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No. 42

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and the Performance
of Employment Services
in Germany,
the Netherlands
and the United Kingdom

**Peter Tergeist,
David Grubb**

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ACTIVATION STRATEGIES AND THE PERFORMANCE OF EMPLOYMENT SERVICES IN
GERMANY, THE NETHERLANDS AND THE UNITED KINGDOM

Peter Tergeist and David Grubb

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Peter Tergeist and David Grubb are economists in the Employment Analysis and Policy Division at the OECD Directorate for Employment, Labour and Social Affairs. This paper is based in large part on visits to public and private employment service providers in Germany, the Netherlands and the United Kingdom during August and September, 2005.

An earlier draft served as background for discussions at a seminar organised by the Dutch Ministry of Social Affairs and Employment and the OECD Employment, Labour and Social Affairs Directorate in The Hague on March 29th, 2006.

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The views expressed in this paper are those of the authors, and do not necessarily reflect those of the OECD or of its member countries.

SUMMARY

Strategies to “activate” the unemployed with the help of high-quality employment services have continuously gained importance in the policy debate. The purpose of this report is to examine how activation strategies and the performance of employment services are addressed in three countries which have undertaken considerable reforms in recent years, namely Germany, the Netherlands and the United Kingdom. All three review countries have implemented a “mutual obligations” approach, under which benefit recipients are expected to engage in active job search and improve their employability, in exchange for receiving efficient employment services and benefit payment.

The strategies used in the review countries – albeit with different emphasis – include options for returning to work from the very first contact with a newly registered unemployed client; the set-up of back-to-work agreements and individual action plans; regular confirmation of unemployment status; monitoring and review of clients’ job-search efforts; and direct referrals to vacant jobs to speed up the matching process and reduce unemployment spell durations. There is also an increased emphasis on benefit eligibility criteria, suitable-job requirements and the targeted use of benefit sanctions.

For activation strategies to work, the management framework for employment services (whether public or private) must be appropriate. In this regard, the introduction of contestability and quasi-market mechanisms in all three countries has been a novel feature designed to facilitate the reintegration of benefit recipients through more intensive interventions.

The three countries pursue different outsourcing strategies of their employment services. The Netherlands has been, within Europe, the first country to implement a full “reintegration market” where private sector organisations compete for tenders to supply employment services. However, owing to continuing changes in policy and to the multiplicity of actors involved at local level, statistical comparisons of provider performance are not well developed. In the United Kingdom, only a relatively small proportion of local areas are designated as Employment Zones -- where private providers operate – but evaluations have reported relatively favourable short-term placement outcomes as compared with areas managed by the public (Jobcentre Plus) provider. Following the Hartz reforms, Germany’s contracting-out programmes are currently more ambitious than the UK’s. Initial results have been relatively disappointing, but the reforms have not been operating for long enough to draw definitive conclusions about their effectiveness.

The activation approach is also increasingly applied to recipients of “non-employment” benefits. Reversing the growth in non-employment benefit caseloads and associated expenditures through activation policies is indeed a major challenge for public policy – for example, in the Netherlands and the United Kingdom, the percentage of the working-age population reliant on non-employment benefits is several times the percentage on unemployment benefits. The experience of the review countries shows that i) poorly-controlled access to such benefits can undermine the impact of activation measures, as some of the long-term unemployed enter benefit schemes that facilitate inactivity; and ii) there is considerable scope to apply activation strategies to persons receiving non-employment benefits, albeit with appropriate modifications for the specific characteristics of each group.

RÉSUMÉ

La question des stratégies pour « activer » les chômeurs avec l'aide de services de l'emploi compétents a continuellement pris de l'importance dans le débat politique. L'objet de ce rapport est d'examiner comment les stratégies d'activation et la performance des services de l'emploi sont formulées dans trois pays qui ont entrepris des réformes considérables ces dernières années : l'Allemagne, les Pays-Bas et le Royaume-Uni. Les trois pays examinés ont mis en place une approche dite « d'obligation mutuelle » selon laquelle les personnes recevant des prestations doivent s'engager dans une recherche active d'emploi et améliorer leur employabilité, en échange de services de l'emploi efficaces et de l'attribution de prestations.

Les stratégies utilisées dans les pays considérés – bien que de façon et d'intensité différentes – incluent des options pour le retour au travail dès le premier contact avec le chômeur nouvellement inscrit ; la mise en place d'accords favorisant le retour au travail et de plans d'action individuels ; la confirmation régulière du statut de chômeur ; le contrôle et le suivi des efforts du chômeur dans la recherche d'emploi ; et l'orientation directe vers les offres d'emploi pour accélérer le processus d'appariement et réduire la durée du chômage. L'accent est aussi mis sur les critères d'éligibilité à recevoir des prestations, la définition d'un emploi « convenable » et l'utilisation ciblée de sanctions.

Pour que les stratégies d'activation fonctionnent, le cadre institutionnel des services de l'emploi (qu'ils soient privés ou publics) doit être approprié. A cet égard, l'introduction d'éléments de concurrence et de « quasi-marchés » dans les trois pays est une innovation qui vise à faciliter la re-intégration des bénéficiaires des prestations à travers des interventions plus intenses et complètes.

Les trois pays suivent des stratégies différentes d'externalisation de leurs services d'emploi. Les Pays-Bas sont le premier pays en Europe à avoir instauré un « marché de réintégration » complet dans lequel des organismes privés rivalisent pour répondre aux appels d'offre pour fournir des services d'emploi. Cependant, à cause des changements politiques constants et de la multiplicité des acteurs impliqués au niveau local, il n'est pas facile de comparer statistiquement les performances des différents fournisseurs de ces services. Au Royaume-Uni, les « zones d'emploi » – où les fournisseurs privés opèrent – couvrent seulement une petite partie du territoire, mais les évaluations sur les performances en matière de placement dans ces zones se sont montrées plutôt favorables par rapport aux zones gérées par le fournisseur public (*Jobcentre Plus*). L'Allemagne, avec les réformes dites de « Hartz », a également élargi ses dispositifs externalisés. Les résultats initiaux ont été plutôt décevants mais les réformes n'ont pas été en vigueur assez longtemps pour pouvoir conclure définitivement si elles ont porté leurs fruits ou non.

