Reason for Being OLF Among Work-able Men

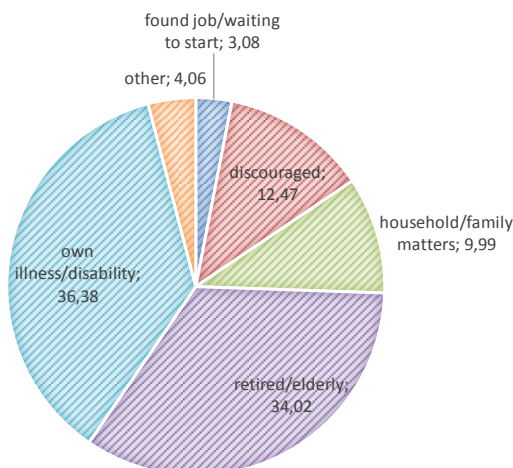
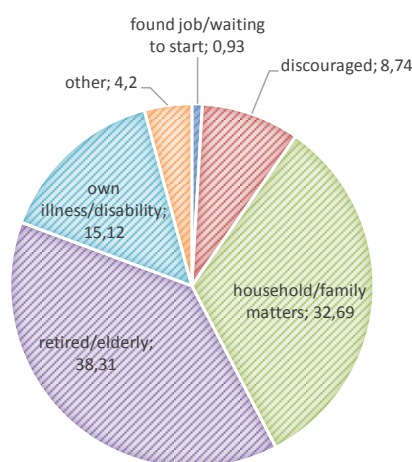


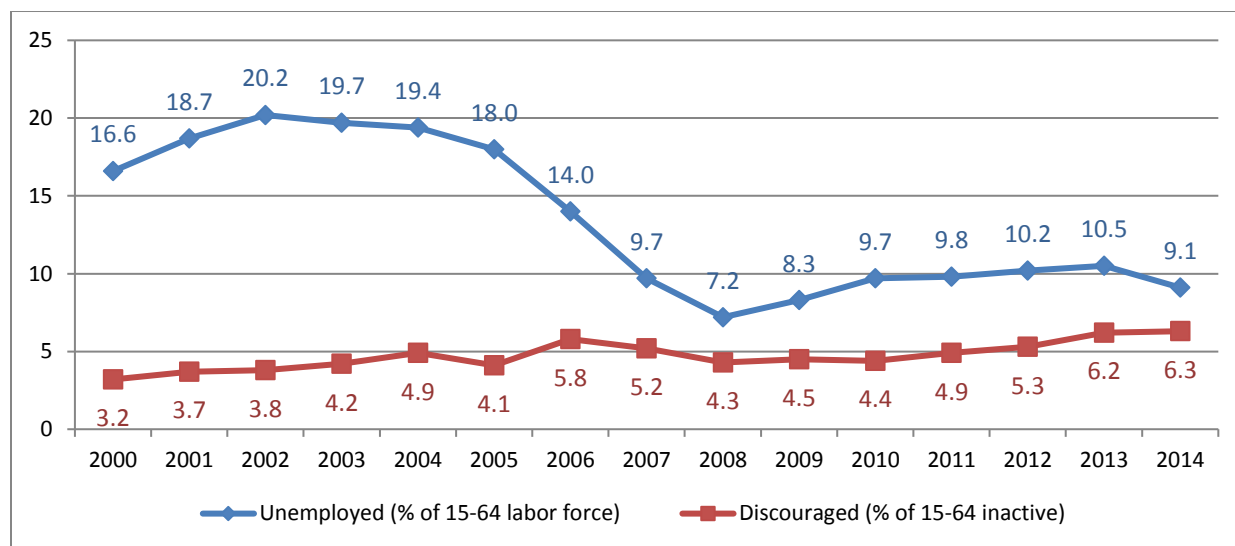
Figure 8. Reason for Being OLF Among Work-able Women



Source: LFS Poland 2013

Although still a minority, the share of inactive individuals due to discouragement has been increasing over time, and discouragement is the primary reason for inactivity among young people. About 9 percent of women and 13 percent of men who are OLF could be considered discouraged (see figures 7 and 8). Although the ‘discouraged’ are relatively few, many more than the number of existing discouraged report to have left the labor market involuntarily in the past. The chief reason reported by the inactive for having separated from the last job include ‘end of temporary contract’ (for those aged 15–34 years) and ‘closure of the establishment where I worked’ (for those aged 35–54 years); only for those aged over 55 years exit from the labor force was more often than not out of choice. By itself, this is evidence that protracted periods of unemployment due to job loss can later on lead to demotivation in getting back into employment. Secondly, the share of the inactive who is discouraged has been rising over time and, since the mid-2000s, this rate seems to be trailing the unemployment rate.

Figure 9. Percentage OLF due to Discouragement and Unemployment Rate (2000–2014)



Source: Eurostat data.

Note: Discouraged workers here are those whose reason for not seeking employment is 'Think no work is available'. In own calculations based on LFS 2013 it is also possible to include the answer 'I have used all the possible means to find employment' to distinguish discouraged workers.

3.3. Use of public employment services among out-of-work individuals

PES in Poland display a remarkable level of outreach to the unemployed. PES have an important role to play to facilitate the transition of the OOW population into employment, and to support their job search. As shown in figure 10, overall, 31 percent of the work-able OOW population in Poland declares to be registered, particularly among those who are active jobseekers (68 percent registered in PES). This share is remarkably high, compared to other Eastern European countries.²⁷

However as many as 31 percent of those registered in the PES are not active jobseekers. Around 69 percent of all people registered in the PES could be considered active jobseekers, and 59 percent of them are long-term unemployed.²⁸ The remainder 31 percent of those registered with PES did not report looking for work in the past weeks, and thus can be considered inactive.

²⁷ Kuddo 2012.

²⁸ Long-term unemployment is defined as being unemployed for more than 12 months.

Figure 10. Percentage of OOW who are Registered in the PES, 2013

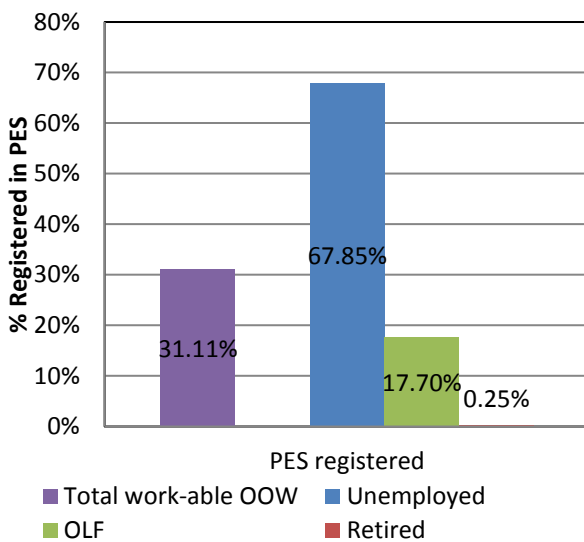
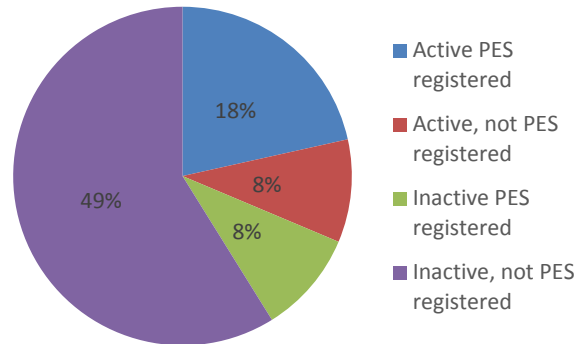


Figure 11. Distribution of Active Jobseekers and Inactive, According to Their Registration in the PES

	Inactive	Active	Total
Not PES registered	85.74%	14.26%	100%
PES registered	31.29%	68.71%	100%
Total	68.68%	31.32%	100%



Note: Sample consists of the work-able OOW population of working age who answered the question on PES registration: men younger than 65 years and women younger than 60 years.

The requirement to register in PES to access several benefits—including health insurance—explains at least in part why so many of the registered individuals are not looking for work. One of the reasons that may draw so many inactive individuals to register with the employment offices is because the PES provides access to health insurance for those who do not work and who are not covered through other family members. In addition, other administrative reasons may draw individuals to register in PES, for instance to receive temporary SA. Although the legislation would require these individuals to look for employment while being registered, this is often not the case in practice.

With regard to age, work experience, gender and, to a certain extent, educational characteristics, registered active jobseekers are quite similar to active jobseekers who are not registered. This entails, on the one hand, that the PES have a broad level of outreach among different strata of the OOW population, which is positive, while, on the other, it is not immediate to discern why only some people chose to register in the PES. The discernible differences across registered and not registered active jobseekers are further explored below.

The young and the highly educated unemployed are less likely to resort to the PES for job search. Young people (aged between 15 and 34 years) are overrepresented among the active jobseekers that are not registered in the PES (see figure 12). Most of these young people are first-time jobseekers that transition from school to work; it is very likely that many can still benefit from health insurance coverage from their parents, and few of them have accumulated rights to unemployment insurance. Secondly, figure 13 shows the distribution of skill levels across different groups: Overall, the better-educated groups tend to be over-

represented among the active jobseekers, and, among them, the jobseekers that are not registered tend to be better educated than active jobseekers that are registered. For instance, 19 percent of active jobseekers that are not in the PES have tertiary education, compared to 15 percent of active jobseekers who are registered, and only 10 percent of passive PES. In contrast, individuals with lower skills are more representative among the inactive.

The large majority of people use multiple channels to find a job, beyond their personal network. LFS data allows to distinguish different levels of job-search intensity, by the type of job-search methods that people report using.²⁹ Some of these methods—such as applying directly to jobs or calling up employers—require greater effort than, for instance, relying only on vacancies provided by labor office (LO) counselors, and thus may be interpreted as a sign of greater motivation to find work. Figure 15 shows that about 80 percent of active jobseekers rely on some formal channel of job search with employers to find work—regardless of their PES registration. The remainder 16 percent looks for work only through the PES offices vacancies database, and a small minority—4 percent—relies uniquely on friends or family network. This is an encouraging finding that suggests the widespread presence of relatively more formal job-search practices.

²⁹ An individual is classified as *formally searching* if he or she either gave or answered advertisements, applied to employers, undertook efforts to become self-employed, approached private employment offices, or who participated in tests and job interviews and waited for results. An individual is classified as *informally searching* if he or she asks relatives and friends and studies advertisements but does not engage in formal job search or search via PES. An individual is classified as searching via PES if he or she does not formally search but only looks for a job by using PES services.

Figure 12. Age Groups of OOW, by PES Registration and Job Search Behavior, 2013*

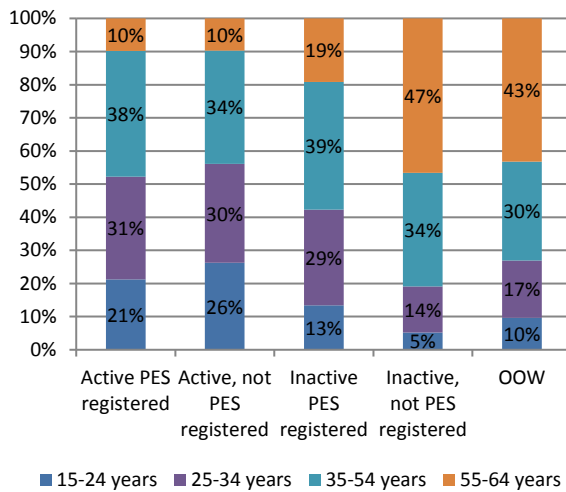


Figure 13. Education Levels of OOW, by PES Registration and Job Search Behavior, 2013*

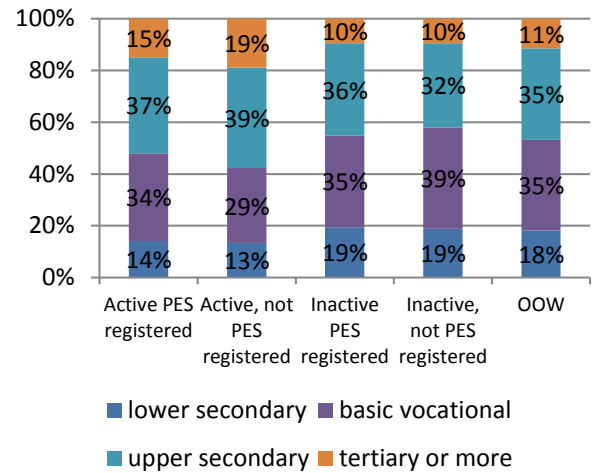


Figure 14. Work Experience of OOW, by PES Registration and Job Search Behavior, 2013

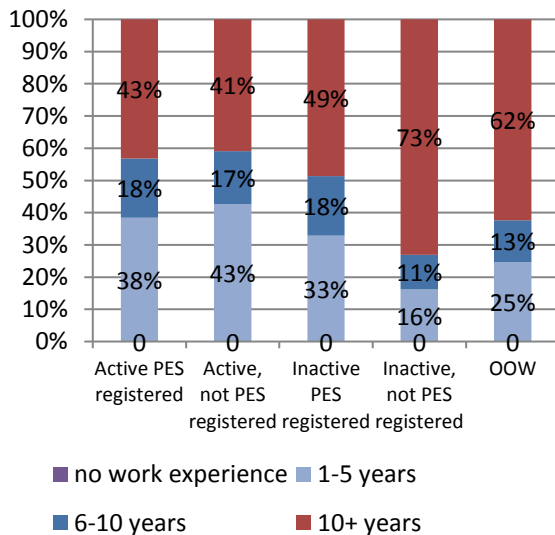
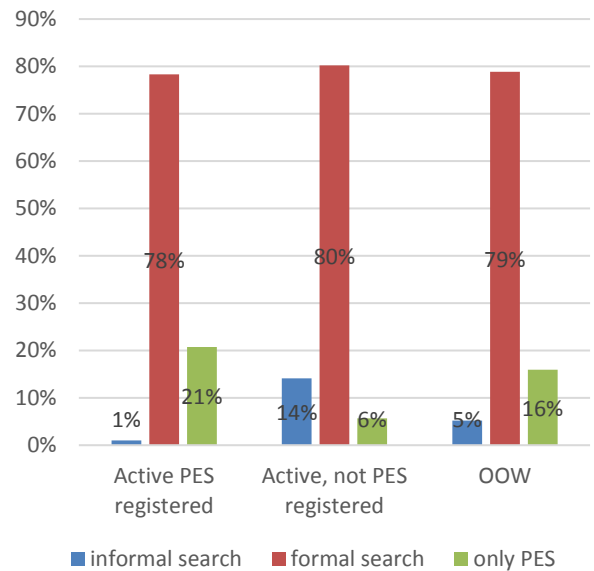


Figure 15. Job-search Methods of OOW Active Jobseekers, According to PES Registration



Source: LFS Poland, 2013.

Note: * Sample consists of the work-able OOW population of working age who answered the question on PES registration: men younger than 65 years and women younger than 60 years.

The inactive that are registered in the PES have different characteristics from the inactive that are not registered in the PES. The group of inactive includes individuals, who, even if of working age, are not looking for a job. However, this group is very heterogeneous. Among the inactive, 8 percent is registered in the PES. Those who are inactive but registered in the PES tend to be younger (42 percent are below the age of 35 years) and 33 percent of them have little work experience; on the other hand, those who are

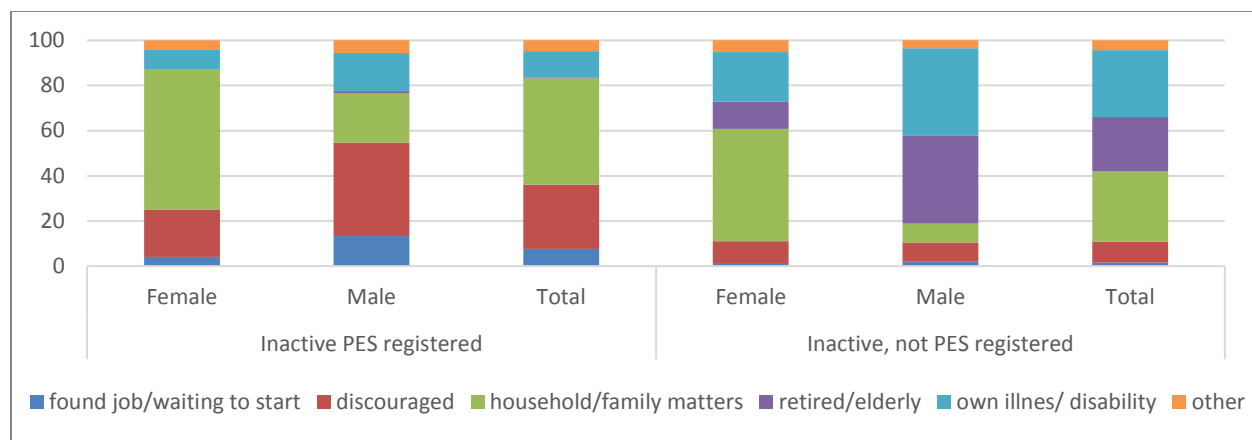
not registered include a large share (47 percent) of ‘prime-age’ individuals over 55 years and retirees. The education profile of both groups—inactive registered and not registered—is similar, with about 60 percent of individuals with lower-secondary or basic vocational education (see figures 12 and 13).

Regression analysis confirms that better education, young age, and being a man make it more likely for an individual to look for a job while social transfers and caretaking duties reduce the probability of being on job search. Such effect is observed both among the OOW that are registered in PES, as well as among those who are not using PES services. Being men increases the probability to be involved in job search by around 10 percentage points (pp). Having upper-secondary education or tertiary education as compared to lower-secondary increases this probability by 4 pp and 11 pp, respectively among OOW individuals that are registered in PES, and 3 pp and 7 pp for the non-registered sample. Belonging to the age category 55–64 years decreases the probability of actively looking for a job by 14 pp in the PES-registered group, and by as much as 23 pp in the non-registered sample. The existence of other income sources, from social transfers or in the form of other household member wages decreases the probability of job-search behavior. Importantly, if the last job separation was related to family issues it decreases the probability that a registered PES client is actively looking for work by 8 pp. This might indicate that people with high workload related to care or housekeeping may register in PES for some other reasons (for example, health insurance eligibility) and with no intention to find job (see table in the annex 1).

Almost all of the inactive that are registered in the PES are either discouraged or constrained by family duties to search for a job, while the large majority of the non-registered inactive display little motivation to enter the labor market in the first place. Figure 15 shows that about 50 percent of the registered inactive declare to be constrained in their job search by household and

taking duties. Unfortunately the data does not allow exploring what particular factor may lie behind ‘family issues’, but in principle this may be an indication that—if such constraints were removed—some of them would be looking for work. In addition, 30 percent of those who do not look for work report that the main reason is discouragement: They believe that searching for work would not lead to finding a job. It is of particular concern that many young people who register in the PES figure among the inactive, because they have not taken any step to look for a job over the previous weeks. On the other hand, only 1 out of 10 of the inactive that are not registered in PES could be considered a ‘discouraged’ unemployed, and most of them are retired.