L'approche basée sur l'activation est aussi de plus en plus employée pour les prestations de non emploi. Inverser la croissance du nombre de bénéficiaires de prestations de non emploi et des dépenses qui y sont associées à travers les politiques d'activation est en effet un défi important pour la politique publique. Par exemple, aux Pays-Bas et au Royaume-Uni, le pourcentage de la population en âge de travailler qui dépend des prestations de non emploi est plusieurs fois plus élevé à celui des bénéficiaires de prestations de chômage. L'expérience des pays examinés montre notamment que i) un manque de contrôle de l'accès à ces prestations peut diminuer l'impact des mesures d'activation, car un certain nombre des chômeurs de longue durée transfèrent vers des prestations qui favorisent l'inactivité ; et ii) il existe beaucoup de possibilités pour appliquer des stratégies d'activation à des personnes recevant des prestations de non emploi, bien qu'avec des modifications pour tenir compte des particularités de chaque groupe.

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ACTIVATION STRATEGIES AND THE PERFORMANCE OF EMPLOYMENT SERVICES IN GERMANY, THE NETHERLANDS AND THE UNITED KINGDOM

1. Introduction and main findings

1. OECD countries are seeking to achieve rapid return to work by the majority of unemployed, as well as tackling the problems faced in the labour market by disadvantaged workers. Against this background, strategies to “activate” the unemployed with the help of high-quality employment services have gained in importance. Such activation strategies include the application of “mutual obligations” – meaning that benefits are paid while jobseekers are subject to job-search obligations. They also include referral to active labour market programmes such as training or employment measures to prevent loss of motivation or skills as a result of long-term unemployment.

2. Various kinds of interventions designed to ensure continued effective job search are of prime importance as part of activation strategies. These include, first, emphasis on options for returning to work from the very first contact with a newly registered unemployed client; regular reporting and confirmation of unemployment status; monitoring and review of clients’ job-search efforts; direct referrals to vacant jobs; the set-up of back-to-work agreements and individual action plans; and short job-search training courses. Second, increased attention is now being paid to applying activation principles – first developed for the unemployed – to recipients of welfare and other “non-employment” benefits. Third, for activation strategies to work, the management framework for employment services (whether public or private) must be appropriate. The introduction of contestability and quasi-market mechanisms in the field has been a novel feature designed to increase the effectiveness of employment services, and to facilitate the reintegration of benefit recipients through more intensive contacts and interventions.

3. The purpose of this report is to examine how activation strategies and the performance of employment services are addressed in three countries which have undertaken considerable reforms in recent years, namely Germany, the Netherlands and the United Kingdom. The report examines approaches in the review countries with a view to identifying good practice. After outlining recent labour market trends and institutional reforms in the review countries, the paper discusses three main themes: *i*) activation strategies used to promote placement and independent job-search activities of the unemployed; *ii*) policy approaches for the activation of other labour market groups – such as lone parents and the disabled – that were previously paid benefits on an inactive basis; and *iii*) the use of quasi-market mechanisms to increase employment service effectiveness – now significant in all three countries, even if Germany and the United Kingdom, unlike the Netherlands, do not currently plan to contract out the full range of services. In addition to the presentation of main findings below, the concluding section contains a limited number of more detailed policy recommendations per country.

Main findings

- In recent years, all three review countries have engaged in substantial, sometimes radical reforms of their labour market policies. The United Kingdom has for many years demonstrated the importance of actively engaging with unemployed clients, and has progressively developed this principle since 1997 with the creation of “New Deals” for a range of specific target groups and an increased focus on beneficiaries of “non-employment” benefits. The Netherlands has carried out

a far-reaching transformation of its Public Employment Service (PES) towards the private provision of reintegration services for unemployment benefit as well as social assistance recipients. Germany has more recently restructured its national labour office, and integrated its two, previously separate, labour market activation and benefit streams for the long-term unemployed.

- The three review countries have implemented a number of components of activation strategies. These include:
 - Options for returning to work from the very first contact, frequent follow-up contacts and interviews, signing-on requirements and job-search reporting obligations. More intensive contact and follow-up is frequent where placement and reintegration are contracted out to private providers. This may reflect that such providers often have more advantageous staff/client ratios than public employment services.
 - Emphasis on benefit eligibility criteria, a tightening of suitable job requirements and a targeted use of benefit sanctions. In all three countries, legal regulations on eligibility and benefit sanctions have been evolving, with a tendency towards tightening. While there is no clear trend in the incidence of sanctions for “voluntary” unemployment, their use during the benefit period has increased considerably in Germany and the United Kingdom, and has stayed at a particularly high level in the Netherlands.
- For activation strategies to be successful, it is essential to monitor and manage the performance of employment services. PES procedures should be continuously reviewed and developed through high-quality impact evaluations. In this respect, there is mixed evidence as to whether private provision of employment services leads to better outcomes than public provision. The Netherlands are the prototype of a “reintegration market” characterised by a “purchaser/provider” split, where private-sector and non-profit organisations compete for the acquisition of publicly-funded tenders to supply re-employment services to the unemployed. However, because of differences in client characteristics between the residual public service, municipalities and private reintegration providers, the relative performance of public sector and private reintegration services cannot be directly compared. The UK Employment Zones, where provision is through the private sector, have quite favourable results compared with the public provider, whereas initial evaluations of the (more recent) contracting-out arrangements in Germany have suggested few substantial efficiency gains so far.
- In contrast to the Australian Job Network and the UK Employment Zones, where there is only one “principal” (the body responsible for purchasing employment services), the Netherlands reintegration market (where several hundred local authorities are tendering for services) is widely decentralised. In Germany as well, a number of regionally decentralised PES bodies purchase private sector services. Experience shows that employment services can function efficiently in a decentralised policy framework. In particular, a decentralised framework provides a greater opportunity for experimentation and methodological innovation. However, in such a framework, the central government’s role remains important for increasing the transparency of the market and protecting the rights of claimants.
- The activation approach is also increasingly applied to recipients of “non-employment” benefits. Reversing the growth in non-employment benefit caseloads and associated expenditures through activation policies is indeed a challenge for public policy. For example, in the Netherlands and the United Kingdom, the percentage of the working-age population reliant on non-employment

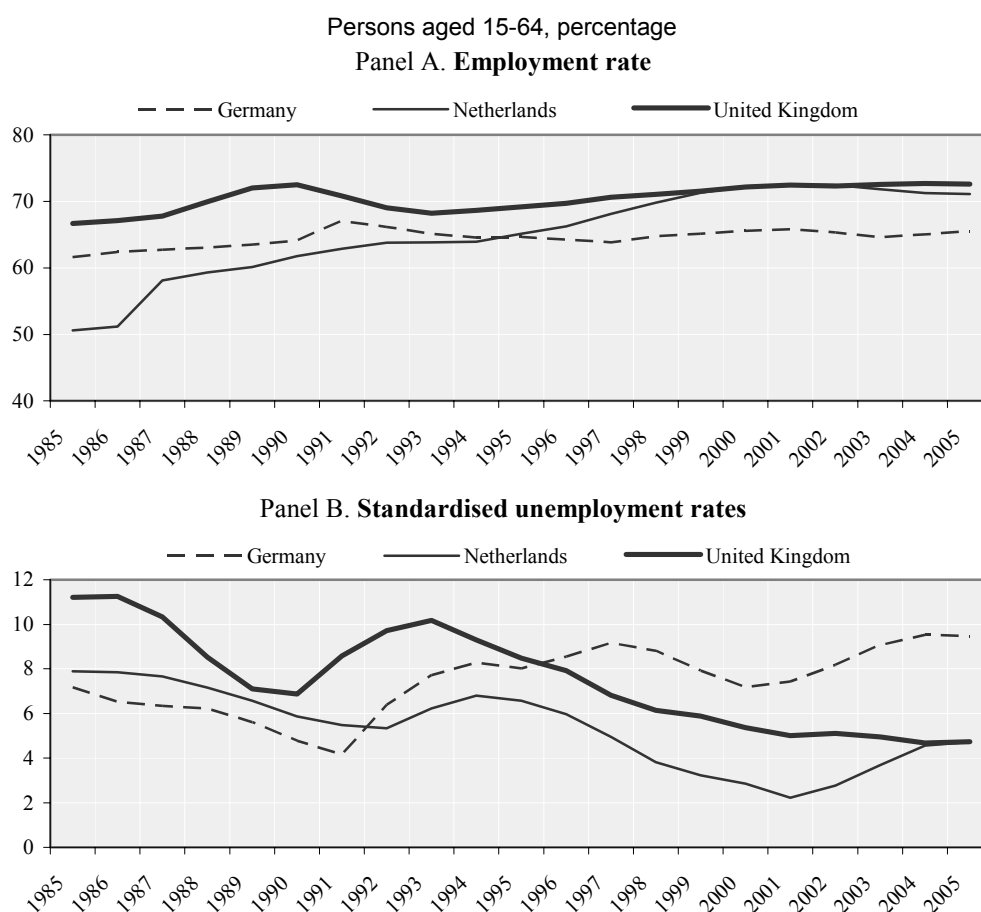
benefits is several times the percentage on unemployment benefits. Examination of the three countries shows that:

- Poorly-controlled access to such non-employment benefits can undermine the impact of activation measures, as some of the long-term unemployed enter benefit schemes that facilitate inactivity. There is a need for disability benefit gate-keeping, in particular in the Netherlands and the United Kingdom, in view of high numbers of recipients transferring to this benefit from either a prolonged sickness spell or unemployment. “Work capacity”, rather than disability/invalidity, should be the key concept in applying activation strategies for this client group.
- There is considerable scope to apply activation strategies to persons receiving non-employment benefits, albeit with appropriate modifications for the specific characteristics of each group (the disabled or lone parents, for example). A number of reforms have applied full or partial availability-for-work requirements to target groups that were not previously required to accept work at all – such as the reforms affecting the majority of lone parents in the Netherlands, or the partners of benefit recipients in Germany and the United Kingdom.
- Employment services that are used for activating inactive client groups are similar to those used for the long-term unemployed: job-search training and monitoring, intensive counselling and direct placement assistance, with targeted use of training and wage subsidies. Municipalities in the Netherlands and the new employment service consortia in Germany provide such employment services – including “work-first” and in some cases workfare measures – for their social assistance caseloads. However, work requirements can, and should, not always be imposed, for example in the case of lone parents when childcare availability is insufficient. There is also a need for addressing specific barriers to employment related to poor health or caring responsibilities.

2. Recent labour market trends in Germany, the Netherlands and the United Kingdom

4. Figure 1 and Table 1 provide key labour market indicators for Germany, the Netherlands and the United Kingdom, in comparison with European Union and OECD averages. First, Figure 1 shows the evolution of employment and unemployment rates between 1985 and 2005 in the three countries. The most radical change in the employment rate occurred in the Netherlands, where it increased from about 50% to 71% during the period. This increase was to a large extent due to the inflow of women into the labour market and to the increase in part-time employment (from less than 20% of total employment in 1985 to 36% in 2005, currently the highest share among OECD countries). The UK employment rate increased more modestly, from 67% to 73% – currently a bit above that in the Netherlands, but with a much higher rate of full-time employment. Germany's employment rate has been close to 65% for over a decade, after a high of 67% achieved following reunification. It is currently at the OECD average level, while the Netherlands and the United Kingdom have significantly overtaken European and OECD averages. The stagnating rate in Germany reflects low average annual employment growth (0.1% between 1996 and 2005), contrasting with much more vigorous growth in the Netherlands and the United Kingdom (see Table 1).

Figure 1. Employment and unemployment rates in Germany, the Netherlands and the United Kingdom, 1985-2005



Source : OECD database on Labour Force Statistics.

5. As regards unemployment, the Dutch and UK Standardised Unemployment Rates (SUR) are currently around 5%, below the OECD average and well below the average for European countries, while the rate in Germany has reached almost 10%. Both in the Netherlands and the United Kingdom, the unemployment rate has decreased considerably since the mid-1980s (when it was at 8% in the Netherlands and over 11% in the United Kingdom). The unemployment rate in the Netherlands reached a historical low of 2.2% in 2001, although it subsequently bounced back a bit. In the United Kingdom, the unemployment rate has fallen back to its level in the early 1970s. By contrast Germany, where unemployment before reunification was about 4% (below the unemployment rates in the Netherlands and the United Kingdom at the time), has experienced a large rise.

6. As shown in Table 1, of the three review countries, the incidence of long-term unemployment is currently highest in Germany (over half of total unemployment, compared with less than a quarter in the United Kingdom and less than one-third in the Netherlands). The part-time share in total employment is above the OECD average in all three countries but, as noted, particularly high in the Netherlands. The Netherlands also has the highest share of temporary employees among the three countries (although it remains close to the OECD average).