Figure 16. Reasons for Inactivity, by PES Registration and Gender. Work-Able Population.



Source: LFS Poland, 2013.

4. Social benefits and labor market participation

Unemployment benefit receipt is associated with registration in the PES, although often not with active job search. Most SA recipients are not registered in the PES, while, among the registered, the majority is looking for work. The margin to improve the activity rates among SA beneficiaries is narrow, and depends strongly on care services and inclusion policies. Unemployment benefits have limited duration and low generosity, and thus do not pose a serious risk with regard to prolonging unemployment. However, some typologies of recipients of SA face high costs in moving from inactivity to employment, which indeed may become close to prohibitive when considering other indirect opportunity costs. The recent reform in the child tax credits could offset some of these additional costs, while other recent reforms of the family benefits are attempting to incorporate greater incentives to make-work-pay for low-income households, which may have positive impacts on labor force participation.³⁰

4.1 Labor market profile of social benefit recipients

Social benefit for the work-able population, such as the unemployment benefit, pre-retirement allowance, or SA can play an important role in whether a work-able individual may want to join the labor force. Therefore, this section provides a brief overview of characteristics of benefit recipients, and discusses the extent to which some of these benefits may reduce labor market participation, with a specific focus on SA benefits. Besides the unemployment benefit, there is a wide range of noncontributory SA benefits in Poland. Those that could be directed to the work-able population are in most cases means-tested,³¹ and they comprise mainly the temporary benefit and the family benefit (with a suite of supplements available given specific life events).

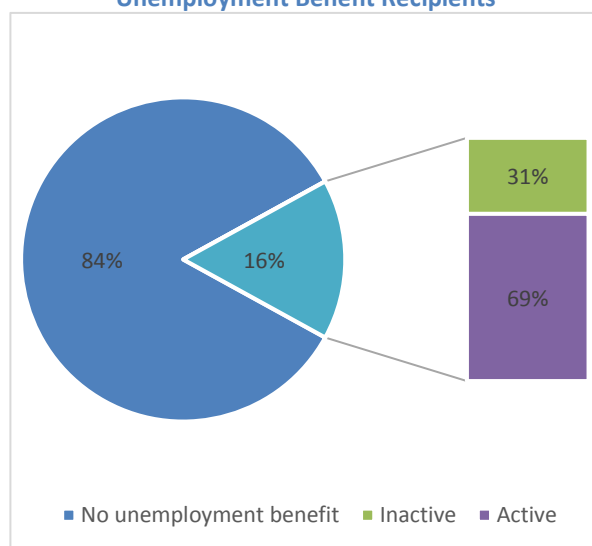
Unemployment benefit receipt is associated with registration in the PES, though often not with active job search. Around 16 percent of the individuals registered in employment offices are recipients of the unemployment benefit.³² However, less than two thirds of the individuals who receive this benefit reported to be looking for work through any method in the Labor Force Surveys. The remaining respondents could be considered inactive recipients (figure 17).

³⁰ 'Recent reforms' refers to reforms adopted before Fall 2015.

³¹ The main exceptions are the allowance for adults taking care of disabled family members, and child birth grants.

³² Among the OOW population, 0.06 percent or 7 individuals stated that they received unemployment benefit without being PES registered.

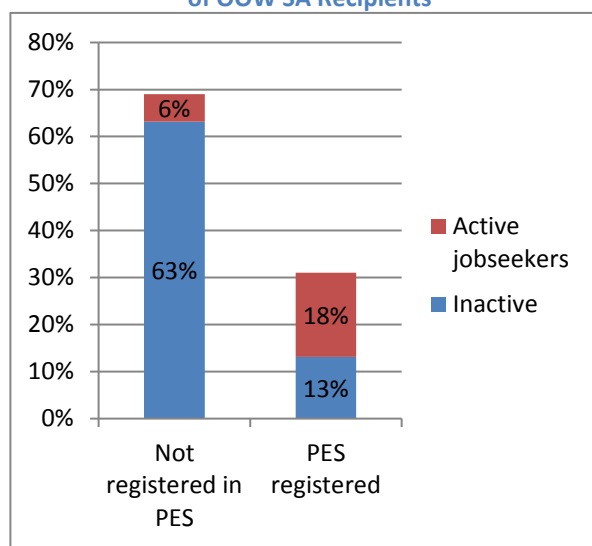
Figure 17. Incidence and Job-search Behavior of Unemployment Benefit Recipients



Source: LFS Poland, 2013.

Note: Sample consists of registered unemployed.

Figure 18. Job-search Behavior and PES Registration of OOW SA Recipients



Source: LFS Poland, 2013.

Note: Sample consists of the work-able OOW SA beneficiaries.

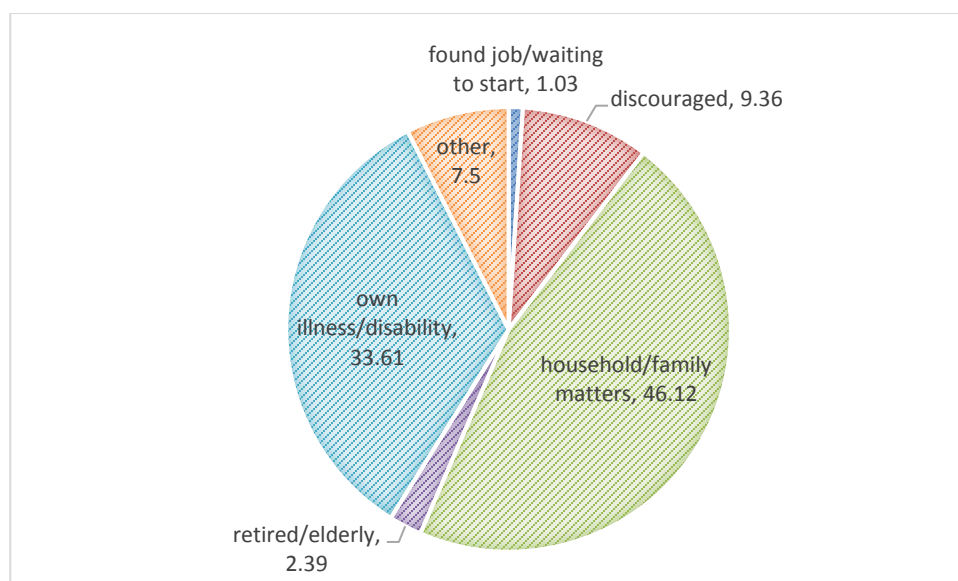
Most SA recipients are not registered in the PES, while, among the registered, the majority is actually looking for work. Thirty-one percent of the work-able OOW who receive social benefits reports to be registered in the PES, and, among them, the majority is looking for employment (figure 18).³³ What is even more impressive is that almost none of those who are not registered in employment services are actually jobseekers. Therefore, there seems to be a clear self-selection of the potential jobseekers among SA beneficiaries into employment offices. Additionally, most social benefits do not require PES registration,³⁴ and many benefits are targeting individuals that even if work-able may not be immediately expected to work, such as caretakers of disabled people, parents of large families, or individuals with light disabilities: SA for them seems to act as a substitute for employment income rather than as support.

Respondents' reasons for not looking for work suggest that the margin to improve the activity rates among SA beneficiaries is narrow, and depends strongly on care services and inclusion policies. Figure 19 illustrates the key constraints to entering active job search among inactive SA beneficiaries. The results show that the large majority is unable to take up work due to other family care commitments or their own poor health or disability. Therefore, an activation agenda for this group may require more than overcoming skills constraints or tackling disincentives to work, and should focus on two complex issues: provision of free or subsidized care services, and inclusive policies for individuals with disability.

³³ Due to data limitation, it is not possible to distinguish further the type of SA program that is received. However, it is likely that the majority is represented by recipients of the temporary benefit, which does require registration to the PES for all work-able adults. This is not a requirement for family benefit.

³⁴ Only the temporary benefit requires to register in the PES.

Figure 19. Reason for Being OLF among SA Beneficiaries

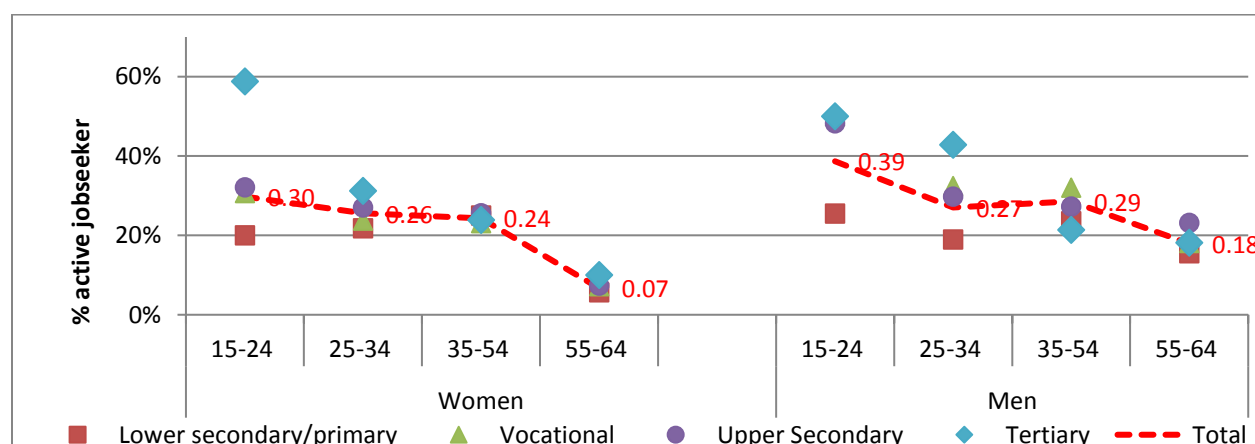


Source: LFS Poland, 2013.

Note: Sample consists of the work-able OOW SA beneficiaries.

Education is a particularly important factor associated with participation rates among male and female SA beneficiaries. Education plays a particularly important role for this vulnerable group (more than among the general population). This finding may be explained by differences in the ability to pay for the caretaking needs that this special social group is facing. For instance, unlike the general population, SA beneficiaries with tertiary education are significantly more likely to try to find a job, and, on the contrary, those with primary education are significantly more likely to be inactive (which is not the case in general).

Figure 20. Job Search Rate among OOW SA Beneficiaries, By Gender, Education, and Age



Source: LFS Poland, 2013.

Note: Sample consists of the work-able OOW population of working age who is social benefit recipients. N=4959.

4.2 Incentive compatibility of social benefits

Recipients of social benefits face some disincentives to join formal employment. A vast literature has discussed the relationship between the generosity of social benefits and labor force participation, including in Poland.³⁵ Qualitative evidence from a recent study of the implementation of SA in seven municipalities (gminas) suggests that for a subset of SA beneficiaries there may be a concern for benefit withdrawal that demotivates them from entering full-time employment. In some contexts, however, this concern may be justified by the design of the benefit formulas, which foresee the withdrawal of one PLN (Polish złoty) of benefits for each additional PLN in labor earnings, up to a specific threshold.

Unemployment benefits are characterized by limited duration and rather low generosity, and thus do not pose a policy risk with regard to artificially prolonging unemployment. In Poland, unemployment benefits are a fixed amount and they are provided for a maximum of 6 months in most circumstances.³⁶ Benefits tend to have a moderately low replacement rate by OECD standards, at 29 percent of average wage, which is significantly below the minimum wage. Regression analysis (see annex 1) indicates that job search is less likely among registered unemployed if they receive an UB, holding all other factors equal. However, because they are not generous and especially because they are temporary in nature compared to most OECD countries, these benefits should not be a particular cause of concern for work disincentives in Poland, unless they were combined with other benefits, which, however, seems to be rare in practice (only 4 percent of unemployment benefit recipients also received any kind of SA in 2013).

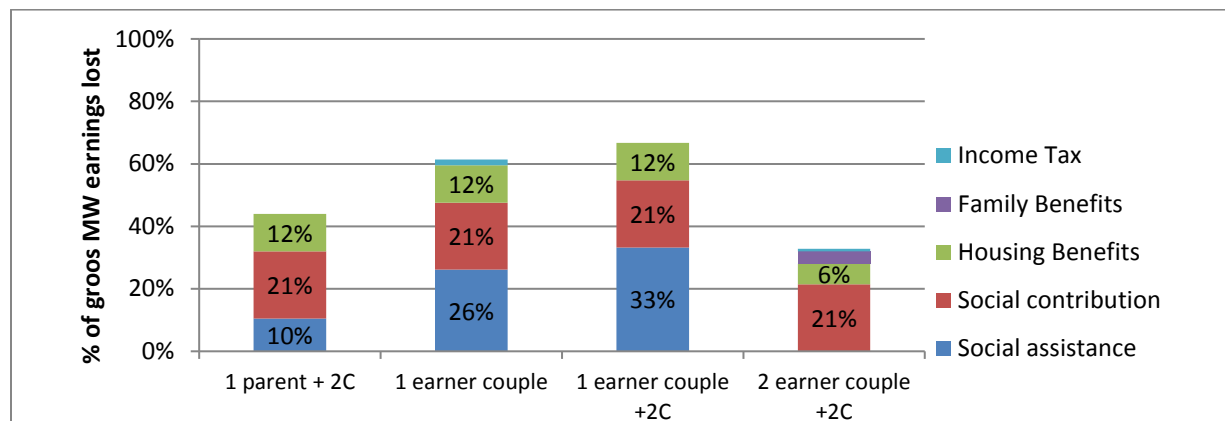
The tax and benefit model developed for OECD countries shows that some typologies of recipients of SA in Poland face high, but not prohibitive, costs to move from inactivity to employment. Figure 21 the cost (in terms of foregone benefits and additional taxes) of moving from inactivity to a minimum-wage job, for different typologies of households according to the OECD methodology. SA benefits considered include SA, housing benefits, and family benefits. We choose a minimum-wage threshold because it may be the most relevant for this vulnerable population. The greatest disincentive stems from the rapid withdrawal of last-resort SA ('temporary benefit') at a very low threshold of labor income; this is especially taxing for couples that received a more generous benefit when OOW, such as a two adults and two children household where one member moves into a minimum-wage job. However, a key finding from this simulation is that average effective tax rates of all these household typologies is still far from 100 percent of new labor earnings, because the generosity of SA is low at the legal minimum (50 percent of the income gap),³⁷ and a family can still earn 30 to 40 percent more in the labor market than by receiving social benefits.

³⁵ Haan, Morawski, and Myck (2008) provide a comparison of taxes, benefits, and financial incentives to work for the United Kingdom, Germany, and Poland.

³⁶ Benefits can last 12 months if the unemployment rate is 150 percent higher than the national average.

³⁷ Household budget survey data suggests that in most cases the benefit was given only some months per year. In 2013 the annual per capita amount of temporary/permanent benefit is PLN 1.283, family benefit is PLN 508, and housing benefit is PLN 765.

Figure 21. Decomposition of the Average Effective Tax Rate Faced by Poor Household Entering Formal Employment at Minimum Wage

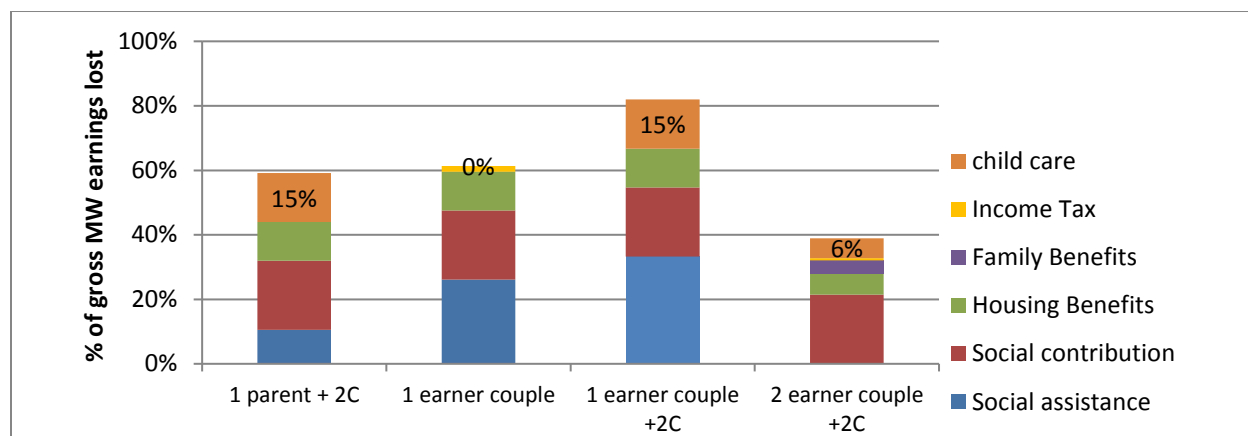


Source: Author's elaboration of OECD Tax benefit model 2013.

Note: Figure shows the Average Effective Tax Rate on labor earnings, resulting from the withdrawal of benefits and taxation, for entering into a minimum-wage (MW) job with labor contract. The minimum wage in 2013 was 46 percent of the average wage. The two-earner couple scenario assumes that the first spouse earns 67 percent of the average wage. Simulations assume that households receive the legal minimum temporary benefit, equivalent to 50 percent of the household income gap with the eligibility threshold.

Moving to a formal job may become close to prohibitive when considering other indirect opportunity costs, including professional care for other family members, foregone informal income, and transport costs. The household typologies proposed above are silent regarding the gender of the first or the second earner, but in practice it is often the case that those who have to make the choice on whether to work or remain home as second earners are women. This may be particularly the case of single-headed households, or households with two earners. The LFS data showed that as many as 60 percent of SA recipients who are OLF reported to be inactive due to other caretaking duties for their family members. The figure below tries to factor in some of these costs, by accounting for the cost of subsidized childcare in Poland. Single-parent households with children are those that face the greatest disincentives. A second implicit opportunity cost of moving to a formal job is the loss of income from informal labor, which cannot be accounted for in this model. Note that without the subsidy, childcare could be twice as expensive as shown below.

Figure 22. Decomposition of Average Effective Tax Rate, Including (subsidized) Childcare Costs



Source: Author's elaboration of OECD Tax benefit model 2013.

Note: Average Effective Tax Rate on labor earnings, resulting from the withdrawal of benefits and taxation, for entering into a minimum-wage (MW) job with labor contract. Childcare costs (7 percent of average wage) are based on OECD 2012 survey and include childcare subsidy. Without subsidy they are 17 percent of average wage. Childcare is supported from public budget via different channels, for example, the state pays the obligatory social insurance contributions to the amount of minimum wage for hired nanny, local governments generally cover the cost of 5 hours of childcare a day (without board) in public nursery schools, and the fee paid by parents for every extra hour is limited to PLN 1. However, the number of places in public nursery schools is limited, and in private ones parents need to cover the total amount of fee.

In the past, average effective tax rates may have been mitigated by a de facto avoidance of social security contributions for workers entering in temporary jobs with civil law contracts. Civil law contracts are popular among the population that has low education, and among those who entered the labor market in the past decade.³⁸ These contracts allowed de facto to reduce the tax wedge by allowing payment of almost insignificant amounts of social security contributions over the working year. As of 2016, social security contributions will rise to the level of labor contracts for all forms of temporary contracts, which in turn may increase the de facto marginal effective tax rate for those who would have typically entered the labor market through a civil law contract.