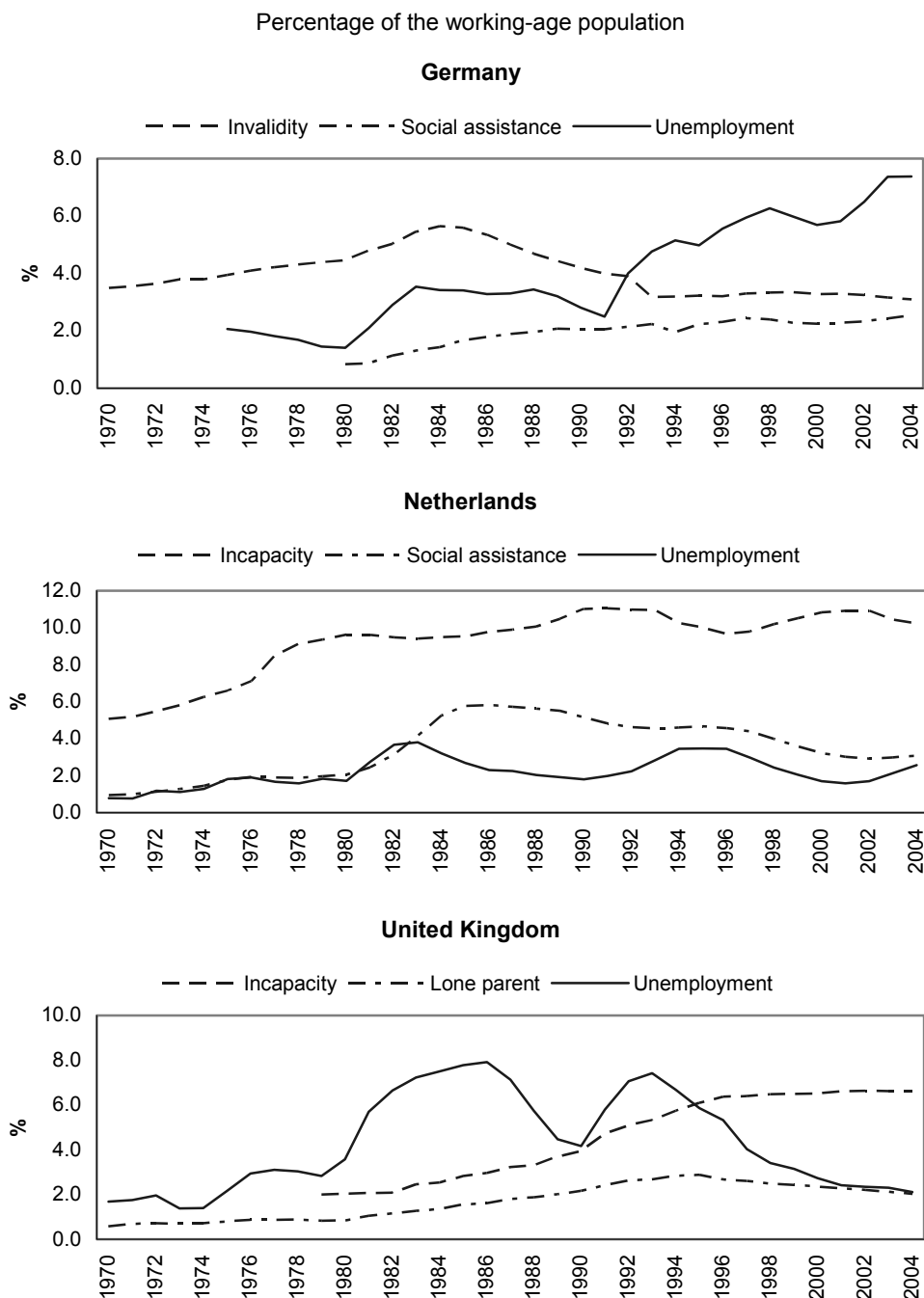
Table 1. Key labour market indicators, 2005

	Germany	Netherlands	United Kingdom	EU-15	OECD
Annual average GDP growth rates, 1996-2005	1.4	2.2	2.8	3.0	3.2
Average annual employment growth rates 1996-2005	0.1	1.2	0.9	1.2	1.0
Employment/population ratios (%)	65.5	71.1	72.6	65.2	65.5
Men	71.4	77.4	78.6	72.8	75.0
Women	59.5	64.8	66.8	57.5	56.0
15-24	42.6	61.9	58.1	39.8	42.9
25-54	77.4	80.9	81.1	77.7	75.8
55-64	45.5	44.9	56.8	44.5	52.0
Low skilled ^a	48.6	59.0	53.0	57.5	56.6
Secondary education ^a	69.5	77.7	79.4	74.9	74.2
Tertiary education ^a	82.7	85.6	88.8	84.4	83.9
Unemployment rates (%)	9.5	4.7	4.7	7.9	6.6
Men	8.8	4.4	5.1	7.0	6.6 ^a
Women	10.3	5.1	4.3	8.9	7.3 ^a
Share of long-term unemployment (%)	54.0	40.1	22.4	44.3	32.9
Men	53.8	44.7	26.2	43.9	32.8
Women	54.4	35.0	16.9	44.8	33.0
Share of part-time employment (%)	21.8	35.7	23.6	18.1	15.4
Men	7.4	15.3	10.0	7.0	7.4
Women	39.4	60.9	39.3	32.3	25.5
Share of temporary work (%)	13.8	15.2	5.5	14.0	11.3
Average job tenure in total employment^a(years)	10.5	10.5	7.9	10.0	..

.. Data not available.

a) Data refer to 2004.

Source: OECD (2006), *Employment Outlook*, Statistical Annex, Paris; and Eurostat, European Union Labour Force Survey for data referring to job tenure.

Figure 2. Evolution of unemployment, social assistance or lone parents, and incapacity caseloads, 1970-2004

Sources: see Carcillo and Grubb (2006), Annex A.

7. In the majority of OECD countries, the percentage of the working-age population receiving disability benefits and lone parent or non-categorical social assistance benefits (which may be called “non-employment” benefits) exceeds the percentage receiving unemployment benefits. Countries that have seen their number of unemployment benefit recipients fall have often experienced continuing growth in reciprocity for at least one major non-employment benefit. Figure 2 shows to what extent this has been the case for the three review countries (see Carcillo and Grubb, 2006, for corresponding data from other OECD countries).