However, the recent reform in the child tax credits could offset some of these additional costs, because it is posed to make income taxes more progressive. Following a recent reform, the child tax credit benefits now not only working families but also non-working families. The child tax credit allows reducing the income tax by PLN 1,112 yearly for the first child, the same amount for the second child, PLN 2,000 for the third, and PLN 2,700 for the fourth child if parents' yearly income is not higher than PLN 112,000. The changes in the law from January 2015 introduced the refundable tax credit and the taxpayers whose child credit is bigger than the tax amount will get a refund of the calculated difference between those values. This reform can be considered a positive improvement in redistributive terms, and is potentially

³⁸ Gatti et al. 2014

capable of offsetting the negative effect of increases in social security contributions on labor contracts that could have affected the incomes of the poor.

In parallel, recent reforms of the family benefits are attempting to incorporate greater incentives to make-work-pay for low-income households. The family benefits under the existing regulations are granted to families with children living significantly below the relative poverty line, which ensures that this support is well targeted to the poor. At the same time, the design of this benefit may provide mild disincentives to work—especially with regard to additional hours—if a household is close to this threshold when deciding whether to increase its labor supply on the intensive margin. In May 2015 the government introduced the rule that family benefits will be only partially withdrawn as the labor income increases.

The literature on in-work benefits suggests that these reforms can have positive impacts on labor force participation, but only to the extent that other services exist to support labor supply.³⁹ Most studies of the United States Earned Income Tax Credit conclude that it increases employment. Studies of the United Kingdom's Working Families Tax Credit and Working Tax Credit yielded overall similar results. Studies based on interviews and other qualitative research strategies further support the finding from quantitative analyses that employment-conditional earnings subsidies boost employment. The improvement in incentives, however, will need to be met by an expansion of care services that allow households to allocate their labor more efficiently. As noted by Kenworthy (2015), these are marginal changes on specific populations. Other countries that have much higher employment rates as a whole do not necessarily adopt these policies, but rather engage in stronger overall support to labor supply and productivity. In the case of Poland, broadening access to affordable care services seems a necessary ingredient for households to take advantage of the improved working conditions.

³⁹ According to a recent review of the literature on in-work benefits. See Kenworthy (2015).

5. Active Labor Market Policies and Public Employment Services

The institutional setup of PES in Poland revolves around local labor offices, with regional offices playing an auxiliary role and the Ministry of Labor and Social Policy essentially being in charge of resource allocation. Recent reforms have introduced changes to the long-standing system, including a performance-based component, new online tools for information matching, and new and better-tailored programs for activation of different groups. While these changes go in the right direction, further investments are needed to continue improving the effectiveness of PES. The new profiling tool, which presents unique features, requires further validation, as the statistical profiling model has not yet been properly tested and could be better adjusted to the specificities of the Polish context. Additional challenges moving forward include shifting from gross-effectiveness to net-effectiveness measures in the assessment of performance, a further focus on M&E and specifically impact evaluation of the new programs, enhancing tailored services to the most vulnerable groups, and improving coordination between the public offices and private providers that are now allowed to offer services in specific cases. Overall spending on ALMPs compared to passive measures is high for international standards, although it is rather low when looking at expenditure per unemployed individual, and it is highly concentrated on programs for people with disabilities and wage subsidies. PESs are only allocated a minor share of the Labor Market (LM) budget, which can undermine their effectiveness.

5.1 The institutional structure of Public Employment Services in Poland

The PES system in Poland has a longstanding tradition and a broad outreach. Poland was one of the first countries in Europe to establish its PES (1919). During the communist period, although hidden unemployment existed, Poland officially had close to full employment. Thus, private and public employment agencies were liquidated, and PESs were supposed to concentrate only on counteracting the shortage of workers and absenteeism. After 1989, PESs were revamped and then, in 2000, decentralized.

Labor offices currently enjoy large responsibilities and a strong level of autonomy. The PES system now consists of a network of 340 LOs that are subordinates to county (pol. *powiat*) governments, where the head of the county administration (pol. *starosta*) is the executive body of labor market policy. With decentralization, county governments became responsible for designing and implementing employment promotion and activation programs, helping the unemployed through counselling and job placement, aiding the employers to find employees, creating labor clubs, organizing training, as well as for registering the unemployed, and paying unemployment benefits to eligible beneficiaries.

Voivodship (regional) labor offices have an auxiliary role. They provide complementary services to unemployed people, shaping regional labor market policy, distributing the Labor Fund⁴⁰ resources,

⁴⁰ The Labor Fund was created in 1933 and serves to mitigate the negative effects of unemployment. From the gross value of each contract employers pay 2.45 percent to this fund, which in 2014 allowed the Labor Fund for expenditures of around PLN 11 million.

registering the private employment agencies and training institutions, and coordinating the foreign employment offers (EURES) and European Commission operational programs.

At the national level, the executive body for labor market policy is the Ministry of Labor and Social Policy. Municipality and voivodship LOs are largely financed from the respective local governments; in addition they receive allocations from the national budget, the Labor Fund, and through projects funded by the European Social Fund. Among these funding sources, the Ministry of Labor controls the Labor Fund, and its allocation has become the primary measure to monitor and incentivize performance of the offices with regard to client/counsellors ratios and gross effectiveness of ALMPs (discussed further below). Figure 23 summarizes the key competencies allocated to each entity across different levels of government (the list is not exhaustive).

Figure 23. Core Prerogatives in Labor Market Policy across Levels of Government



Source: Authors

The year 2014 saw another major reform of the PESs in Poland, with the broad goal of improving their effectiveness. The changes concentrate in five major areas:

- (a) Introduction of a moderate performance-based financing of labor offices.** With the 2014 reform, the distribution of resources from the Labor Fund began to be related to the LOs results. Previously, the resources from the Labor Fund were distributed according to the structure of unemployment in voivodships. After the 2014 reform, the distribution of resources is in part linked to the effectiveness of professional and educational activation offered by LOs, as measured by the placement rate of those employed out of the total of those who received activation (gross effectiveness). This change directly affects the LOs' workers, as the sources for their remuneration are also related to LOs' performance. Moreover, the role of social partners in the process of Labor Fund resources distribution has been

enhanced. Labor unions, employers' organizations, local governments, as well as non-profit organizations, now have their representatives in Labor Market Boards (pol. *Rady Rynku Pracy*).

(b) New measures were introduced to support job creation and facilitate transition to employment.

These measures include grants for teleworking for parents returning to work after parental leave, activation benefit funded from the Labor Fund for firms employing LOs' clients who were earlier taking care of children or dependent adults, as well as loans from Labor Fund for the creation of new firms.

(c) Support to employers to recruit young unemployed people. These instruments include various vouchers as well as reductions of labor costs for these employers.⁴¹ *Training vouchers* up to the level of average wage guarantee the coverage of necessary training as well as other costs related to travel and accommodation of the worker. *Internship vouchers* allow the unemployed to have an internship in a selected firm. During the first 6 months the stipend represents 120 percent of UB. After that the employer is obliged to employ the intern for at least another 6 months. *Employment vouchers* guarantee the reimbursement of social security contributions and part of the wage costs for the first 12 months to the employers who employ young unemployed people for a minimum period of 18 months. *Settlement vouchers* equivalent to maximum two average wages are offered to unemployed below the age of 30 years who found employment or opened own company more than 80 km away from their current location. To receive the voucher it is required that remuneration in newly found employment place is at least at the level of minimum wage, and that social security contributions are covered. There is also a condition that beneficiary continues to be employed for at least 6 months within 8 months starting from the granting day.

(d) Support to employers recruiting unemployed aged over 50 years. These measures consist of partial coverage of wages up to the level of 50 percent of the minimum wage for 12 or 24 months depending on the age of the unemployed beneficiary under the condition that the employment relation is then prolonged for 6 or 12 months, respectively. Moreover, under the new law, the National Training Fund that supports the maintenance of working places was created, and for the first two years it will only serve the workers over 45 years of age.

(e) Improving the quality of services provided to the unemployed, as well as tailoring them to individual needs. The most important change is the introduction of a profiling system, which should result in better matching the services and instruments to the needs of the unemployed. Moreover, services for the hard-to-serve can now be outsourced to private providers or taken up by social welfare offices.

(f) New online tools to improve matching and emphasis on case management. The unemployed are now serviced throughout their relationship with the LOs by the same advisor, which enhances trust and continuity. The caseworker is aided by the newly introduced profiling tool. In most cases the

⁴¹ The costs are reduced via the reimbursement of social security contribution and the exemption from contributions to Labor Fund and to Fund of Guaranteed Worker Benefits (pol. *Fundusz Gwarantowanych Świadczeń Pracowniczych*).

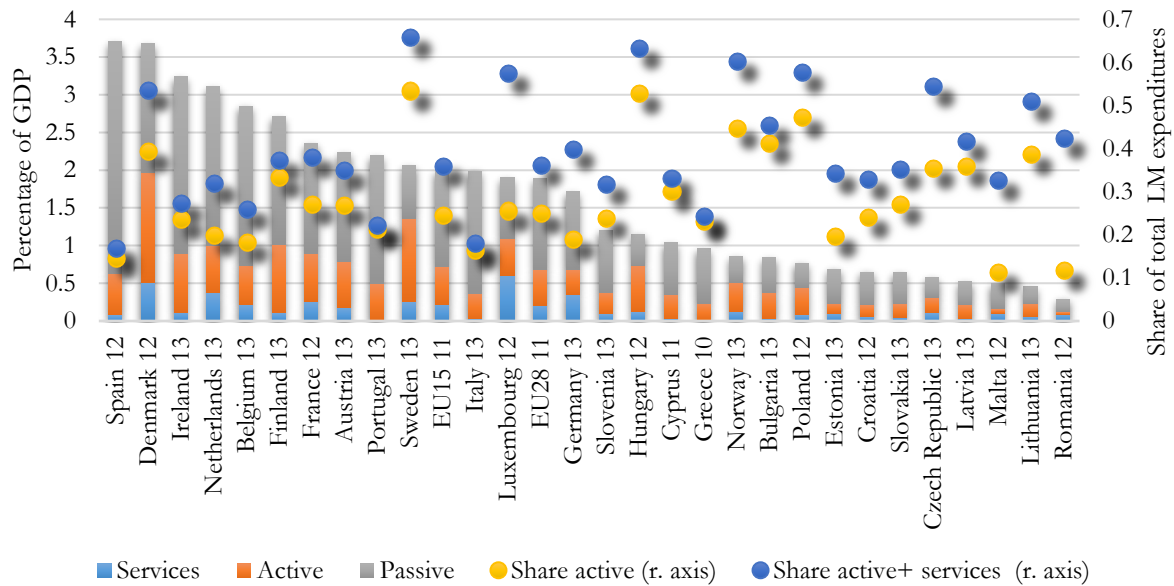
questionnaire is also filled by this LO worker, which heightens the risk of increased workload and service time. However, as communicated by the Ministry of Labor and Social Policy Information Technology (IT) department, the new webpage of the Polish PES now offers the possibility of online registration. The unemployed can also answer the survey questions online, which may help to decrease the time necessary for profiling during the personal meeting with the counsellor.

5.2 Spending on labor market policies in Poland

Following most Central and Eastern European countries, Poland's budget allocation to labor market policies (LMPs—passive and active) is relatively low and below the EU15 and EU28 average.⁴² In 2012 Poland spent a total of EUR 3,000 million on LMPs. Despite increasing its budget by around EUR 250 million compared to previous year, total spending constituted about around 0.7 percent of GDP, or 0.3 pp below the levels of spending that was recorded in the late 2000s. By European standards, LMPs are relatively underfunded. In 2012–2013 on average, the EU countries spent about 1.6 percent of GDP on LMPs, or approximately 10 percent of their total social protection spending. This obviously varies from country to country, from 0.3 percent of GDP in Romania to around 3.7 percent in Spain, Belgium, or Ireland (see figure 24). When spending is compared to other new member states, Poland spent more than eight other Central and Eastern European countries, and is preceded only by Slovenia and Bulgaria.

⁴² This section is mainly based on the data from Eurostat's Labor Market Policy database, which are accessible at <http://ec.europa.eu/eurostat/web/labour-market/labour-market-policy>. This database should provide complete information about spending on LMPs in cross-country comparable way. Public Finance in Poland consists of local governments, a social insurance sector and the central government. Social insurance sector includes Social Insurance Institution (ZUS), the Social Insurance Institution for Farmers (KRUS), the Labor Fund, the Fund of Guaranteed Employees' Benefits, the National Rehabilitation Fund, and the National Health Fund (NFZ). LMPs are mainly financed from the Labor Fund that in 2012 had expenditures of almost PLN 10 billion. However, some special programs can be financed by different fund, and, even more importantly, central and local governments are also spending money on functioning of PES. According to the information that we have received from the Department of Analysis and Forecasts of the Ministry of Family, Labor and Social Policy, the LMP database information for Poland reflects, to the extent possible, the entire spending on LMPs, and includes not only Labor Fund, but also central and local governments' expenditures. In the LMP database expenditures on LMPs in Poland in 2012 exceeded PLN 12 billion.

Figure 24. Fiscal Cost of Active and Passive LMPs as a Percentage of GDP in EU countries, latest available year

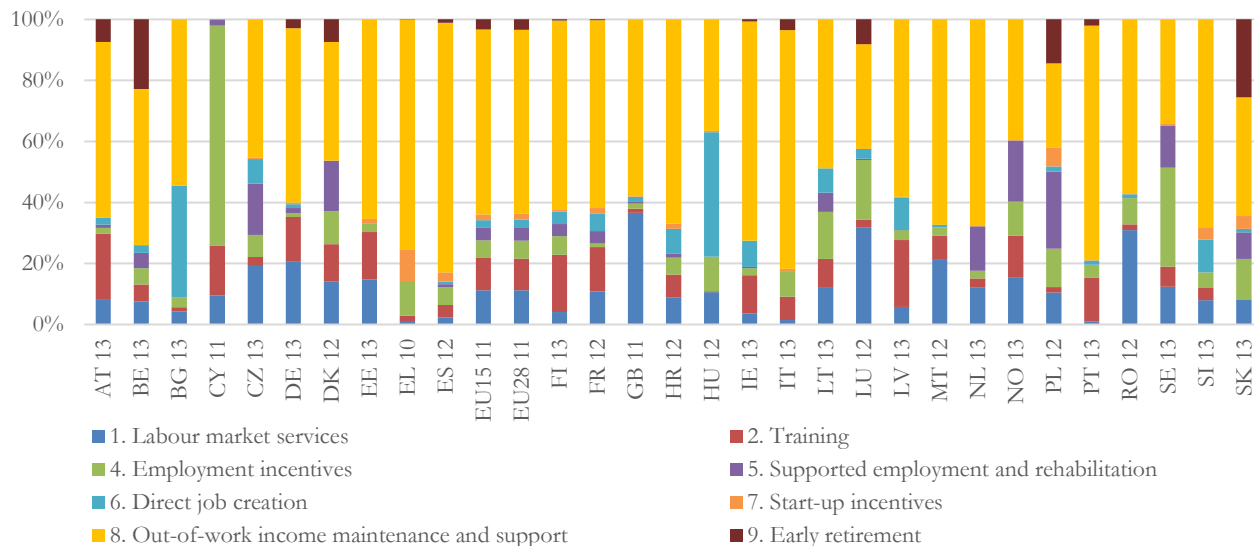


Source: Eurostat.

Note: Years of reference vary according to data availability. Unemployment rates refers to those years.

In 2012, Poland stood out for its heavy focus on three categories of labor market expenditures, compared to the EU averages: services for people with disability, start-up incentives, and early retirement benefits. As shown in Figure 25, the highest share of spending in LMPs in 2013 was represented by 'supported employment and rehabilitation', that is, services for people with disability. Poland also had the second highest relative share of incentives for business start-up in the EU, and the third highest share of early retirement benefits. The following section will examine in greater detail the composition and financing for active labor market measures.

Figure 25. Composition of LMP across the EU, Including Labor Market Services, ALMPs, and PLMPs



Source: Eurostat.

Note: See Box 2 - category 1 corresponds to category labor market services; categories 2–7 correspond to measures ALMPs' categories 8–9 to support PLMPs.

Box 2. Definitions of Labor Market Programs

Labor market programs are government initiatives that include expenditure programs but also foregone revenues (for example, reductions in social security contributions) that aim at reducing disequilibria and improve efficiency of the labor market (Eurostat 2013).

Eurostat classifies these LM policies in three broad categories:

(a) Labor Market Services. This covers all services and activities of the PES together with any other publicly funded services for jobseekers, including their administrative costs.

(b) Labor Market Measures. These include all those interventions where the main activity of participants is other than job-search related and where participation usually results in a change in labor market status. With the exception of programs supporting permanent reduced working capacity, measures are usually providing a temporary support aimed at activating the unemployed, helping people move from involuntary inactivity into employment, or maintaining the jobs of persons threatened by unemployment. Since 2013, Eurostat classifies measures into 5 subcategories: (i) training, (ii) employment incentives, (iii) sheltered and supported employment and rehabilitation, (iv) direct job creation, (v) start-up incentives. Labor Market Measures and Labor Market Services together constitute **Active Labor Market Programs**.

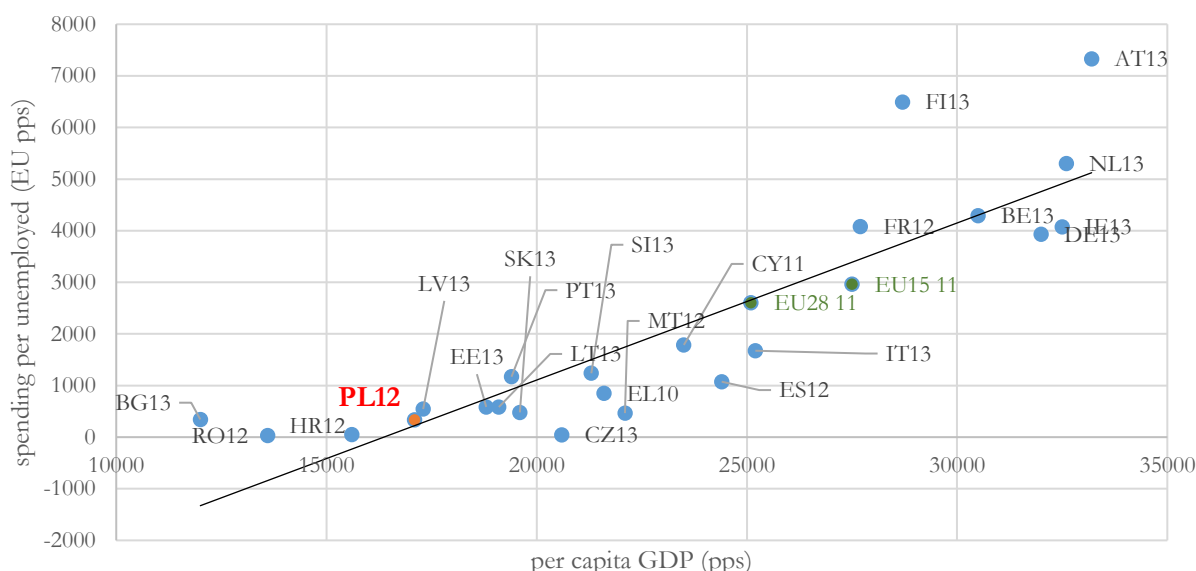
(c) Labor Market Support. Also called **passive labor market programs**, usually provide financial assistance to those who are OOW (unemployment benefits) or who retired early from the labor market.

Annex 5 includes a detailed list of program typologies, spending, and coverage for Poland.

Source: Eurostat LMP database.

Secondly, Poland is exceptional for its remarkably high spending on ALMPs, as a share of total labor market spending. Within the envelope allocated to labor market policies, on average EU countries allocate 60 percent of its budget to passive LMPs, around 30 percent to ALMPs and 10 percent to labor market services (see box 2 for definitions). In contrast, Poland shows one of the highest shares of spending on activation policies, allocating almost half of its envelope to ALMPs (orange bar in figure 24), about 20 pp more than the EU average. When including also the activities classified as ‘labor market services’, the share of active policies reaches almost 60 percent of the LMP budget.

Yet in absolute terms, spending on ALMPs *per unemployed* is among the lowest in the EU. Although spending on LM measures is high in relative terms to total spending, when this is computed in absolute terms as a fraction of the unemployed, it becomes clear that Polish active labor market programs are modestly financed. With a per capita GDP of around 17,000 (in purchasing power standard [pps]), Poland spends on measures and services the pps equivalent of about EUR 330 per unemployed—8 times lower than the EU28 average. In other words, although Poland’s per capita GDP is 66 percent of the EU28 average, its labor market spending is only about 15 percent of the EU28’s average budget (figure 26). These figures already take into account the differential across countries in purchasing power, and in turn suggest that the quality and coverage of the services provided may be inadequate compared to the needs.

Figure 26. ALMP Spending per Unemployed in EU Countries⁴³

Source: Own calculations based on Eurostat.

Note: For illustration purposes, Hungary, Sweden, Denmark, Norway, and Luxembourg have been excluded. The y-axis shows the purchasing power standard (pps)-adjusted spending on ALMPs per the number of unemployed based on LFS data. The x-axis shows the per capita pps-adjusted GDP as reported.

5.3 Active labor market programs in Polish PES: spending and composition

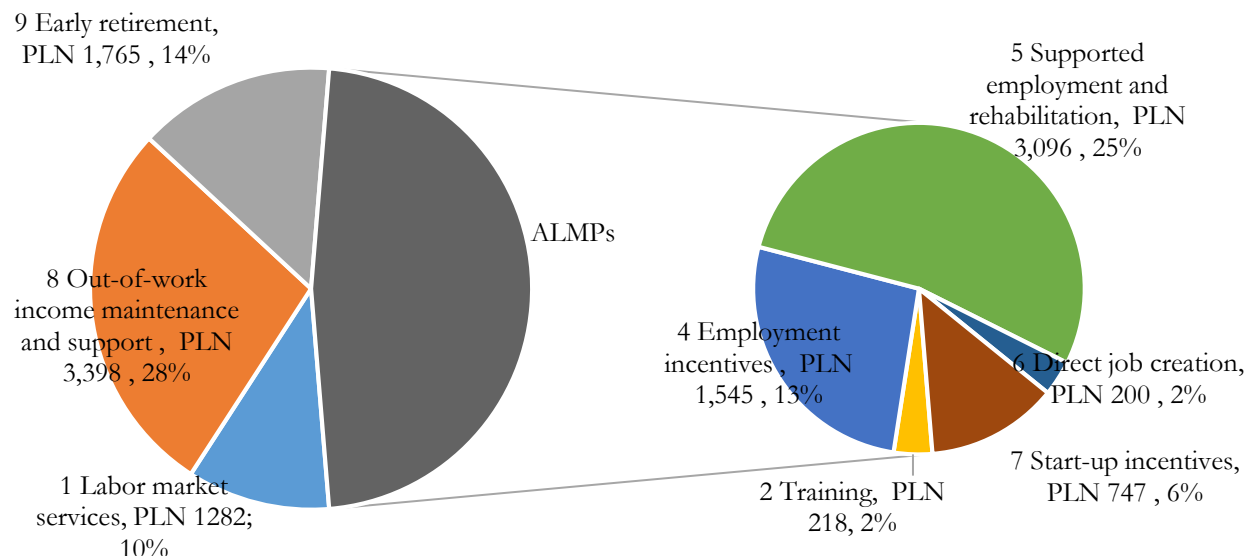
The Polish PES provides a vast range of ALMPs that aim to address different market failures and constraints to employment. While a full description of these programs is beyond the scope of this report, a list of these ALMPs, as reported to Eurostat, including the number of participants and the type of spending, is included in annex 5.

The largest allocation in 2012 was for services targeted at people with disability and wage subsidies. Two subcategories explain 75 percent of Poland's spending on ALMPs: 'Supported employment and rehabilitation', and 'employment incentives', respectively absorbing 25 percent and 13 percent of the total labor market envelope. The first category mainly encompasses measures tailored to disabled people, including wage subsidies, reimbursements, and compensation for social security contributions. The main program in this subcategory absorbs PLN 2.3 billion and covers almost a quarter million of people with

⁴³ Throughout this note, in some charts country abbreviations are used as follows: Austria (AT), Belgium (BE), Bulgaria (BG), Cyprus (CY), Czech Republic (CZ), Germany (DE), Denmark (DK), Estonia (EE), Greece (EL), Spain (ES), European Union - 15 members (EU15) European Union - 28 members (EU28) Finland (FI), France (FR), Croatia (HR), Hungary (HU), Ireland (IE), Italy (IT), Lithuania (LT), Luxembourg (LU), Latvia (LV), Malta (MT), Netherlands (NL), Norway (NO), Poland (PL), Portugal (PT), Romania (RO), Sweden (SE), Slovenia (SI), Slovakia (SK).

disabilities. Its purpose is to provide monthly subsidies to the remuneration of the disabled employees to the employers who run supported employment enterprises with disabled persons.⁴⁴

Figure 27. Detailed Composition of Labor Market Programs, 2012



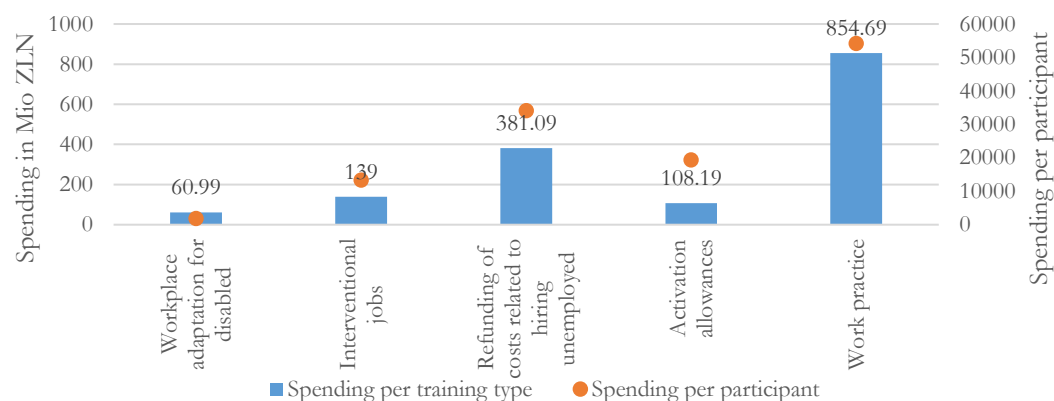
Source: Eurostat.

Note: PLN expressed in Mio of national currency. Percentages on the right side indicate the share in total LMPs.

Wage subsidies, if well implemented and targeted, can benefit particularly vulnerable groups, although they also carry a significant risk of being ineffective. Within the broad category of wage subsidies, work practices (internship) absorb the largest budget, PLN 854 million, for about 55,000 beneficiaries who receive 120 percent of the unemployment benefit amount (figure 28). Internships can last up to 6 months or 12 months and are targeted to young people below 27 years of age.

⁴⁴ The number of participants is based on Eurostat, where many program names do not report beneficiaries. The main program is called Dofinansowanie do wynagrodzen niepełnosprawnych pracowników na chronionym rynku pracy - Wage subsidies for disabled workers in SWE.

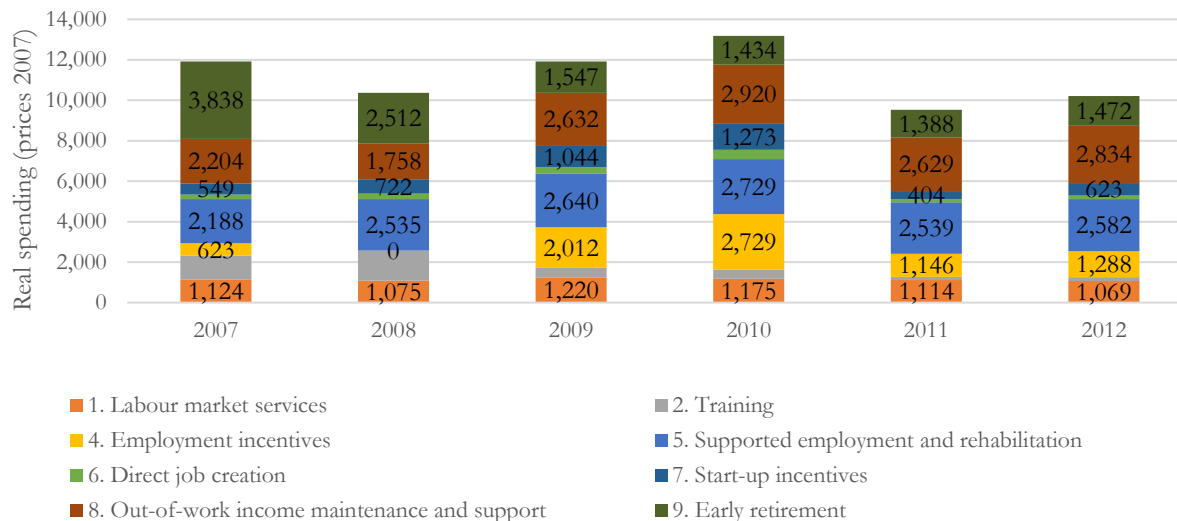
Figure 28. Main Programs Classified as Employment Incentives, 2012



Source: Eurostat

On the other hand, budgets for skills building programs, such as training, represent only 2 percent of the total expenditure and appear inadequate and on the decline. In general, spending on ALMPs increased by 10 percent in this period: While spending on labor market services increased only by 3 percent, it decreased by 7 percent for PLMPs. Yet, in real terms, inflation combined with steady or declining nominal spending caused a real decline in total spending after 2010 and only allowed for a mild increase from 2011 to 2012 in some categories. Start-up incentives was the one category that increased the most, by almost PLN 220 million in real terms (figure 29). The 2014 employment promotion law introduced a new range of labor market instruments that could address some of the existing gaps in services, although it is still too early to assess their coverage and financing, and thus to evaluate whether more services have been directed toward the objective of enhancing the skills of the unemployed.

Figure 29. Evolution of LMP in Poland in Real Terms since 2007



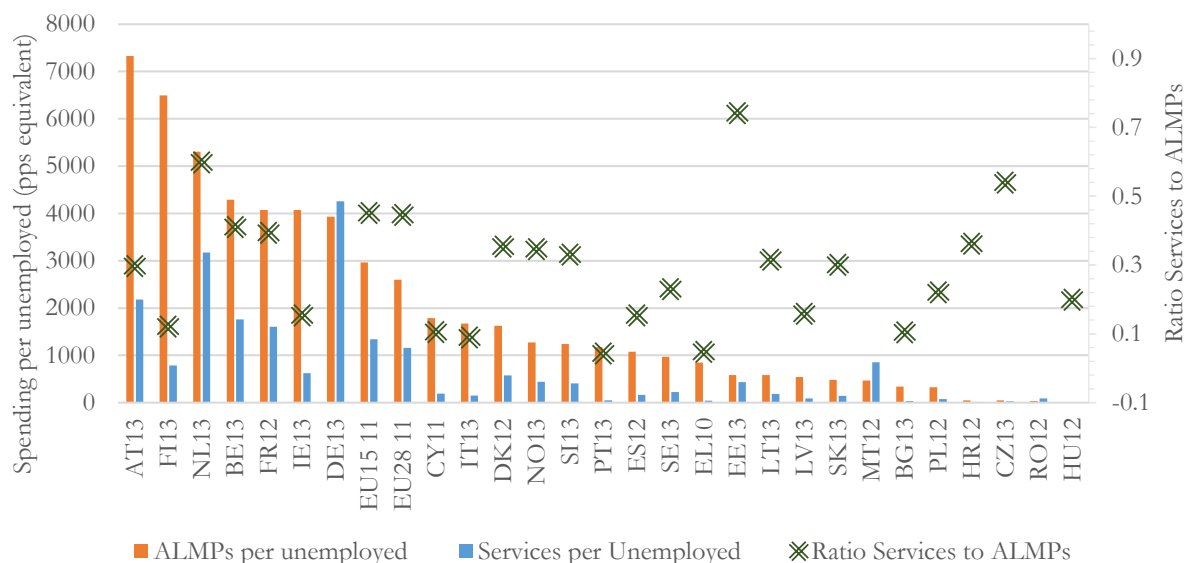
Source: Authors elaboration based on Eurostat data.

Note: Millions of national currency, 2007 = 100.

Finally, spending on PES is disproportionately low in comparison with spending on ALMPs. Spending on labor market services as a share of total spending on ALMPs can be used as a proxy for the resources available for the administration of programs, particularly because ALMPs are contracted and managed by employment offices. As shown in figure 29, for every EUR 328 (pps) spent on ALMPs, only EUR 72 (pps) goes to labor market services (a ratio of 22 to 100).

Working in such a resource-constrained environment is likely to affect the quality and efficiency of the measures that the PESs administer. One interesting finding (illustrated in figure 30) is that countries with well-recognized capacity on PES delivery such as Denmark, Germany, or the Netherlands spend more than Poland (in relative terms) on PES core functions, in relation to ALMPs, which raise the question of whether the financing of the labor market system in Poland is well balanced. There is consensus that employment offices are overburdened with too many clients, and in turn this could affect also the capacity to design, target, monitor, and evaluate active labor market programs. Part of this imbalance may originate from the availability of European Structural Funds, of which Poland is the largest absorber, only for ALMPs and not for PES core functions.

Figure 30. Budget Allocation to Labor Market Services and Labor Market Measures



Source: Authors elaboration based on Eurostat data.

The recent review of evidence on ALMPs across the EU suggests that programs that have positive impacts on labor market outcomes tend to have a holistic design that includes also sanctions and support services for clients, compared to traditional training programs.⁴⁵ Training programs to activate low-skilled adults are most effective if they are well tailored to the needs of both jobseekers and local employers and if they have the tools to address multiple barriers. The literature focusing on welfare recipients and integrated service delivery shows that ‘integrated services’ offer more effective services to the target population and are cost-effective and cost-saving for both clients and service providers (OECD 2015). An integrated family project in the United Kingdom targeted at troubled families reveals that program performance depends not only on participants and program design but to a similar extent on service delivery capacities of local authorities. Evidence on youth employment interventions on the other hand shows that for this age group entrepreneurship training yields the most positive and statistically significant results on labor market outcomes for participants, followed by skills training and only in third place subsidized employment (S4YE 2015 based on Kluve et al. 2015).

The information on gross effectiveness of ALMPs implementation in each LO is regularly published by Polish administration since 2007, and since the 2014 reform access to additional funds is conditional on those measures. Gross effectiveness was initially calculated as the share of beneficiaries that are not registered as unemployed three months after financial flow connected to ALMP is finalized.⁴⁶ ALMPs that

⁴⁵ Kluve 2010; European Union 2015.

⁴⁶ Such an approach had multiple drawbacks: it required assumption that not being registered as unemployed is equal to being employed, the effects were assessed only in the short term, and the fact that part of the ALMPs contains requirements that employment continues for specified number of months after financial flow is finalized was not taken into account (as a result, for example, grants for setting up a company have by design gross

are regularly assessed include trainings, intervention works, public works, internships, grants to employers for creating job place for unemployed, and grants to unemployed to start a company. In 2014 the highest gross effectiveness was observed for grants to create new working place for unemployed or grants to set up a company (100 percent), and for intervention works (74 percent). The lowest effectiveness was achieved for trainings (56 percent).⁴⁷ However, these numbers must be treated with caution as for some ALMPs short-term insertion rates may simply be a consequence of the design of the program rather than being a sign of an actual labor market insertion.⁴⁸ Studies that attempt to measure net effectiveness indicate different ranking of ALMPs performance, and they appear more reliable to understand the true impact on the unemployed since they include a counterfactual to the intervention.⁴⁹ Maksym and Wiśniewski (2012) assessed net effectiveness for 7 poviats in 2010 indicating positive net effect of grants to set up the company or create new job (above 50 percent), as well as of intervention works and trainings (around 10 percent), which is positive when compared to the international literature and considering that training effects tend to materialize more in the medium term and in the form of higher wages. Other ALMPs, especially public works, and socially useful works appeared to have *negative* net effectiveness. However, many argue that these instruments were traditionally targeted to the hard-to-serve and their objective is not necessarily to lead to employment but to develop social skills.⁵⁰

effectiveness of 100 percent). Starting from 2015 the gross effectiveness will be calculated based on reliable information on employment status from Social Insurance Institution. Moreover the period of intervention will include the months following ALMPs financial flow during which employment status is required by the law, for example, when the employer is obliged to employ an ALMP beneficiary for 24 months after the grant to create job place was provided.

⁴⁷ For more details see <https://www.mpips.gov.pl/analizy-i-raporty/raporty-sprawozdania/rynek-pracy/efektywnosc-podstawowych-form-promocji-zatrudnienia-i-aktywizacji-zawodowej-w-latach-2007-2009/efektywnosc-podstawowych-form-aktywizacji-zawodowej-realizowanych-w-ramach-programow-na-rzecz-promocji-zatrudnienia-lagodzenia/>

⁴⁸ It is required by the law that job place is preserved for 12 months in case of grant to set up the company, 24 months in case of grant to create the working place for unemployed, and 3–6 months in case of interventions works. Refined methodology to calculate gross effectiveness is applied to 2015 data, but the results are not yet available.

⁴⁹ The attempts to measure net effectiveness include works developed by Maksym and Wiśniewski (2012), as well as the tool developed by Chancellery of Prime Minister (pol. Narzędzie do rankingowania Powiatowych Urzędów Pracy w zakresie skuteczności polityk aktywizacyjnych, 2013), where the administrative data as well as the econometric techniques to measure average treatment effect on the treated are used. While the works of Maksym and Wiśniewski (2012) compares the net effectiveness of various interventions, the tool developed by Chancellery of Prime Minister aimed to compare the effectiveness of LOs from different poviats.