8. In the Netherlands, the proportion of the working-age population receiving disability benefits increased from 5% in 1970 to about 10% in 1980 and has remained stuck at that level since. Reforms during the 1980s and 1990s did no more than contain further growth. Social assistance beneficiaries (including RWW, i.e. the unemployment benefit abolished in 1996) have also been more numerous than unemployment insurance recipients for over two decades, although their number has decreased from a peak in the mid-80s. In the United Kingdom, the proportion receiving disability (“incapacity”) benefits rose from 2% in 1980 to almost 7% currently, surpassing the declining number of unemployment beneficiaries in the mid-1990s. The number of lone parents on income support also tripled from 1980 to the mid-1990s. From this time on, these non-employment benefits began to receive policy attention – disability growth has slowed and the lone-parent caseload has started to fall.

9. Germany is the only one of the three countries where recipients of unemployment benefits outnumber those on social assistance and disability benefit. This is probably explained by more restrictive procedures prevailing in Germany for re-classifying unemployed persons with health impairments into a disability category (Hollederer, 2003; Knuth and Finn, 2004).¹ Considering the sum of the three benefit rates, the United Kingdom comes out lowest with 11% of the working-age population in 2004, followed by Germany with 13% and the Netherlands with 16% (keeping in mind that these data are not fully standardised across countries).²

10. Finally, Table 2 shows spending levels on labour market policies in the three review countries. At between 3% and 4 % of GDP, spending levels are much higher in the Netherlands and Germany than in the United Kingdom (less than 1 % currently). The Netherlands has the highest level of spending on *active* labour market programmes – as a percentage of GDP and per unemployed person; however, as shown by the figures in italics, much of this is accounted for by sheltered employment or other programmes for the disabled (without which Germany would have the highest level of active spending among the review countries).

Table 2. Spending on labour market programmes, 1994 and 2004^a

	Total spending (as a % of GDP),			Active spending (as a % of GDP)			Active spending per unemployed person (as a % of GDP per capita)			Active share of total spending (%)		
	1994	2004		1994	2004		1994	2004		1994	2004	
Germany	3.79	3.46	<i>3.31</i>	1.32	0.97	<i>0.83</i>	32.5	20.5	<i>17.4</i>	35.0	28.1	23.9
Netherlands	4.47	3.67	<i>3.12</i>	1.50	1.20	<i>0.64</i>	47.2	44.9	<i>24.0</i>	33.5	32.6	<i>17.4</i>
United Kingdom ^{b)}	1.91	0.81	<i>0.79</i>	0.53	0.43	<i>0.41</i>	11.4	18.1	<i>17.2</i>	27.7	52.8	50.1
EU-15	3.50	2.46	<i>2.31</i>	1.13	0.83	<i>0.66</i>	25.9	21.5	<i>17.2</i>	31.4	33.8	28.4
OECD	2.66	1.76	<i>1.63</i>	0.81	0.56	<i>0.45</i>	20.5	17.4	<i>14.0</i>	36.4	31.9	29.9

a) Figures in italic denote spending levels disregarding programmes for the disabled.

b) Excluding Northern Ireland. 2004 refers to 2003/2004 since the fiscal year start on April 1st.

Source: OECD database on Labour Market Programmes.

1. There were over one million unemployed classified as having registered health impairments in Germany in 2004, most of them without an incapacity benefit (Bundesagentur für Arbeit, 2005b).
2. See Carcillo and Grubb (2006) for similar non-employment benefit recipiency rates in a number of other OECD countries, and OECD (2003b) for data on other categories of non-employment benefits (mainly early retirement, widows' and maternity and parental benefits).

3. Employment services reform in the three review countries

3.1 Germany

11. The German Federal Employment Agency (BA; formerly called the Federal Employment “Office”), has always been a powerful national institution, integrating the main PES functions of placement, benefit payment and referral to labour market programmes. It is organised into ten regional directorates and 180 large local offices (each with 200 to 400 staff). Altogether, the Agency employs about 89 000 staff. Despite legal oversight by the Ministry of Labour and Social Affairs, the service is largely autonomous in its operational business and its resource allocation for active programmes and has been characterised by strong influence of the social partners in its supervisory bodies. An OECD review in the mid-1990s questioned, however, whether sufficient resources were allocated to the task of monitoring and supporting job-search efforts and suggested giving more priority to this task, as well as reallocation of resources and a move towards a more streamlined organisational model (OECD, 1996).

12. As part of a drive to decentralise decision-making and allow more flexible use of funds, in 1998 active measures were merged into a single “reintegration budget”, while leaving it to the discretion of regional and local offices to determine their own particular policy mix. Major reforms continued after 2001, implying a shift towards “activating” labour market policy, and stressing the principle of mutual obligation (*Fördern und Fordern*). This process started with the *Job-Aktiv* Act, followed by four “Acts for modern labour market services” (the Hartz I to IV acts), which tried to implement the far-reaching proposals of the Hartz-Commission set up by the federal government in 2002 (Hartz-Kommission, 2002). The new focus on activation was accompanied by a stricter cost-benefit calculation for active programmes, with a subsequent reduction in training programme expenditure and public sector job creation schemes.

13. The redesign of the Federal Employment Agency is still ongoing, with the aim of transforming it into a service provider with private management structures. More personnel has been shifted to placement and counselling functions, so as to improve on staff/client ratios – of the currently 70 000 staff in local offices, over 40% can now be broadly considered as working in the area of placement and counselling. Target agreements between the different layers of the PES have largely replaced previously strict budget lines. PES intervention strategies are increasingly based on jobseeker profiling. Integration agreements set down the activities expected from jobseekers, with a focus on “mutual obligation”.

14. Elements of contestability have also been introduced. Several types of contractual arrangements with private providers have been developed, more as complementary options for the reintegration of the unemployed than as a full alternative to the public provision of employment services (Konle-Seidl, 2004, 2005; Bruttel, 2005a). Major tools are the training voucher, the placement voucher, the so-called personal service (*i.e.* temporary work) agencies and the contracting out of certain placement and reintegration measures (see Subsection 6.2 below). With these and other reforms, Germany, previously a laggard in reform with a heavily bureaucratic PES structure whose main task seemed to be that of “administering unemployment”, is now trying to catch up with the leading OECD countries in employment services reform.