⁵⁰ For example, Association of Polish Poviats argued that to increase effectiveness measures LOs use public works and socially useful works less often, which deteriorates the situation of the hard-to-serve, see <http://www.portalsamorzadowy.pl/praca/urzed-y-pracy-zamiast-pomagac-bezrobotnym-gonia-za-wspolczynnikami-efektywnosci,68469.html>

6. Typologies of PES clients and tailored reforms

Using Latent Class Analysis, this section identifies the categories of OOW individuals that share common features with regard to socioeconomic and demographic characteristics and, especially, distance to the labor market. Eight priority groups emerge from the analysis, which can be classified for policy purposes into: passive registered (in need for strong support to reenter the labor force), activation ready (with high prospects of remaining OOW for long periods without intensive support with regard to skills building), market ready (closer to the labor market, could be directed to autonomously search for jobs), and opportunists (registered and potentially in the 'market ready' category, but not interested to find a job). Better education appears to be associated with higher job-search intensity and higher chances of finding a job.

This section presents a multidimensional characterization of PES-registered clients for the purpose of planning tailored policy responses for different groups. The exercise is carried out through the Latent Class Analysis statistical methodology, which is used to define different groups of PES clients according to their level of job-search activity and to the extent of their employability constraints. LCA allows identifying distinct groups of individuals who are the potential clients of income- and employment-support policies by examining detailed labor market, demographic, and social circumstances. Through this examination of the characteristics of different subgroups, this analysis aims to contribute policy-relevant information about the social and economic risks these subgroups are facing, and on the barriers that hold back their labor market integration. In doing so, it can facilitate the effective formulation and targeting of policies that seek to alleviate these barriers.⁵¹ Box 3 summarizes the methodology of LCA.

This exercise is particularly relevant in Poland, where the fragmentation of the information system of PES offices prevents from drawing systematic analytical profiles of the PES population. The management information systems of decentralized LOs in Poland, due to both technical and legal limitations, does not allow a straightforward comparison of the likely needs of this diverse population with the stock of services that are being offered. However, as discussed earlier, the existing LFS data allows for a nationwide analysis of the PES-registered unemployed, within the limitations of a statistical survey.

The analysis distinguishes typologies of individuals registered in PES primarily through the extent of their job-search status and distance from the labor market. LCA allows the classification of the population registered in the PES in latent classes (or clusters) that are as homogenous as possible within, but heterogeneous and distinct across classes. All observations in the PES registries are assigned to one and only one class, assuring collective exhaustiveness of the sample. The classification is primarily done through a number of 'indicators variables' that are thought to be relevant for the identification of the latent class. In this case, the indicators were chosen to describe two dimensions that are considered important for the final employment outcome from the supply side: (a) *labor market distance* (individual has work experience, and individual has been more than 12 months out of a job) and (b) *job search* (individual is engaged in job search). The latter is of particular relevance to the PES because their original

⁵¹ World Bank 2014e

purpose should be to assist genuine jobseekers to find employment, and therefore there is an interest in classifying individuals according to the extent that this search behavior happens. In addition to these indicators, the model is shaped by a number of ‘active covariates’ that refine the classification: these are beneficiary status of SA programs, age, receipt of unemployment benefits, and education level.⁵² Finally, the classes so identified can be further described according to additional statistics—called inactive covariates—which do not enter the model. In this case we report the classes for gender, job-search places, civil status, disability, and labor force status.⁵³

Box 3. Profiling Beneficiaries through Latent Class Analysis

The main purpose of using LCA is to identify an organizing principle for a complex array of variables, and it is particularly useful to reach a classification of individuals in presence of unobserved heterogeneity. This latent variable model uses “categorical observed variables, representing characteristics, behaviors, symptoms, or the like as the basis for organizing people into two or more meaningful homogeneous subgroups” (Collins and Lanza 2010). Formally, LCA enables a characterization of a categorical latent (unobserved) variable, starting from an analysis of the relationships among several observed variables (named ‘indicators’), using a maximum likelihood estimation method. Our estimations also include active covariates, which are “variables that may be used to describe or predict (rather than to define or measure) the latent classes and if active, to reduce classification error” (Vermunt and Magidson 2005).

Individuals are scored according to the likelihood of belonging to each of the computed latent classes, and then assigned into the class to which they have the highest posterior probability of belonging (modal assignment) given their observed characteristics. Statistics such as the Bayesian Indicator Criterion are used to identify the most appropriate number of classes, that is, the model that has on average the highest likelihood of predicting class membership in the given sample.

A fundamental assumption underlying LCA is that of local independence, which implies that each one of the chosen indicator variables should be related to the others uniquely through the latent class membership, and a random error. In practice, however, it is possible that indicator variables are also correlated with each other *ex ante*. Advanced computational techniques are now allowing detecting, and in part controlling, for the correlation between indicator residuals, thus enabling the full use of the available information.

The current model was produced with Latent Gold software and based on a sample of 20,524 observations, which includes all work-able individuals registered in the PES with valid responses to the parameters. The 8 cluster model was the one that minimized classification error, BIC and AIC statistics. The associated p value of this 8-cluster model with bootstrap iteration was 0.00.

Sources: Collins and Lanza 2010; Vermunt and Magidson 2005.

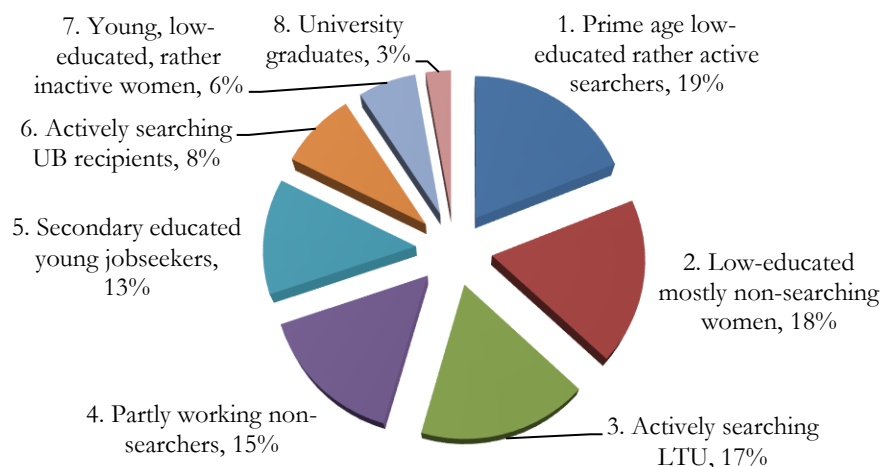
Using this method, the PES beneficiaries could be classified into eight groups (or clusters). The resulting groups are labeled according to their main distinguishing characteristics, which are chosen not because they are necessarily the most frequent, but because they stand out the most in relation to other classes.

⁵² Age groups are: 15–24, 25–34, 35–54, and 55–64 years. Receiving unemployment benefits is a binary variable, and education level consists of primary or less, lower-secondary, upper-secondary, and tertiary or more.

⁵³ Job search essentially ranges from (a) no search, (b) search only through PES, (c) active PES-independent search, like private employment agencies. Labor force status can either be (a) out of labor force, (b) employed, (c) self-employed, (d) student, or (e) unemployed. The remaining inactive covariates are binary.

Labeling of groups is unavoidably the result of a subjective interpretative process.⁵⁴ Groups are presented according to their relative size in figure 31 and their characteristics are reported.

Figure 31. Distribution of PES Clients According to Main Typologies Based on LCA



Source: LFS Poland, 2013.

Table 1. Cluster Size and Main Characteristics According to LCA

Class-Cluster	Cluster size (%)	Frequency of...			Share with primary education versus tertiary education (%)	Most frequent age group (years)	Share of women (%)	Share of UB beneficiaries (%)
		Active job search (%)	Past work experience (%)	Long unemployment spell (%) ⁵⁵				
1. Prime-age low-educated jobseekers	19	64	100	81	19 vs. 6	35–54 (80%)	46	4
2. Low-educated mostly inactive women	18	42	100	85	21 vs. 6	25–34 (41%)	82	0
3. Long-term active jobseekers	17	99	100	62	12 vs. 18	25–34 (49%)	43	4
4. Part-working non-searchers	15	1	100	10	15 vs. 14	35–54 (39%)	44	35
5. Secondary-educated young jobseekers	13	81	28	0	3 vs. 3	15–24 (84%)	44	1

⁵⁴ World Bank 2014e.

⁵⁵ Long-unemployment spell in this exercise is defined as the time since the last formal job was terminated. It makes no reference to the person's actual search for a job while being unemployed.

6. Unemployment benefit recipients	9	100	100	1	8 vs. 15	35–54 (46%)	45	100
7. Low-educated inactive young women	6	38	17	0	26 vs. 8	25–34 (44%)	87	0
8. First-time jobseeker university graduates	3	93	30	0	0 vs. 95	25–34 (70%)	53	1

Source: LFS Poland, 2013.

The characteristics of each cluster/class are summarized below:

1. Prime-age low-educated jobseekers: These are individuals with previous work experience, who are relatively active but face a long unemployment spell. In fact, most individuals in this cluster are searching for a job, both through the PES and other formal channels. This group has important employability challenges: Almost all of them are above the age of 35 years, a quarter are SA beneficiaries, and average education levels are low. This cluster also contains the highest share of people with disabilities (8 percent).

2. Low-educated mostly inactive women: This class stands out for containing a high share of women (above 80 percent) who have previous work experience but simultaneously face the highest rate of long-term distance from a previous job across all classes; this is correlated with a low prevalence of job search. More than half of this cluster is between 35 and 64 years old and mostly married. This cluster also stands out for having the highest presence of SA recipients yet a very low share of UB beneficiaries.

3. Long-term unemployed active jobseekers: This cluster includes individuals that are actively looking for work (within and often outside the PES), but in 6 out of 10 cases have spent a long period of time without a job despite having previous work experience. Most of its members are mid-aged (25–34 years old), and many have tertiary education. This could be considered the standard stock of registered unemployed, possibly those whose unemployment benefits have expired.

4. Part-time workers and non-searchers: This cluster comprises individuals that are not engaged at all in active jobseeking, either because they are out of the labor force, or because they are already working, either as employed or self-employed (25 and 20 percent, respectively). Even those who do not work, however, have previous work experience and have separated from the job less than a year before. A significant share receives UB (35 percent).

5. Secondary-educated young jobseekers: This cluster is composed of young people, both men and women, rarely with any work experience, and actively searching for work in 4 out of 5 cases. Members are mainly unmarried and between 15 and 34 years of age. They have some type of secondary education in almost all cases. It is, however, noteworthy that only 60 percent of them use job-search methods other than looking through the PES vacancies.

6. Unemployment benefit recipients: This well-defined class includes recipients of UB, obviously with previous work experience, and with limited incidence of long-term unemployment (which is understandable given the short duration of these benefits in Poland). Nearly all actively search for jobs.

Half of this cluster belongs to age group 35–54 years and only 23 percent has an educational credential other than upper- or lower-secondary level. More than 6 out of 10 are married.

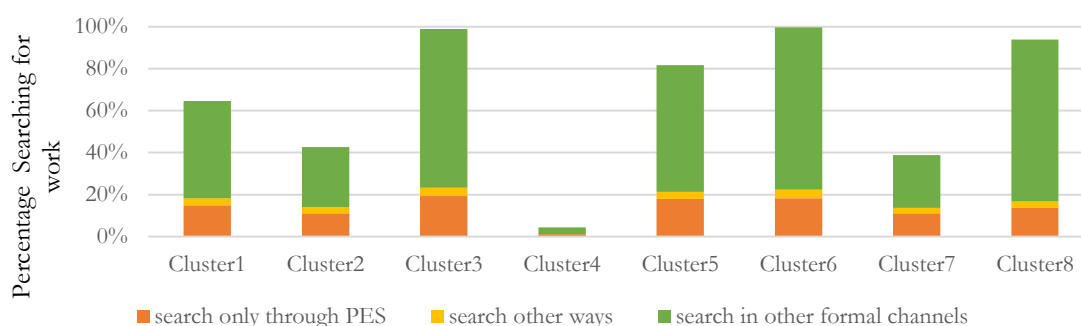
7. Low-educated inactive young women: Most members in this class have never worked before, do not search for jobs, and do not face long-term unemployment. Most do not receive UB yet some get SA. This cluster represents a high share of young women at or below 24 years of age. They rarely have tertiary education and usually do not search for jobs. Most members are either inactive or unemployed.

8. First time jobseeker university graduates: While most members of this cluster actively search for a job, only 30 percent of them have previous work experience. Members rarely receive UB or SA benefits. This cluster stands out for having either young or prime-age jobseekers who earned a tertiary degree in almost all cases and who actively search beyond the means provided by PES in 77 percent of the cases.

It is possible to compare these groups across some of the dimensions that speak to the design and operation of PES, their linkages to the broader social protection system, and the demographic and economic characteristics of labor supply.

Most of the clients that are looking for work use several job-search methods at once. PES caseworkers have to sort out those who have actual interest in finding a job. Figure 32 highlights in greater detail the propensity to look for work across clusters and the methods used. The figure reveals that two clusters have both low intensity and low propensity to find work: cluster 4, in which most members do not search for jobs, and cluster 7, the so-called low-educated inactive young women, in which few women use other methods than the PES registry to find jobs. In all other clusters about three-quarters of individuals exhaust several means to find work, but there is still a quarter that engages in limited job-search effort, and could be further incentivized.

Figure 32. Job-searching Propensity, and Job Search Method across Clusters



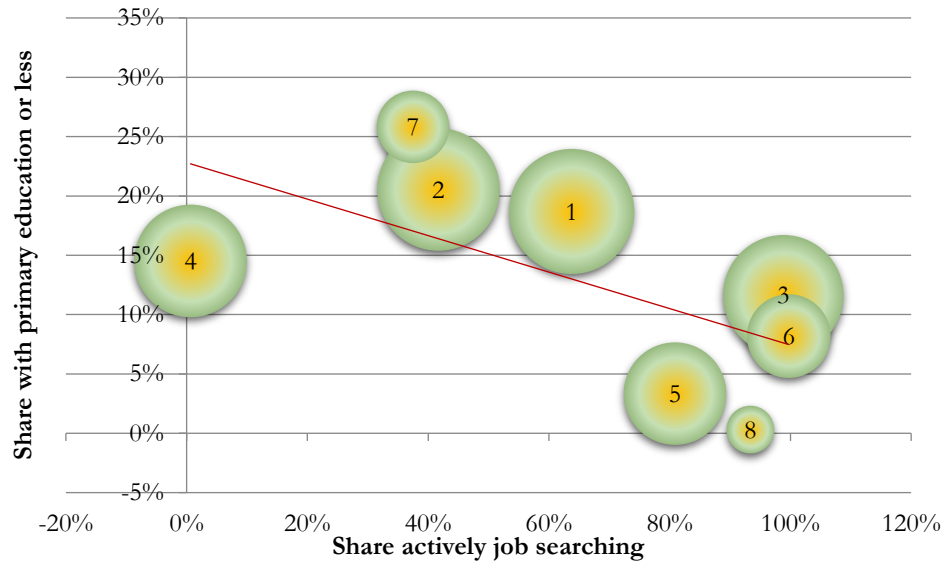
Source: LFS Poland, 2013.

Note: The numbers of clusters refer to the following groups: 1 – Prime-age low-educated jobseekers, 2 – Low-educated mostly inactive women, 3 – Long-term active jobseekers, 4 – Part-working non-searchers, 5 – Secondary-

educated young jobseekers, 6 – Unemployed benefit recipients, 7 – Low-educated inactive young women, 8 – First-time jobseeker university graduates.

Clusters with high prevalence of low formal education are also those with the lowest job-search activity. Clusters 1, 2, and 7 have the highest share of primary-educated members, and the lowest rate of job searchers. One exception is cluster 4 (UB recipients), but in this case many of those who are not searching for work already are in employment (figure 33).

Figure 33. Skill Barriers and Job Search

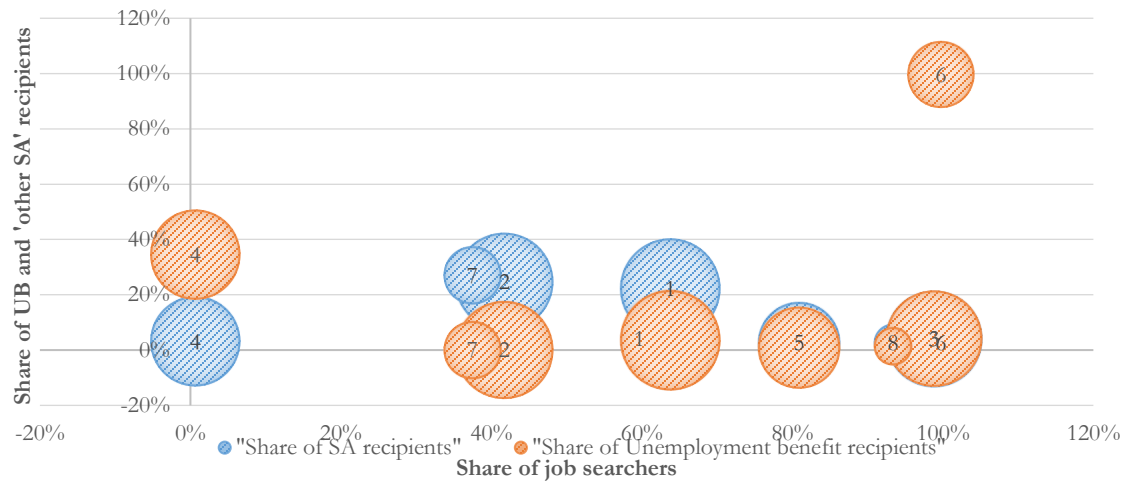


Source: LFS Poland, 2013.

Note: The numbers of clusters refer to the following groups: 1 – Prime-age low-educated jobseekers, 2 – Low-educated mostly inactive women, 3 – Long-term active jobseekers, 4 – Part-working non-searchers, 5 – Secondary-educated young jobseekers, 6 – Unemployed benefit recipients, 7 – Low-educated inactive young women, 8 – First-time jobseeker university graduates. Size of the circle represents relative size of the group.

The correlation between social transfers and job search is heterogeneous: Not all groups respond equally to the same incentives. Figure 34 shows the rate of jobs search and the level of social transfers for each cluster. First the LCA shows that the two-benefit recipients' populations are very distinct from each other (as there is no overlap between benefits within clusters). Secondly, there are two distinct typologies of UB beneficiaries. Indeed, the model spontaneously grouped nearly all UB recipients in two clusters (4 and 6), which present two radically different levels of job-search propensity. One group genuinely looks for work. A second group is either completely out of the labor force or already working. While the UB is not particularly generous by international standards, the inability of the PES offices to monitor and enforce job search may hamper the incentives to exit unemployment benefit or to start looking for work early on. There is also a high variability in job-search behavior among SA beneficiaries. SA beneficiaries are mainly found in 3 clusters (1, 2, and 7), which display a mixed record of jobs search.