15. In the past, Germany had two labour market activation and benefit streams, one administered by the PES for unemployment insurance and unemployment assistance recipients (UI and UA), and one administered by local authorities’ social assistance offices (SA). This resulted in an overly fragmented delivery system. (see Adema *et al.*, 2003; Mosley, 2005).³

3. The German PES had focused its active programmes *de facto* on its own core clientele of UI benefit recipients, financed through the PES budget. Other unemployed without a (sufficient) record of insurance contributions had to apply to local authorities for social assistance. Over the past decade, local labour

16. The “Hartz IV” act brought together the services for UA and employable SA recipients (*i.e.* mainly the long-term unemployed), who now receive the same type of assistance (the so-called unemployment benefit II). For the long-term unemployed, the reform generally implies less generous benefits and more restrictive suitable-job requirements. After public debate as to whether this group of clients should be served by either the employment office or local authorities, it was decided to create a new institutional infrastructure composed of both entities, *i.e.* “joint associations” or “consortia” (ARGE), using staff and funding from both administrative layers. The German set-up is thus different both from that in the Netherlands (where these clients are serviced by municipalities), and in the United Kingdom (where all unemployed and social assistance clients are serviced by JCP offices).

17. One open question relating to the governance structure of the new entities is the issue of unclear competencies among the two partners. In August 2005, an attempt was made to solve problems of authority and hierarchy by means of a contractual arrangement whereby the Federal Labour Ministry and the Federal Employment Agency offered the local authority partners the chance to take the lead. However, it does not seem that this has made much of a difference and debates continue as to the most efficient administrative level for dealing with the long-term unemployed and hard-to-place (with many critics of the new arrangements claiming that these client categories are better served by the municipalities).

18. The German reform process is relatively recent. It is therefore not surprising that interim evaluations of the new employment service structures and programmes that have become available in early 2006 show sometimes disappointing results about their efficiency and effectiveness, particularly with regards to the new contracting-out arrangements (*e.g.* WZB/Infas, 2006; see Section 6 further below). Other often-cited problem areas include:

- The Hartz Commission’s intention was to give the responsibility for all jobseekers to one institution; however, critics charge that instead of “one-stops”, highly complex and sometimes impracticable structures have been created.
- The two organisational units (BA and ARGE) are separated by benefit entitlement, not based on clients’ service needs -- a suboptimal solution that is bound to entail duplication of effort. For example, many unemployed not eligible for insurance benefit – and therefore not eligible for BA services – nevertheless have relatively good labour market prospects, *e.g.* well-educated youths, university graduates, women re-entering the labour market or highly-qualified immigrants (Kemmerling and Bruttel, 2005; Mosley, 2005).
- The new unemployment benefit II benefit, which was supposed to increase incentives to work for the long-term unemployed by bringing the income replacement rates down from the previous unemployment assistance level, has in fact led to large cost overruns. Indeed, eligibility rules were relaxed and more claimants than expected registered for the new benefit.

3.2 *The Netherlands*

19. The Netherlands, together with Australia, has gone furthest among OECD countries towards a policy model that stresses private provision of reintegration services for most recipients of social transfer payments. Since 2000 for unemployment insurance, and since 2002 for social assistance, placement and reintegration services for clients who are not expected to find work within six months are in principle contracted out to private providers. The government’s expectations are that, by enhancing competition, the effectiveness and efficiency of services will improve.

market programmes for the long-term unemployed under the auspices of local authorities have indeed grown considerably.

20. Employment services and benefit administration in the Netherlands have undergone a long series of reforms since the 1980s (see, *inter alia*, van Yperen, 2001; Sol, 2003; and de Koning, 2004). Traditionally, there had been a separation of the placement function and unemployment insurance benefit. In addition, social partners held a strong role, particularly in benefit administration. Local authorities took charge of social assistance for employable persons and other clients not entitled to insurance benefit. Around 1990 central government decided to divest itself of direct management responsibility for the placement and reintegration of the unemployed and brought its employment services under the responsibility of tripartite boards at central and regional level. In the mid 1990s, another round of reform reduced tripartite responsibilities again and set the stage for market-type relationships in employment services by encouraging social insurance agencies (five at the time) and local authorities to purchase reintegration programmes for their clientele first from the PES and later from private providers.

21. The 2002 SUWI Act (*structuur uitvoering werk en inkomen* – implementation structure for work and income) constitutes the latest link in the chain of structural reforms, which have radically changed the institutional set-up of social security, job brokerage and labour reintegration. The main aim of the act was to overcome institutional redundancy and improve preconditions for activating all types of benefit recipients. It also required the new social insurance agency (UWV) and (more gradually) the 486 Dutch municipalities to contract out placement and reintegration measures for most types of clients (MISEP, 2003).

22. The Ministry (SZW) retains a supervisory role, in particular through its Work and Income Inspectorate (responsible for monitoring employment offices and benefit agencies), and through target agreements that it concludes with its main partners, the CWI and UWV. The CWI is the client's first contact point and represents the remaining public employment service. Thus, the delivery structure is not entirely privatised: 131 CWI offices with 4 500 full-time equivalent staff (of which about two-thirds deal with employment services proper) handle initial registration; make a preliminary assessment of clients' entitlement to benefits; provide free universal job-matching services; and participate in controlling clients' job-search obligations. The CWI also shapes the future trajectory of the newly registered clients through profiling (evaluating their distance from the labour market). In its gatekeeper capacity, it refers clients at risk of long-term unemployment to the appropriate authority for a reintegration pathway, *i.e.* to UWV (if they are entitled to unemployment or disability insurance) or to municipalities (if entitled to social assistance). By contrast, clients classified in the lowest risk segment receive only CWI's basic services.

23. UWV and municipalities are responsible for granting benefits and for transferring their clients to private providers. The UWV – with its 19 000 full-time equivalent staff servicing about 300 000 unemployed and over 900 000 disabled, it is a much larger organization than the CWI – is required to contract out reintegration to such providers, while municipalities rely to a larger extent on longstanding “preferred providers”, partly from the public sector. In addition, municipalities have chosen to provide reintegration services to a certain extent themselves. Until 2005, they could do this up to a maximum of 30% of their respective budget; as from January 2006, their obligation to tender for reintegration services has been completely abolished.

24. The social partners have lost influence and are reduced to an advisory role in the national Raad for Werk en Inkomen (RWI), and regional committees. However, as the main players in the RWI, they have been entrusted with the challenging and decisive task of setting up a public databank (“reintegration monitor”) to provide transparent information on provider quality.