Figure 34. Prevalence of SA and UB across Clusters



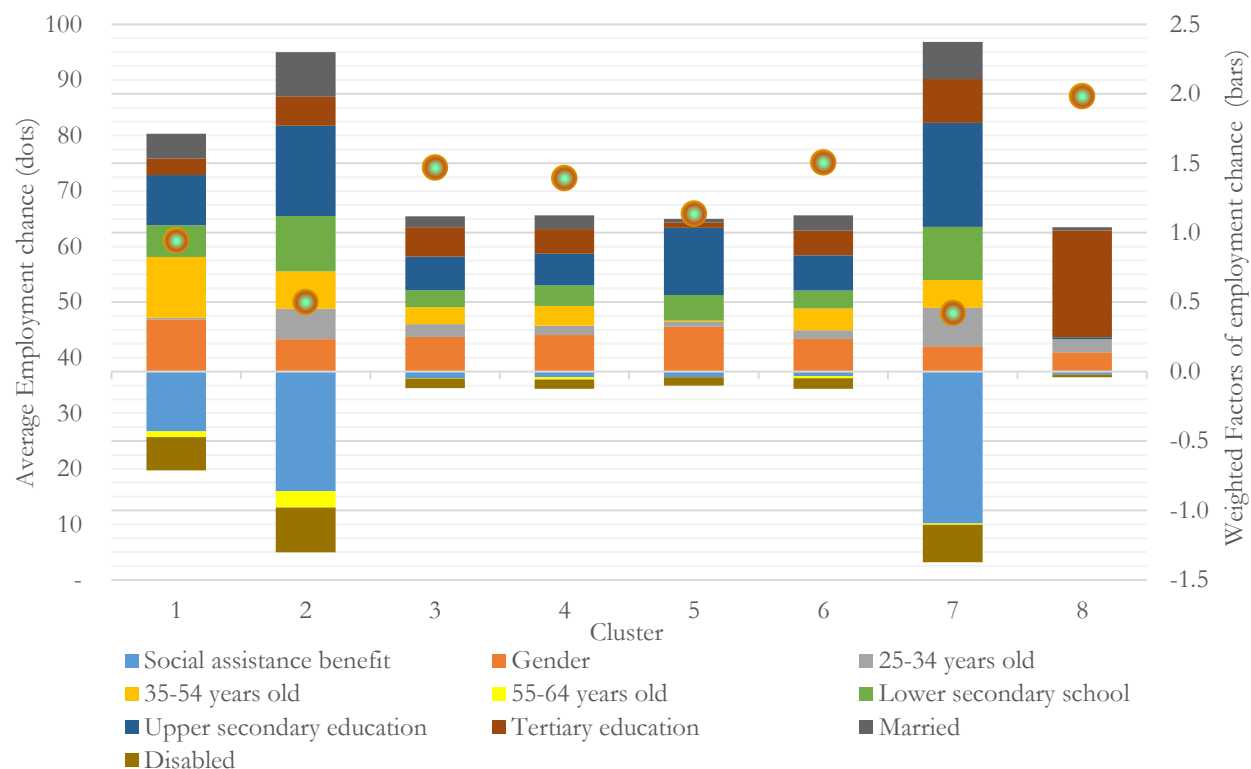
Source: LFS Poland, 2013.

Note: The numbers of clusters refer to the following groups: 1 – Prime-age low-educated jobseekers, 2 – Low-educated mostly inactive women, 3 – Long-term active jobseekers, 4 – Part-working non-searchers, 5 – Secondary-educated young jobseekers, 6 – Unemployed benefit recipients, 7 – Low-educated inactive young women, 8 – First-time jobseeker university graduates.

The distribution of groups according to their employability constraints and job-search intensity can inform client segmentation and treatment. One way to segment and plan for the differentiated treatment of customer groups is to evaluate such groups according to their expected employment chances. To provide an empirical foundation to this customer segmentation, we constructed an index of employment chances for each cluster,⁵⁶ which results from the addition of the marginal effect of each characteristic of the cluster's members on employment probability. The contribution of each characteristic to the probability of being in employment is shown in the colored bars in figure 34. Factors that contribute to increasing employability compared to the baseline value are above zero. For instance, upper-secondary education has a positive employment impact relative to lower secondary (baseline variable).

⁵⁶ In particular, a probit model was estimated on the full work-able population in Poland to estimate the relative contribution of the most salient sociodemographic characteristics measured in the LCA on the chance of being at work. The covariates selected for the probit model excluded all those that are collinear with the dependent variable (such as job search or unemployment benefit). *Gender* and attaining the *upper-secondary* and *tertiary education level* are the predictors with the highest positive marginal effect, while *receiving SA* and *being disabled* have the highest negative marginal contribution to the probability of working. To construct the employability index, the regression coefficients were multiplied with their relative frequency in each LCA cluster, then aggregated into a single employment probability through the following formula [*Normdem: SUM(coef*freq)*]. As such the model took into account not only the intensity of some factors, but also how frequent these were within a cluster. For example, even though receiving SA benefits or reporting to have a disability remarkably reduces employment prospects in the overall LFS sample, the incidence of these factors on the final employability prospect of each cluster was moderated by their frequency.

Figure 35. Decomposition of Employability Barriers According to Clusters' Relative Shares of LCA Variables



Source: LFS Poland, 2013.

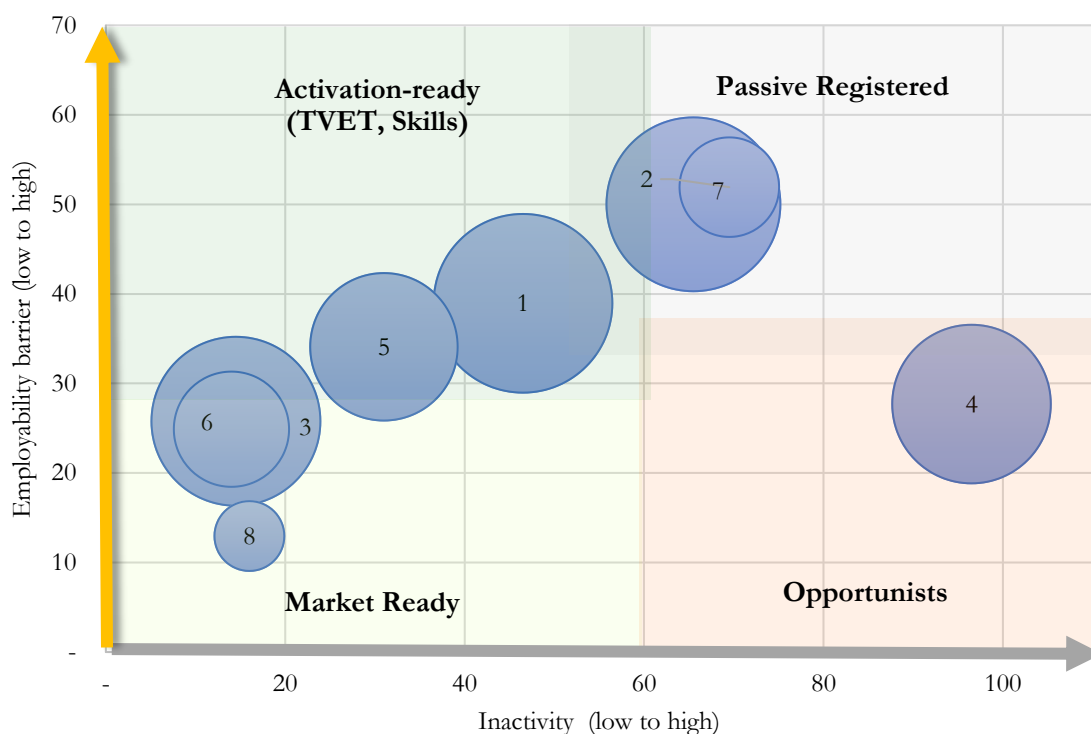
Note: The numbers of clusters refer to the following groups: 1 – Prime-age low-educated jobseekers, 2 – Low-educated mostly inactive women, 3 – Long-term active jobseekers, 4 – Part-working non-searchers, 5 – Secondary-educated young jobseekers, 6 – Unemployed benefit recipients, 7 – Low-educated inactive young women, 8 – First-time jobseeker university graduates. The dots represent the expected probability of each cluster of beneficiaries of PES to be in employment, according to their characteristics. Bars represent the decomposition of the effect of different factors on the probability of being into employment. Baseline values: gender (female), education (primary), age (15–24 years).

The predicted employment chance varies significantly across clusters, from only 50 percent for women with low education and high prevalence of social benefits, to as high as 87 percent for first-time jobseekers with university education. The average employment probability of the cluster members is shown in the green dots. It is likely that these probabilities potentially overestimate employment prospects of the PES beneficiaries, since other unobservable factors may be determining their unemployment status. Clusters 2 and 7, which are comprised mostly by women with relatively low education, are those that face the greatest employability barriers. These results are determined by the relatively higher share of SA beneficiaries and of people with disabilities among their members. These clusters are followed by clusters 1 and 5 that not only have a lower exposure to SA and disability, but also a greater share of male members and upper-secondary education attainment. Clusters 3, 4, 6, and especially 8 are better off with regard to employment prospects given the combination of 'positive'

characteristics such as gender and upper educational achievements, hence their employment barriers reflected in the yellow dot on figure 36 are further to the left side of the chart.

There is a remarkable—though not surprising—correlation between having low employment prospects and not searching for work. Figure 36 plots the different clusters of PES-registered according to the probability of being OOW (which is simply the inverse of the employment chance described above), and job-search activity, which takes into account the number of channels used to find employment as well as the intensity of employment.

Figure 36. Clusters' Position with regard to Employability Obstacles and Extent of Inactivity



Source: Authors based on LFS Poland, 2013.

Note: The numbers of clusters refer to the following groups: 1 – Prime-age low-educated jobseekers, 2 – Low-educated mostly inactive women, 3 – Long-term active jobseekers, 4 – Part-working non-searchers, 5 – Secondary-educated young jobseekers, 6 – Unemployed benefit recipients, 7 – Low-educated inactive young women, 8 – First-time jobseeker university graduates.

The resulting picture suggests that PES beneficiaries may be grouped into four different types of clients that require different sets of policies. In addition to the structural institutional issues identified in the previous section, the LCA suggests further policies that are necessary to support the activation of the diverse set of PES clients. While each one of these reforms is particularly important for the specific client segment, obviously its spillovers would go beyond, also because client groupings are not rigid but rather indicative measures that are meant to help the identification of policies.

Table 2. Policy Recommendations Based on Client Segments of the PES

Client Segment	Key Policy Reforms
Passive registered: In need for strong and differentiate support to reenter the labor force.	<ul style="list-style-type: none"> • Develop and broaden care services for children and the elderly • Discontinue practices and regulation that keep prime-age workers out of the labor force • Provide basic skills training for those with less than secondary education • Improve outsourcing models for the clients with multiple non-labor market barriers
Activation ready: Even if in the labor force, these groups have high prospects of remaining OOW for long periods without intensive support with regard to skills building.	<ul style="list-style-type: none"> • Increase the supply of soft and technical skills training among ALMPs • Establish a rigorous system of counterfactual evaluation, especially for the most expensive programs (for example, wage subsidies) • Improve client segmentation tools for the early identification of the long term unemployed
Market ready: Face the least barriers and could be directed to autonomously search for jobs.	<ul style="list-style-type: none"> • Make self-directed job search the default option supported by web and mobile applications
Opportunists: Clients who do not show intention to find a job but are seeking other benefits associated with registration.	<ul style="list-style-type: none"> • Discontinue the function of the PES as a provider of health insurance of last resort • Make job-search requirements more stringent and revise the criteria for a 'suitable job'

Facilitating labor force participation among the 'passive' registered:

Clusters 2 and 7 are the so-called 'passive' registered and they account for 24 percent of the total PES-registered population. These clusters are far away from the job market due to both high employability barriers and high rates of job-search inactivity. Most of these clients are women. The intervention for the activation of these groups includes a mix of services and policies both within the PES, SA offices, and the benefit system.

Care services for young children and the dependent elderly. First, 'passive' registered are the groups that face the highest need for support services to enter the labor force in the first place due to their family conditions. This implies developing more accessible childcare services, incentives to go back to work after inactivity periods, and senior policies for long-term care. In addition, parental leave policies should seek to combine work and family responsibilities by enabling the return to the job after parenting or other family-related breaks. These measures would not only affect the 'passive' registered, but also other inactive, that constitute a very numerous group in Poland. Thus, this measure is further described in greater detail in the next chapter about the cross-cutting recommendations.

Specialized support services for the hard-to-place with multiple non-labor market barriers. In addition, a subset of this group is also likely to face the highest barrier to entering the labor force due to physical

or mental health issues. Focusing on the ‘hard-to-service’ is at once a social priority, and probably the most expensive and complex task that the PES could undertake. For this reason, this is the type of beneficiaries that many countries decide to outsource to private service providers or nongovernmental organizations (NGOs) for treatment, within well-specified contract agreements. In some countries, these outsourced services are contracted and managed or co-managed by the centers for social work, which are familiar with the specific barriers faced by the most vulnerable clients. For those who have only a primary education degree, the provision of basic literacy and numeracy training may also be necessary, as a precondition to receive further training. The previous section discusses in detail the level of progress that the Polish PES has made in this direction, and in the next chapter further recommendations regarding the cooperation of PES with other institutions are provided.

Inclusive programs and policies for people with disability. People with disability have generally lower employment rates. One possibility to encourage their employment is reforming disability benefits toward an employment-oriented system. According to the European Commission (2002), intensive counseling and job-search assistance would be required for that purpose. Another possibility is subsidized employment, which is intended to mitigate financial barriers in hiring people with disabilities. However, some countries do not have specialized activation policies for disabled people. Instead they are expected to participate in mainstream policies.

Support reentry and stay into the labor force of ageing workers. Older workers are often encouraged to exit the labor market by early retirement schemes, on which Poland in 2012 was one of the highest spenders in Europe (though these have been reined in more recent years). The evidence shows that these schemes—which are usually implemented with a view to open up jobs for younger workers—are not associated with higher employment for youth. In addition, and considering population ageing trends, this group represents a necessary resource to fill the gaps in labor demand moving forward. Policies instead need to encourage people to extend working lives, for example, by giving the elderly greater choices in work and retirement decisions or tailored access to job-search assistance and training, by eliminating disincentives to work while receiving a pension, and by fostering lifelong learning and skill acquisition. It is particularly important to ‘maintain the ability to learn’ as future skills needs are unpredictable and ageing workers who have been long out of education may have lost the foundational skills (functional literacy, numeracy, computer literacy) need to acquire new knowledge. Specifically in the Polish case, it would be also important to remove those disincentives for employers in hiring and retaining older workers that still exist in the labor legislation.

Enhancing the efficiency of Active Labor Market Programs for the ‘activation ready’:

The largest client segment in the Polish PES consists of active jobseekers with moderate employment prospects: given their higher level of motivation, these are usually the target of more intensive active labor market programs. This heterogeneous cluster includes almost a third of all PES clients, mostly male dominated. While individuals are very different with regard to age, gender, education, and work experience, a common characteristic of this group is long unemployment spells. Another common factor is their relatively high level of job-search intensity, which underscores both their motivation and availability to find work, but also the signal that the local market cannot absorb them with their current

stock of skills. Such a large group should be the primary client for the most intensive and costly active labor market programs, which encompasses re-skilling and up-skilling programs and often incentivized job creation.

Increasing the supply of comprehensive skills programs with both in-class and practical components will be important to re-skill the large stock of inadequately educated active jobseekers. The analysis of expenditures highlighted above suggests that skill-building programs are underfunded on a per-beneficiary basis and as a share of the total budget. This contrasts with the educational reality of many of the vulnerable workers that are registered in the PES, and with the need to equip jobseekers with new skills as they are displaced from shrinking sectors or replaced by more productive workers. The impact evaluation literature suggests that, if well designed, training programs for the unemployed can have a positive effect on earnings of the unemployed in the medium term.⁵⁷ Programs are particularly effective when targeted to the vulnerable workers. When workers lack both job experience and have limited relevant education, packages of in-class and on-the job training can be particularly effective, as it is the case of young people with secondary education or less.

It is necessary to ensure that expensive wage subsidies, which consume a large share of the ALMPs budget, are well targeted and properly evaluated. One of the most striking findings from the expenditure analysis is the high spending on subsidies to employers to hire those who are unemployed. The literature suggests that these programs tend to have on average a low cost-effectiveness.⁵⁸ This is both due to their relatively high per capita cost, and to the high risk of deadweight loss (when these workers could have been hired in any case, or if subsidies simply displace other unemployed workers). These programs require careful designs, to avoid abuse, and especially a strong system of monitoring and evaluation with counterfactual that can prove their value added. More detailed recommendations regarding evaluation with counterfactual, that become of highest importance after introduction of new measures with the 2014 Employment Law, are provided in the next section.

Improving client segmentation is a further priority for better treatment of individuals in this cluster. The large number of vulnerable unemployed in comparison with the number of ALMPs available suggests that further profiling segmentation tools should be used to prioritize the most vulnerable among those who are in the condition to accept. Statistical profiling models could be used to identify high-risk cases, and immediately prevent long-term unemployment among them through the allocation of intensive counselling and more expensive type of training and potentially wage subsidies; at the same time, this would avoid allocation of resources to those who could find work on their own (the market ready). Improving the profiling tool, although especially important for this group, can be perceived as a general target, and is further described in the “Cross-cutting recommendations” section.

⁵⁷ Although Kluve (2006) found the training programs less effective, the following research by Card, Kluve, and Weber (2010) suggest that in the long term training programs are positively assessed. Lehmann and Kluve (2010) analyzed ALMPs particularly in the context of transition countries and assess training and retraining schemes as one of the most promising ALMPs in transition countries. In the earlier study concentrated only on Poland, Kluve, Lehmann, and Schmidt (2002) also indicated the positive effect of training programs on employment prospects.

⁵⁸ See Brown and Koettl (2012) for the assessment of cost-effectiveness of various ALMPs.

Refocusing the allocation of human resources away from the ‘market ready’:

Finally, clusters 6, 8, and (to some extent) 3 are those ‘market ready’—that is, the closest to the job market, with a low level of employability barriers and high job-search intensity. These clusters have a lower exposure to barriers stemming from disability or SA benefits, and overall they show remarkably better educational attainment than the average. Furthermore, they have a relatively lower share of women, which is, as shown in the probit regression, associated with poorer employment outcomes. In PES’ absence, members of these clusters would have greater chances to find a job by themselves as a result of their low job-search inactivity and the relatively lower employment barriers they face.

Self-directed job-search support through IT systems could be enhanced to reduce the workload of caseworkers. The most advanced PESs in OECD countries are increasingly using digitization to enhance the service provision for the market-ready clients. This development can help foster the development of IT skills, which are now considered essential for most jobseekers, and over time reduce the administrative burden on local human resources. Digital services include mobile-based job search and offers, online application for any social or unemployment benefit, and online reporting of job-search effort.

Removing incentives for registration to the PES unrelated to job search:

The ‘opportunists’ group in the LCA consists of individuals that show low priority in finding a new job but use PES registration for other purposes. Given the high workload faced by the offices, this group could be removed from the PES. Individuals in cluster 4 are predicted to be fairly close to the labor market, and their high level of search inactivity can be explained by the fact that many are working—often as self-employed—and at times receiving unemployment benefits. Potentially, a large share of them may be registered to receive health insurance while working informally. Registration at PES for health insurance purposes clogs PES registers and is likely to limit the effectiveness of profiling.

Reassigning the provision of health insurance for those OOW to other institutions or automating it would thus be necessary. Polish health care is based on a health-insurance system. Those OOW individuals who cannot contribute have to register as unemployed at PES to obtain health insurance. This puts additional pressure on the LO workers and their efforts to serve these clients are either unnecessary or pointless. During site visits conducted as part of this study the LO representatives reported the number of people registering only for health insurance to represent between 30 and 50 percent of total clients. Very often, they found conditioning of health insurance on registration in LOs as their major problem. While correcting this distortion has been a subject of discussion in Poland, no solution has been agreed upon. Box 4 describes how the former Yugoslav Republic of Macedonia has solved this issue.

Making job-search requirements more stringent and revising the criteria for a ‘suitable job’ would help remove clients who are not truly searching for jobs from PESs. The PES regulation could ask individuals to show proof of their independent job search on a regular basis (by email, for instance, or through monthly show-up visits with a collection of vacancy applications), as it happens in other countries. In the United States people have to prove to have applied or searched for at least 10 jobs per week to receive social benefits, as an example. In addition, most PESs have a requirement that the job offered to the

candidate for the purpose of activation is within his specific skillset or experience, or wage expectations. However, this criteria has been relaxed after a certain period of unemployment or removed entirely if the person receives benefits. Individuals may be removed from the registry if they still refuse to take jobs.

Box 4. Unemployment Registration and Health Insurance Availability: Reforms in FYR Macedonia

In FYR Macedonia, one-third of registered unemployed people were not actively looking for a job in 2006. This high number of unreal unemployed was largely the result of such registration being a central requirement to receive free health insurance. Contrary to what happens in other European countries, free health insurance in Macedonia is also granted to those unemployed people who do not qualify for benefits.

Indeed, health insurance for the unemployed was the largest spending category of the Employment Services Agency (ESA), its costs amounted to almost as much as the total SA program of the government of Macedonia and it represented a significant burden for ESA staff. In addition, through this system, formal sector workers were subsidizing free health care insurance for informal workers.

Limiting eligibility for health insurance to only recipients of unemployment benefits should be the cornerstone of any short- or long-term reform. This would drastically improve incentives for the informal sector, but at the same time also drastically worsen conditions with regard to public health and poverty, which would require mitigating policy options. Measures to mitigate the impact of the reforms on poverty could include adding participants of certain types of ALMPs to health insurance provided by ESA, including some means-testing mechanism for health insurance and providing health insurance to SA recipients.

To address the public health risk, two basic policy options existed: either offering free health insurance to all uninsured, but at the cost of considerably undermining efforts to decrease the informal sector; or promoting voluntary self-insurance, decreasing the price or introducing a minimum health benefit package, or both. Tax incentives to promote voluntary self-insurance could also be set up. Both options, though, run the risk of adverse risk selection among Health Insurance Fund members and still provide significant distortionary incentives for the informal sector. The latter two issues could be addressed through retroactive collection of compulsory contributions, as in Hungary, thus making self-insurance compulsory.

However, most of these options were not deemed as possible in the Macedonian context due to capacity constraints. As a minimal alternative, the government opted for continuing the existing practice, but shifting the burden of registration from ESA to the Health Insurance Fund. However, free health insurance provision is still available to all unemployed workers, rich or poor, on account of public and formal sector workers who are the only contributors to the system.

Source: World Bank 2008

7. Cross-cutting recommendations

Given the profile of its OOW population, there are a number of policy options that the government of Poland might want to consider to increase employment and continue to increase the effectiveness of its labor market-oriented policies. These are highlighted below.

Investing in quality child and long term care emerges as a first order priority for Poland. In Poland, inactivity rather than unemployment is a key challenge. The vast majority of the inactive—and inactive women overwhelmingly—report family and household responsibilities as the key barrier to accessing employment. As such, strengthening the supply of quality care services—both for children and for the elderly—seems to be a promising way to relax these constraints. Progressively shifting the provision of care from families to organized care could impact employment significantly, also because those joining the labor force could actually be employed in the care sector. Clearly, there is more to the provision of care than economic efficiency, and Poland has a strong societal preference for care being provided within the family. However, if Poland wants to stave off the investable projected decline labor force participation will need to increase through a combination of policies that promote longer and productive working lives, immigration, and activation of those who are not currently working. Mapping the care needs of families, both by socioeconomic status and geographically and on the basis of demographic forecasts, will contribute to making this choice in an informed way.⁵⁹

There is room to redesign benefits and tax credits. While the disincentives associated with SA benefits are not excessive, there is also room to better ‘make-work-pay’ for low-skilled workers in two complementary ways: By introducing in-work benefits and by lessening the income tax burden on low income earners. Finally, there are opportunities for further improvements in the effectiveness of PES.

While the 2014 Employment Law introduced important elements of modernization in the PES system, challenges remain. Some of these are hardwired to the existing institutional structure of PESs, while others are instead linked to the still ongoing implementation of the 2014 Law. This section highlights some of the emerging areas that are likely to need further attention from policymakers and implementers. These reflections are based on a number of field visits that the team conducted over the past year. It also draws on some of the messages emerging from a large qualitative study on social inclusion.⁶⁰

The current profiling system is unique in international comparison. In Poland, profiling is implemented in two stages: (a) filling in the survey about the unemployed and (b) assigning the jobseeker to a group based on survey answers and the caseworker’s assessment. In the international practice, profiling is usually either qualitative—in which case the caseworker selects the unemployed profile based on his/her knowledge of the unemployed situation—or statistical, based on an econometric model estimating some measure of distance (usually the risk of long-term unemployment) from the labor market given the unemployed characteristics, as well as regional labor market indicators (see box 5). In Poland, the first stage of the analysis mimics the statistical profiling approach, as the unemployed provides information on

⁵⁹ Gatti, Goraus, and Holda (2015) discuss this in more detail with specific reference to aging workers.

⁶⁰ World Bank, forthcoming.

commonly used covariates like age, education, previous experience, and so on. Then this information is aggregated by the system to suggest the right category to the LO worker, who eventually makes the final decision.

Depending on the distance from the labor market the LO worker assigns the unemployed to one of three groups, and assistance to the third group is provided in partnership with other organizations, a novelty introduced by the reform. Group 1 consists of unemployed that just need counselling and job placement services. Group 2 consists of persons that are more distant from the labor market and need support in getting the adequate skills and overcoming the discouragement related to previous job search. Group 3 consists of long-term unemployed, who need individual plans to return to the labor market. Support to group 3 workers is provided with the partnership of Social Welfare Offices (SWO) and private employment agencies or NGOs.⁶¹ Experiences of various European countries show that the cooperation with private employment agencies and non-profit organizations increases the chances for successful return of the unemployed to the labor market. During site visits in LOs the assessment of profiling and activation plans for each group was generally positive, especially the possibility of receiving support from other institutions in the activation of group 3 workers.

However, the statistical model within the profiling tool could benefit from further validation. The model effectiveness has not yet been—to our knowledge—broadly validated econometrically, and while the qualitative element of the caseworker’s decision adds useful nuances, the Polish statistical profiling method ends up being applied quite rigidly, in a way that risks misclassifying significant shares of the client population. This could also be partly due to the registration of large shares of inactive individuals for health insurance purposes only, which makes the pool of beneficiaries very heterogeneous and affects the predictive power of the profiling tool. As an example, the workers assessing the profiling tool claimed that the statistical tool too often suggest group 2, even in very hard cases that should be categorized as group 3.

Box 5. Different Approaches to Client Profiling in Public Employment Services of the OECD

The profiling of jobseekers by PES has gained greater traction in OECD member countries in the context of welfare reforms to improve the efficiency and effectiveness of social spending, and thus a stronger focus on activation. Operationalizing the activation principle requires the PESs to build internal tools and systems to (a) *individualize their clients’ action plans*, (b) *prioritize jobseekers who are at high risk of long-term unemployment*, and (c) *integrate PES services with those of other SA mechanisms*. A recent review of such tools and systems shows that OECD countries are heterogeneous in their approaches, using profiling tools to serve a multitude of goals, as well as in their application of profiling methodologies.

⁶¹ There are three possible models to activate the hard-to-serve: 1) LOs directly cooperate with SWO that becomes responsible, partially also financially, for activation (without the participation of private employment agency or NGO), 2) LOs directly cooperates with NGO, the activation is paid from Labor Fund, and SWO is supposed to support NGO, 3) LOs outsources the activation to private agency that is selected on the voivodship level, SWO plays only auxiliary role.

- *Caseworker-generated profiling* is the most commonly used method, and results when caseworker discretion is high and information processing is low. The caseworker takes a lead role in segmentation, but limited information availability undercuts effective individualized profiling. This tool has the advantage of significantly emphasizing jobseekers' individual needs. However, the segmentation can be considerably subjective and places a premium on having significant human resources. OECD countries in this category include the Republic of Korea and Slovenia.
- *Administrative rules-based profiling* results when both caseworker discretion and information processing are low. This system relies on administrative rules to segment clients, for instance based on unemployment-spell threshold to refer jobseekers for services (that is, time-based segmentation) or on eligibility conditions such as age or gender for activating employment programs (that is, demographic segmentation). This form of profiling has the advantage of relatively straightforward implementation. However, it generally ignores heterogeneity among jobseekers, undercuts early interventions, and can waste resources. It is widespread in many OECD countries, especially pertaining to special programs for marginalized communities.
- *Data based-profiling. Data-assisted profiling* systems retain the caseworker's central role in client segmentation but add a more intensive use of data. OECD countries in this category include Ireland, the Netherlands, and Sweden. *Data-only profiling* results when caseworker discretion is low while information processing is high. OECD countries in this category include Australia and the United States. In particular, *statistical profiling* is an information-intensive method based on the econometric analysis of official demographic and socioeconomic data on jobseekers to predict their likelihood of resuming work. This method has high requirements for quantitative data, but it provides *rigorous* analysis of the factors most likely to affect the length of unemployment.

The new focus on activation in many new emerging economies places stronger demands on PESs in an environment of a tightening fiscal space. PESs with few caseworkers and underdeveloped management information systems must carefully weigh the utility and feasibility of addressing such constraints simultaneously. Solely increasing the number of caseworkers is unlikely to achieve *effective activation* given the persistence of caseworker subjectivity and the need to segment clients based on more objective risk assessment. In addition, investments in human resources and information processing architecture may have different cost implications. Achieving the goal of assisting SA beneficiaries and other work-able, vulnerable individuals through PES mechanisms should start by acknowledging the high heterogeneity among this new, potentially targetable population.

Statistical profiling can be a tool to help account for heterogeneity by empowering the PESs to differentiate groups based on their calculated distance from the labor market. These data, in turn, can help PESs to focus scarce resources on the high-risk groups through rapid and early intervention strategies. This method may be particularly relevant for PESs with high caseloads and operating under resource constraints. In Ireland, statistical profiling became a critical tool for managing customer flows in the context of welfare reforms after the financial crisis. In Sweden, it enables caseworkers to override regular procedures and to fast-track high-risk jobseekers toward early interventions. In Australia, the system is critical for determining stream eligibility.

Although many emerging economies already have well-functioning management information systems—a prerequisite for implementing statistical profiling—their potential has been little exploited so far. Embedding statistical profiling within PESs would have a greater chance of success as part of a broader reform process. To implement statistical profiling, a great deal of attention should be paid to data requirements for building an accurate tool. Its success will depend significantly on leading a meaningful buy-in process among PES caseworkers, applying profiling in process management only where it adds value, and reducing caseworkers' perceptions of de-

professionalization. At the same time, it must be noted that well-developed PESs have largely maintained their caseworker discretion systems, despite the availability of advanced information systems that could have substituted for human decision making.

Source: Loxha and Morgandi 2014.

Moving from a measure of gross effectiveness to one of net effectiveness is likely to increase incentives for PESs to focus on the hard-to-serve. Gross effectiveness assessment is based on statistics indicating how many of LO clients overall, as well as from particular groups targeted with the new measures, successfully found employment. This type of measurement, especially when linked to pay-for-performance mechanisms as it is now, creates a variety of incentives. First, it provides offices an incentive to increase vacancies, and this is a positive development that has already been observed since the law started being implemented. On the other hand, however, it creates the incentive to focus on those who are not very distant from the labor market, as they are easier to place. Instead, as the international experience suggests, using measures of net efficiency of ALMP measures—that is, measuring the causal or net impact of a measure on a group that was exposed to it compared with a group that was not exposed—can shift the incentives toward focusing on the hard-to-serve, that is, those where the public intervention has the highest effectiveness. The simple example below illustrates how the ALMPs could be assessed with this method and how this would change incentives for PES offices (see table 3).⁶² Comparing the job placement of two groups of clients with similar labor market prospects when one is benefiting from ALMPs and the other is not, allows to calculate the net effect for evaluation. However, the popularization of impact evaluation with a counterfactual approach might require the reform of the data protection law and a change in the current protocol of data sharing internal to the ministry, since the current arrangements seem to prevent a systematic sharing of individual data between the coordination units at the regional level and at the center.

Table 3. Hypothetical Example of Fallacy in Program Allocation through Use of Gross Placement Rates

Labor Market Prospects	Share of Sample Who Found a Job		Goal Achievement	Effect (%)
	Without ALMP (%)	With ALMP (%)		
Good	70	70	Yes	0
Medium	50	70	Yes	20
Poor	20	50	No	30

As with any reform, a robust monitoring and evaluation system will be essential for the PES reform's success. The existing M&E system of PES and of the (large) set of ALMPs is not yet geared up to allow a just-in-time feedback to policymakers on what works and what does not. In the context of the programming of the 2014–2020 European Funds, the European Commission made a strong push for M&E

⁶² We are grateful to Fredrik Jansson Dahlén for this examples, which is drawn from the Swedish PES experience. The elements of this experience were discussed in a workshop hosted by the Ministry of Labor held in Warsaw in May 2015.

of public interventions using counterfactual methods. According to the described amendment to the Act on Employment Promotion and the Labor Market Institutions, the new measures have to be evaluated after two years (in 2016). While fully fledged evaluation procedures are still being developed, it is important that the ministry and eventually researchers have full access to a centralized and anonymized administrative data that is connected to outcome measures—employment and contract type—that should be provided by the social security body (ZUS). A number of steps—of a technical and, potentially, of a data protection nature—still need to be implemented for this to become a reality. A companion technical note discusses good practices in M&E and performance management in EU countries.

Activation of and support for the hard-to-serve should be scaled up. One of the rationales of the reform is to relieve employment offices, which lack financial and human resources, from the responsibility of working with the ‘hard-to-serve’ cases. Instead private providers, SWOs, or nongovernmental institutions could in principle perform intensive activation programs. However, the private provider market is still thin. Moreover, while NGOs and other private providers in principle would obtain a performance-based payment in return for such work, the SWO mandate to activate the hard-to-place is currently unfunded and SWOs will need to apply for ESF to adequately finance these tasks. This will require a capacity that not all *gminas* might have. Moreover, since SWOs and LOs operate at different government levels (SWOs at the lower local level (pol. *gmina*) and LOs at the *powiat* level), the effective exchange of information and close cooperation is complex. While SWOs might be better placed than LOs to manage the multiplicity of barriers that some long-term unemployed face because of their proximity to clients allowing long-lasting relationships and trust, without guarantee of stable and adequate means SWOs might be reluctant to officially take up the responsibility to activate these clients. In 2013, given that 80 percent of temporary SA was granted because of unemployment, the group of common clients is large. Regarding the outsourcing option, some of the institutions perceive the risk that NGOs may not be active in all areas of the country, and that more explicit service standards and dissemination of good practices would be helpful to manage properly the contractual relationship and monitoring results.

Better cooperation of LOs with private employers seems to be one of the other conditions of the reform’s success. Although this is a challenge that is common for employment services in many countries, the lack of adequate staff to collect vacancies and to establish strategic partnerships with firms seems to be a particular constraint to serve the high number of registered individuals in Poland. Even the activation of hard-to-serve cases will largely depend on the extent to which the private sector can be effectively mobilized to partner with either NGOs or social SWO. Some improvements are already in place. The IT department of Ministry of Labor and Social Policy introduced a new PES website that is likely very appealing to private employers, both due to its modern and more user-friendly design, as well as to shorter procedures to post vacancy information. While private employers post job offers on a voluntary basis, the LOs are required by law to add information about all the vacancies they have collected to this database, thus ensuring that information is shared across LOs. The portal also allows jobseekers to conduct personalized searches for job offers, but it is not yet possible for employers to search for the (anonymous) profile of prospective employees. Creating the professional profiles of the unemployed could further improve matching.

Annex 1: Probit model of job-search behavior

On Job Search (marginal effects)	Registered sample	Nonregistered sample	Social allowance sample
UB duration (months)	-0.001***	-0.001***	-0.002**
Men (comp. to women)	0.096***	0.097***	0.064*
25–34 years (comp. to 15–24 years)	-0.032	-0.062***	0.09
35–54 years (comp. to 15–24 years)	0.002	-0.072***	0.086
55–64 years (comp. to 15–24 years)	-0.142***	-0.2***	-0.044
Basic vocational (comp. to lower-secondary)	0.04**	0.01	-0.008
Upper-secondary (comp. to lower-secondary)	0.048***	0.029**	-0.016
Tertiary or more (comp. to lower-secondary)	0.121***	0.06***	0.072
1–5 years of experience (comp. to no exp.)	0.035*	0.02	0.018
6–10 years of experience (comp. to no exp.)	0.014	-0.011	-0.008
10+ years of experience (comp. to no exp.)	(omitted)	(omitted)	(omitted)
No. of working adults in households	-0.0060	-0.025***	-0.041
UB (comp. to no UB)	-0.076***	(.)	-0.103
Other social allowances (comp. to no SA)	-0.036**	-0.104***	(.)
Pensions (comp. to no pensions)	-0.124	-0.174***	(omitted)
Involuntary separation (comp. to retired, ill)	0.18***	0.167***	0.126
Voluntary separation (comp. to retired, ill)	0.143***	0.165***	0.279**
Family issues (comp. to retired, ill)	-0.068**	0.014	-0.105
Other reasons (comp. to retired, ill)	0.059	0.128***	-0.276*
r ² _p	0.0625	0.3035	0.0685
N	7241	10954	950

Source: LFS Poland, 2013.