25. The 2004 Work and Social Assistance Act gives municipalities full responsibility for activating and reintegrating their 340 000 social assistance clients, and no longer excludes any client groups from

reintegration.⁴ They receive lump-sum payments from the national government, based on socio-economic parameters that take into account the demographic and regional labour market situation. There are two financing components: for benefit payments and reintegration measures. The new model creates incentives for reducing caseloads since saved money originally earmarked for benefit can be transferred to other budget lines. Municipalities now also have more discretion in choosing the type of measure for activating their beneficiaries. The fact that previous concepts of “suitable jobs” were widely abolished has, *inter alia*, facilitated their use of “work-first” policies – which, in turn, is leading a certain number of applicants to drop their claims.⁵

26. Private and non-profit providers bid for contracts with UWV and municipalities. They are organized in a branch association, Borea, which acts as a pressure group *vis-à-vis* the national government as concerns the design of contract parameters and which also grants a quality seal (Borea Keurmerk). In 2004, 72 providers had joined Borea, representing over 60% of total market volume (membership is not compulsory). The employment services “quasi-market” has already gone through several tender rounds and is continuously being adjusted in an effort to promote competition, improve the transparency of procedures and reduce creaming effects and other inequities in provision (Sol and Hoogtanders, 2005; Struyven and Steurs, 2005; see also Section 5 below).

27. In sum, recent reforms have followed the principle of giving work priority over income, by stressing client activation and enhancing competition in employment service provision through widespread market-type mechanisms. They have reinforced the role of the government in the (remaining) PES; streamlined social insurance provision; and given broader autonomy to local authorities in determining their reintegration policies. The following are some of the problem areas noted by critics:

- A multiplicity of actors implying transaction costs and handover problems in client transfers – although the goal remains to integrate services in joint business centres composed of CWI, UWV, municipal social services and reintegration providers, a one-stop shop situation has not yet been reached.
- CWI profiling results lack predictive value and are not accepted/followed by subsequent service organisations.
- There is concern with the potential diminution of the role of training under outcome-focused market arrangements and “work first” policies.
- Monitoring and evaluation of market operations and reintegration services, while improving, are not considered sufficiently developed (lack of knowledge about effectiveness of private providers and contractual arrangements).

3.3 *The United Kingdom*

28. Following an earlier period when the links between the placement and benefit functions were effectively broken, from the second half of the 1980s the United Kingdom introduced a series of reforms that concentrated PES work on benefit claimants and strengthened its focus on rapid return to unsubsidised employment. These reforms included the introduction of Restart interviews with the long-term unemployed in 1986; the abolition of the tripartite Manpower Services Commission in 1988 and its replacement by an

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4. Before 2004, lone parents with children under five were not expected to be available for work; availability requirements are now decided by municipalities on the basis of personal circumstances.
5. A representative of the Rotterdam social office informed the OECD team that a detailed explanation of activity requirements to assistance applicants typically led to claim withdrawals in 10% of cases.

employment service more directly supervised by the government; the introduction of back-to-work agreements upon benefit application as well as fortnightly “signing” under the 1995 Jobseeker’s Act; the offer of New Deals for Young People (1998) and for long-term unemployed adults (2000); and, more generally, stronger emphasis on reinforcing work incentives and monitoring job-search behaviour – the “stricter benefit regime” (Wells, 2001; Finn, 2005).

29. The redefinition of unemployment benefit as Jobseekers’ Allowance (JSA) from 1996 provided a specific legal framework for the new focus on intensified job search, and for applying common procedures in the management of unemployment insurance and social assistance beneficiaries. A performance targets regime geared to job entry and efficient service delivery was established from 1990 when the Employment Service was given a government Agency status. In this context, however, it should be noted that under the “stricter benefit regime” of the early 1990s many employed as well as unemployed persons moved to Incapacity Benefit (IB) and other types of non-employment benefits. For example, the IB caseload doubled during the 1980s and grew by a further 70% during the 1990s, while the number of registered unemployed grew by 20% and then declined by one-third in the same two decades (Figure 2).

30. The government’s 1997 welfare-to-work programme followed on from the new approach and intensified efforts to reduce all types of benefit dependency. An important precondition for streamlining the public employment service was the merger in 2001 of the Department for Education and Employment and the Department for Social Security to constitute the new Department for Work and Pensions. Following the merger, the hitherto partly-separated⁶ placement and benefit administration functions – the Employment Service and the Benefits Agency – were combined as Jobcentre Plus (JCP), a one-stop-shop for both employment services and income support for both inactive and unemployed clients of working age. All local units are expected to have adopted this type of organisation by late 2006.

31. The JCP is thus the “single work-focused gateway” to the system of income-replacement benefits and employment services for people of working age.⁷ In 2001/02, the JCP inherited 1 500 offices and 90 000 staff, coming from two different administrative cultures and traditions. Currently, there are 132 JCP district offices and 1 100 local offices. The network is supposed to shrink further to 1 000 local offices and 70 000 staff over the next few years (DWP, 2005b; Finn et al., 2005). JCP currently services about 800 000 persons on JSA (unemployment benefit) and the same again on lone-parent benefits, as well as 2.5 million persons on IB (incapacity benefit). Staff efforts have concentrated on JSA recipients and the New Deal programmes for unemployed youths and adults, while caseloads per staff member have been high with respect to inactive clients (see Box 1).

32. Since 1998 many of the active measures are offered under the “New Deal” designation. New Deal programmes address specific target groups: for those on JSA and aged under 50, participation is obligatory after a certain duration of unemployment (six months for youths and 18 months for adults). By contrast, participation in the New Deals for clients aged 50 and over, the Disabled, Lone Parents and Partners is voluntary.

33. In contrast to the Netherlands (as well as Australia), the United Kingdom does not plan to outsource the full range of employment services or have the private sector replace public employment service provision. Nevertheless, contracting out has become an important feature of PES services. First, JCP contracts with private and voluntary sector “partner” organisations that deliver a variety of specialised

6. Local benefit administration staff was previously under a different management hierarchy, directed by the Ministry of social affairs.

7. The “One” pilots tested the integrated delivery of a wider range of benefits and services, but in the Jobcentre Plus model local authorities continue to be responsible for housing benefits and for services not directly related to the labour market (e.g. psycho-social services, addiction, debt counselling).

services, such as CV preparation or interview training. Second, New Deal programme options are outsourced to private and voluntary sector organisations determined through regional-level tendering. Third, Employment Zones, which were introduced in 2000 to 15 areas with high levels of long-term unemployment, are the most radical component of the outsourcing strategy. In such zones, New-Deal-eligible clients unemployed for 18 months are assigned to private providers contracted with DWP, who have a high degree of flexibility as to their choice of reintegration measures (Hales *et al.*, 2003; Hasluck *et al.*, 2003); in some areas private providers can also work with lone parents although for them participation remains voluntary. According to one account of contractual arrangements with private, voluntary and public sector providers, JCP in 2002 had contracts with over 1 000 organisations to deliver employment programmes, a market worth some GBP 1 billion, *i.e.* one-quarter of total spending on active labour market programmes (Finn, 2005).