Note: Standard errors in parentheses: * p<0.1, ** p<0.05, *** p<0.01

Annex 2: Behavioral requirements and benefit sanctions in selected EU and OECD countries, and the Western Balkan countries

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
Albania	Required	No	Required	Yes	Denial of benefit	n.a.
Australia	Required	Yes, proof every two weeks	n.a.	Yes	From 'warning' to 100% benefit withdrawal	Behavioral requirements can be extended to other family members
Austria	Required	Yes	'Reasonable' work, exceptions related to age (men over 65 years; women over 60 years)	n.a.	Denial of benefit	Cooperation with employment services
Belgium	Required	Demonstration of willingness to work, and evidence of job search	Obligation to accept 'suitable' job. Exceptions are possible for health reasons	Yes	Benefit (integration income) can be denied to a person who is not willing to work	Participation in employment, social integration or individualized social integration project offered by the municipality
Bosnia and Herzegovina	Yes	No	No	Yes, focus made on social inclusion first, then labor activation	n.a.	n.a.
Bulgaria	Required for at least 9 months before claiming SA	To have not rejected any jobs offered or qualification courses offered by the Employment Offices	Exceptions for able-bodied with care responsibilities, health conditions, full-time students and pregnant women	Work - required	Denial of benefit to the person who has refused job or training, first refusal - 1 month; second - 1 year	Could be identified and included in the Individual Employment Plan
Canada	Required	Yes	Yes	Yes	Up to 100% withdrawal	Regular confirmation of circumstances; verification periods vary by provinces

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
Czech Republic	Recipients, unless employed, must register with the LO as jobseekers	No specific independent job-search requirement but willingness to work is basic condition for being treated as a person in material need	Accept any job, even short-term or less paid. Exclusions due to age, health status, disability or family situation (care responsibilities)	Yes	Participation is obligatory and is subject to verification. Refusal to participate results in exclusion from SA receipt	To actively look for a job, accept any employment, participate in active employment programs, public works, public service
Denmark	Required	Required for both spouses	Appropriate job	Work - required	Payment is suspended if the beneficiary or his/her partner refuses without sufficient reason to participate in activation measure or repeatedly fails to report on job search	Behavioral requirements are extended to other family members
Estonia	Required registration with the Estonian Unemployment Insurance Fund	Required	To be available for suitable work	Yes	Refusal to grant the benefit to those capable of work and aged between 18 years and pensionable age, who are neither working nor studying and have repeatedly refused, without reason, training, or suitable work or have refused take up of social or employment services	Fulfillment of other conditions and activities can be agreed in an individual job-searching plan
Finland	Required	Required	Required, suitable job	Work - required	100% benefit withdrawal for 60 to 90 days	Action plans mandatory for certain groups; regular confirmation of circumstances

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
France	Required	Obligation to look for work	Suitable job	Work - required; social integration - required	n.a.	To take the necessary steps to generate one's own activity or to participate in integration activities
FYR Macedonia	Proof of no-work is required	No, only training and retraining	Required	Yes	Benefit suspension of 6–12 months claimant. Bigger for refusal to participate in public works than for not taking up active labor market measures	Monthly confirmation of circumstances
Germany	Required	Required for beneficiaries capable of working and persons living with them in a domestic unit	Take up of reasonable job Exemption for people with disability and those taking care for children under 3 years	Yes	From 10% to 100% withdrawal for 1.5 to 3 months	Specific conditions for (a) the basic security benefit - to take part in all work-oriented inclusion measures; to enter in integration agreement with the job center; (b) for occupational integration benefits; (c) for the starting allowance and loans for self-employed beneficiaries. Take up of services provided by the local authorities for the care of minor or disabled children and for home care of family members; debt counseling, psychological support and addiction counseling. Update of action plan every 6 months
Hungary	Required for benefit for persons in active age/ employment substituting benefit	Required	Suitable job	Work - required	The entitlement to the benefit is terminated if the person is deleted from the registry of jobseekers due to his/her own fault, if (s)he refuses a proper job, works, cannot prove that in the	To cooperate with the PES; to participate in training programs, guidance, programs which help to prepare for work, etc. Proof of independent job search every 3 months

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
					previous year (s)he pursued a gainful activity, or took part in training or labor market program for at least 30 days	
Ireland	Required	Jobseeker's Allowance recipients must be available for, capable of and genuinely seeking work	Required	Yes	100% benefit withdrawal for weeks	All persons unemployed for 3 months must participate in the National Employment Action Plan aimed at assisting them to enter or reenter the labor market. Confirmation of circumstances – every 4 weeks
Japan	Not required	Required	n.a.	Work - no; social integration - no	From warning to 100% withdrawal	Confirmation of circumstances every 4 weeks
Kosovo	Required	No	Required	Yes, participation in employment counseling, public works and other employment programs	n.a.	Re-registration with unemployment office every 3 months. Re-application to benefit every 6 months.
Latvia	Required	Yes	Suitable job	Work - required; social integration - required	Total amount of benefit is reduced by the part of the person who has refused	Beneficiaries are obliged to cooperate with social workers to overcome the situation through provision of information, personal attendance, participation in measures promoting employment, acceptance of medical examination, participation in medical and social rehabilitation
Lithuania	Required registration with the local	Required	Required		Refusal of job offer, training, public duties or works supported by the	

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
	office of Labor Exchange or another EU MS employment service				Employment Fund may cause suspension of, or refusal to grant, social benefit	
Montenegro	Required	Required to access to services provided by Employment Agency	Not required by law	‘Soft’ requirements to participate in activation-related activities, to take a job or training offer while still in unemployment	From denial to participate in activation programs to denial of benefit.	Monthly confirmation of circumstances. There are no legal guarantees for re-entry into SA if the activation does not render self-sufficiency and independence.
Netherlands	Required registration with the Institute for Employee Benefit Schemes	Required. The partners of unemployed should also look for work	Required acceptance of suitable employment	Yes	Cut or reduction of benefit in case of non-cooperation. Medical and social factors are taken into account, and childcare obligations	The parent is however obliged to attend training courses. If the children are aged 5 years or older, cases are examined individually to determine the exemption from this obligation. If all attempts are unsuccessful, the social services will help to find work or training
Poland	Required	Required	Obligated to undertake offered work	Work - required; social integration - required	Refusal to grant or withdrawal of SA benefit; reduction of integration allowance	Cooperation with social services; regular confirmation of circumstances; in certain cases proof of independent job search; individual plan
Portugal	Registration with job center is required	Required	Required, any offered job	Work - required; social integration -	Cancellation of registration with the job center	To obtain the benefit, the claimant must accept the obligations stemming from the integration contract. The obligations contained in the integration contract

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
				required, with exceptions		include: accept proposed jobs and vocational trainings; attend courses; participate in occupational programs or other temporary programs stimulating labor market integration or meeting social, community or environmental needs; undertake professional counseling or training actions; take steps regarding prevention, treatment or rehabilitation of drug addiction and incentives to take up self-employment
Romania	Required	No	Acceptance of community work. Exemptions for non-prime-age recipients, attending vocational training or professional or other activity	Work - required. One family member is obliged to work in the interest of the local authority	Failure to comply results in suspension of the Social Aid	
Serbia	Required	Required	Yes, suitable job.	Yes	Sanctions exist for recipients who refuse a job offer or to do not participate in activation measures, but they do not apply to work-unable family members. Sanctions are rarely applied.	Assistance is granted for 9 out of 12 months a year. Eligibility must be recertified every 12 months.
Slovakia	Registration with the Office of Labor, Social Affairs and	Required for activation allowance	Suitable work	Taking suitable work, training or community work is	The person receives only the basic benefit in material need	The take up of activation allowance is conditional on participation in training, municipal works or other suitable work

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
	Family is mandatory for activation allowance			optional for the beneficiary but obligatory for getting the activation allowance		
Slovenia	Required	Required	Required acceptance of any job after receiving SA for a certain time, i.e. 9 times in the last 12 months		Refusal to grant the benefit or benefit withdrawal in case of voluntary termination of employment, refusal of job offer or refusal/ abandonment of ALMPs	
Spain	Required	Required	Yes, suitable job	Yes	100% withdrawal from 4 weeks to indefinite	Confirmation of circumstances every 3 months and intensive interviews every 3 months
Sweden	Required	Required	Required	Yes	Sanctions exist, they vary by municipality	SA is conditional to participation in ALMPs; also on intensive interviews, regular confirmation of circumstances, individual action plans
United Kingdom	Required	Required	Required - to be available for 'all work'	Yes	Termination of benefit from 2 weeks to 26 weeks	For Jobseekers' Allowance - must sign a Jobseekers' agreement detailing the type of work, hours and activities to be undertaken by the jobseeker in their search for work; initial intensive interview with quarterly follow ups, confirmation of circumstances every 2 weeks, proof of independent job search every 2 weeks. Requirements can be extended to other family members after recognizing caring responsibility
United States	Required (for Food stamps)	Required (for Food stamps)	Required (for Food stamps)	Required (for Food stamps)	100% withdrawal for minimum of 1 month	Confirmation of circumstances rules vary by state, proof of independent job search can

Country	Registration as unemployed	Job-search requirements	Job acceptance and exceptions	Work and/or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
						be required, requirements are extended to other family members as well

Source: Western Balkans activation notes (World Bank 2013).

Annex 3: Latent Class Analysis - results

	Cluster1 (%)	Cluster2 (%)	Cluster3 (%)	Cluster4 (%)	Cluster5 (%)	Cluster6 (%)	Cluster7 (%)	Cluster8 (%)
Cluster Size	19	18	17	15	13	8	6	3
Indicators								
Ever worked								
No	0	0	0	0	72	0	83	70
Yes	100	100	100	100	28	100	17	30
Job search								
No job search	36	58	1	99	19	0	63	7
Job search	64	42	99	1	81	100	38	93
Long-term unemployed								
No	19	15	39	90	100	99	100	100
Yes	81	85	62	10	0	1	0	0
Active covariates								
Recipient of social allowance								
No	78	75	96	97	97	97	73	97
Yes	22	25	4	3	3	3	27	3
Age Groups								
15–24 years old	0	7	15	18	84	9	37	30
25–34 years old	4	41	49	34	14	34	44	70
35–54 years old	80	27	35	39	2	46	17	0
55–64 years old	16	25	1	10	0	11	2	0
Unemployment benefit								
Non-beneficiary	96	100	96	65	99	0	100	99
Beneficiary	4	0	4	35	1	100	0	1
Education level								
Primary or less	19	21	12	15	3	8	26	0
Lower-secondary	41	40	35	40	40	38	33	2
Upper-secondary	34	34	36	32	55	39	33	3
Tertiary or more	6	6	18	14	3	15	8	95
Inactive covariates								
Gender								
Female	46	82	43	44	44	45	87	53
Male	54	18	57	56	56	55	13	47
Job-searching behavior								
Search only through PES	15	11	19	1	18	18	11	14
Search other ways	3	3	4	0	3	4	3	3

Active search	46	29	76	3	60	77	25	77
Does not search	35	57	1	96	18	0	61	6
Civil status								
Unmarried	38	38	56	48	89	37	56	81
Married	62	62	44	52	11	63	44	19
Disability status								
No	92	94	96	97	98	96	96	99
Yes	8	6	4	3	2	4	4	2
Labor force status								
OLF	32	52	3	46	12	3	50	5
Employee	3	3	0	25	2	0	3	1
Retired	0	0	0	0	0	0	0	0
Self-employed	2	2	0	20	2	0	3	0
Student	0	1	0	2	4	0	7	1
Unemployed	63	41	97	7	80	97	37	92

Source: LFS Poland, 2013. Sample: adults who reported to be registered in labor offices (question is asked only for adults 15-65 for men, and 15-60 for women). N=20,594.

Model goodness of fit statistics

Classification errors	25%
Reduction of errors (Lambda)	69%
Entropy R-squared	69%
Standard R-squared	59%
P-value (Bootstrap)	0%

Annex 4: LCA – Probability model for ‘Having a job’

	Coef.	Std. Err.	z	P > z	[95% Conf.	Interval]
SA beneficiary	-1.216288	.020787	-58.51	0.000	-1.257029	-1.175546
Male	.4397703	.009633	45.65	0.000	.4208899	.4586507
Age-group variables						
25–34 years	.1880256	.0189946	9.90	0.000	.1507969	.2252543
35–54 years	.3451588	.0184789	18.68	0.000	.3089408	.3813768
55–64 years	-.1651354	.0196588	-8.40	0.000	-.203666	-.1266048
Educational level						
Lower-secondary	.3504805	.01533	22.86	0.000	.3204343	.3805266
Upper-secondary	.6720496	.0153589	43.76	0.000	.6419468	.7021524
Tertiary	1.198873	.0182879	65.56	0.000	1.163029	1.234716
Married	.1797692	.0110952	16.20	0.000	.1580231	.2015154
Disabled	-1.820419	.0444006	-41.00	0.000	-1.907442	-1.733395
Constant	-.348858	.0202256	-17.25	0.000	-.3884994	-.3092166

Source: LFS Poland, 2013.

Results obtained with Probit Model.

Annex 5: Detailed Labor Market Policies (Eurostat Definition), 2012

Program Category/Program Name (2012)	Expenditure (PLN)	Participants
1 Labor market services	1,281.8	1,462
Job clubs - Training in job-search skills	2.63	1,462
Job clubs - Activation tutorials	24.89	n.a.
Vocational counselling (guidance)	4.73	n.a.
Financing of travel costs	12.34	n.a.
Financing of accommodation costs		n.a.
[Component] Services provided by local PES - Client services + other activities	1236	n.a.
Financing of examination costs	0.42	n.a.
2 Training	218.05	7,762
Training	183.87	6,724
Vocational training organized by Local (powiat) Labor Office	2.47	1,253
Scholarship for continuing school education	4.37	43
Vocational training organized by employers	0.03	10
Reimbursement for labor market's instruments and services dedicated to unemployed and disabled jobseekers	12.76	3,140
Financing of postgraduate studies	5.79	116
Refund of costs of training for workers and employers co-financed by employers	0.01	n.a.
Apprenticeship for adults	5.58	217
Junior - vocational activation program for disabled school-leavers	3.16	652
3 Employment incentives	1,544.9	122,796
Adaptation of the workplace for persons with disability	60.99	1,809
Interventional jobs	139	13,361
Refund of costs of equipment and additional equipment of the workplace related to the recruitment of an unemployed person	381.09	34,115
Activation allowances	108.19	19,333
Refund of social insurance contributions	0.4	n.a.
Co-financing the costs of care for children or dependents	0.56	n.a.
Work practice	854.69	54,178
4 Supported employment and rehabilitation	3,095.0	382,643
Support for employers running SWE - co-financing up to 50% of interest due on bank loans	2.52	8,544
Wage subsidies for disabled workers	717.34	110,739
Wage subsidies for disabled workers in SWE	2,249.77	22,4943
Reimbursement of cost of remuneration of employee assisting a disabled worker	0.42	223
Reimbursement of obligatory social insurance premiums of disabled who run a business	73.07	32,937
Reimbursement of social contributions paid by disabled farmers or disabled family members of farmers	3.3	2,611
Reimbursement of obligatory social insurance premiums paid for disabled employees	0	91
Reimbursement of costs of creating and operating the occupational activity enterprises	49.23	2,555
5 Direct job creation	199.53	12,383
Public works	164.98	8,244
Socially useful work	34.55	4,139
6 Start-up incentives	747.06	34,802
Grant for the unemployed starting economic activity	708.26	33,542

Support for running a business	38.8	1,260
7 Unemployment benefits (OOW income maintenance and support)	3,398	358,250
Benefits for unemployed	3,398	358,250
8 Early retirement	17,655	148,135
Pre-retirement benefits	498.56	41,135
Pre-retirement allowances	1,266.6	107,000

Source: EUROSTAT (2012). ESPROSS.

Box 6. ALMPs in Poland

LMPs serve to increase employment and mitigate the negative effects of unemployment. Passive measures (especially early retirement schemes) cost around 70 percent of total expenditures for LMPs. Still, active labor market policies in Poland constitute a significantly bigger share of PES spending than in most other European countries. Major measures of ALMPs include job placement, counseling, trainings, subsidized jobs, and direct job creation. Moreover, the structure of expenditures for particular ALMPs measures also draws attention. Six broad categories of ALMPs can be distinguished: *labor market services, training, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives*.

The most expensive ALMPs category in Poland is *supported employment and rehabilitation*. It costs around PLN 3 billion and benefiting more than 350,000 people it also has the biggest outreach. This program supports financially both employees and employers to activate disabled people. The second most expensive ALMPs category is *employment incentives* that cost around 1.5 billion and benefit more than 120,000 PES clients. This measure includes mainly subsidies to entrepreneurs for employing the PES client. These two biggest ALMPs cost around 65 percent of total ALMPs budget, and their share is relatively big as compared to other European countries. At the same time, the category of second lowest expenditures and lowest outreach is *training*. Only around 3 percent of ALMPs budget is used for professional skills-building practices, and around 8,000 PES clients receiving *training* constitute only around 1 percent of total ALMPs beneficiaries. As compared to other European countries PES spending on *training* is unusually low. Other ALMPs that include skills building are *labor market services* that aim to develop, among others, job-search skills. The outreach of this program cannot be assessed due to lack of information on the exact number of participants. However, it can be summarized that within total ALMPs budget 20 percent is used for *labor market services* and *training* that fully or partially consists of skills building practices, while 80 percent is used for subsidizing wages or self-employment.

ALMPs are ineffective if the money is spent on people that would have found employment without such support. Without the counterfactual evaluation, it is hard to assess whether the employers receiving the subsidy to employ PES client would not create the jobs without this incentive, or they would employ some worker anyway. Moreover ALMPs that directly create jobs, namely public works, and socially useful works, are often perceived in Poland as stigmatizing for the participants, which does not have a positive effect on future employment prospects. Poland should invest more in ALMPs that reduce the mismatch between demand and supply, through equipping the unemployed with the right skills, namely *training*, that currently is really underinvested.

Increasing the number of people receiving training could enhance skill building only if the training programs are carefully designed and matched to the needs of employers as well as to abilities of PES clients. There is broad literature analyzing the effectiveness of ALMPs. Kluve (2006) reviewed 140 instruments of ALMPs in Europe, mainly from the nineties, and assessed training programs as very unlikely to have positive effect on participants. In the following research, Card, Kluve, and Weber (2010) conducted meta-analysis of almost 100 papers assessing ALMPs and they conclude that long-term assessment of ALMPs is often more positive than in short term, and that is true

especially in case of training programs. Activities that combine job placement and counselling services with appropriate benefits are assessed to have more chances to be successful. This points out in the direction of further developing *labor market services* in Poland. *Employment incentives* were also assessed as an effective tool in activation, but given the high share of such policies within all ALMPs in Poland, these measures should not be further increased at the cost of other ALMPs. Poland also has relatively low share of direct job creation in public sector, which was assessed by the literature as a measure that is not only ineffective, but possibly is deteriorating future employment perspectives. Lehmann and Kluve (2010) analyzed ALMPs particularly in the context of transition countries and they underline that one has to be careful when transplanting ALMPs from mature market economies to transition markets. They confirm the negative impact of public works, and positive effects of job intermediation. Moreover, they assess training and retraining schemes as one of the most promising ALMPs in transition countries. In the earlier study concentrated only on Poland, Kluve et al. (2002) also indicated the positive effect of training programs on employment prospects.

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