34. The UK 2004 *National Action Plan for Employment* envisages building further on previous success in reducing unemployment by pursuing a better-tailored local approach, with greater devolution to local managers, to tackle remaining pockets of high worklessness (DWP, 2004a; 2004b). That unemployment in the United Kingdom, perhaps to a higher degree than in other OECD countries, is also a result of skill deficiencies, is recognised by the start-up of a "New Deal for Skills", under which JCP offices screen customers' basic skill levels and provide work-focused basic skills training (see the discussion of the respective Public Service Agreement targets in DWP, 2005b; and OECD, 2005a). At the same time, possibly based on a perception that the unemployed claimant count could not be expected to decrease much further, JCP attention has shifted towards developing strategies for bringing non-employment benefit recipients, particularly lone parents and incapacity beneficiaries, into the labour market.

35. The following are among the remaining problem areas pointed out by critics:

- The aim to reduce incapacity benefit (IB) caseloads has had limited impact⁸ insofar as relatively few beneficiaries participate in the respective voluntary New Deal programme. The mandatory elements of the strategy need to be strengthened (see DWP, 2006, and the discussion of the Pathways to Work programme in Section 5 below).
- There is a lack of activation for lone parents with children up to 16, an exceptionally lax regulation in international comparison (DWP, 2006, proposes the introduction of a new Work-Related Activity Premium for lone parents with children aged 11 and over).
- There is a need to strengthen the basic skills training component in the welfare-to-work package.
- There is a growing concern about the adequacy of JCP staffing levels in relation to its multiple tasks.

8. Inflows to IB have fallen significantly from the peak level they reached in 1996 (DWP, 2004b) but the stock is subject to considerable inertia. The Pathways to Work programme has successfully encouraged voluntary participation in the New Deal for the Disabled by some recent entrants, but most of IB caseload remains inactive.

Box 1. Staff resources in employment services

Adequate staff/client ratios are important for effective activation strategies. It is often difficult, however, to obtain a meaningful – and comparable – picture of employment service staff ratios when trying to restrict the calculation to employment counsellors or placement officers in direct contact with unemployed clients, *i.e.* disregarding staff involved in benefit payment, overhead and support staff, personnel from regional and central offices, etc. In the Netherlands and the United Kingdom, job-centre staff service not only the unemployed but also inactive clients, and some counsellors may service both types of clients simultaneously. Where private providers have replaced much of the staff who previously worked for public services – as is the case particularly in the Netherlands – relevant staff are much more difficult to estimate. In Germany, staff/client ratios have been very much in flux since the merging of unemployment and social assistance and the establishment of a new administrative structure staffed by both the federal employment agency and municipalities.

Subject to these *caveats* to the statistics, the following picture emerges from the analysis of the three review countries. The **German** Federal Employment Agency (BA) has made intensive efforts over the past few years to assign more staff to placement work. Among its 89 000 employees at local, regional and national levels, placement and counselling staff have now become much more numerous than staff involved with benefit payment. In mid-2005, 29% of BA staff employed in local PES offices and the new joint associations with local authorities (ARGE) were classified as employment counsellors and placement officers. Adding the municipal staff now working in placement and counselling within the ARGE (over one-third of 16 000 employees) results in a staff/client ratio of about 1 to 200. However, there remain a number of BA offices where one placement officer services 400 or more unemployed clients. The ratio is more advantageous in the ARGE offices, where the legislator has set targets of 1 to 75 for youths and 1 to 150 for adults. One ARGE office (in Offenbach) visited by the OECD was close to that target, with 65 placement and counselling staff for 10 000 UB II recipients. However, the average number of unemployed clients serviced by each officer remains significantly larger than in the Netherlands or the United Kingdom (see also WZB/infas, 2006).

In the **Netherlands** the CWI and UWV are relatively large organisations with altogether over 23 000 full-time equivalent staff, but only between 3 000 and 4 000 of them work as employment counsellors/placement officers, servicing mainly unemployment insurance beneficiaries. Municipalities may have between 5 000 and 7 000 staff involved with reintegrating unemployed assistance beneficiaries, and according to a calculation by BOREA, private providers employ 3 000 staff involved with placement and reintegration of unemployed clients (and an equal number for disabled clients). Altogether, in the Netherlands perhaps 12-13 000 staff are involved in placement and reintegration of about 750 000 unemployed clients (from all benefit categories combined), which would give a quite advantageous staff/client ratio of about 1 to 60. However, efficiency losses through multiple transfers between institutions need to be kept in mind.

The **United Kingdom** did not provide a breakdown of its 90 000 DWP staff. However, one visit at a typical Job centre in the London vicinity showed that about half of local staff was working in placement, counselling and job-search monitoring, of whom about 30% were dealing with non-employment benefit clients (mainly the disabled and lone mothers), although these categories constituted over 80% of the total office caseload. Thus, the staff/client ratio in this particular centre was about 1 to 80 for JSA recipients, but almost 1 to 1 000 for clients receiving non-employment benefits. In view of ongoing DWP staff cutbacks, and of the current strategy of engaging new claimants of non-employment benefits through mandatory work-focused interviews, Jobcentre Plus resources seem to be increasingly stretched. Current staff may already be insufficient to implement the relatively intensive mandated schedule of interventions.

4. Activation strategies and interventions in the unemployment spell

36. The nature and frequency of various types of contact by employment services with their unemployed clients, in other words of interventions in the unemployment spell, are an important indicator for employment service operations. This section analyses and summarises responses by OECD countries, particularly the three member countries reviewed in this paper, to a questionnaire on contacts with the unemployed managed by the public employment service, supplemented by information received during recent OECD missions to review countries.⁹ As noted in OECD (1997), “the ways in which benefit recipients are treated – left on their own, assisted, controlled, encouraged, challenged – during the various stages of their unemployment spells is an important factor which affects the effectiveness of ALMPs”. For example, it is widely accepted that the interventions made after many months of unemployment need to be partly different from those made at the beginning of an unemployment spell.

37. Intervention measures mainly aim at “activating” the unemployed – rather than treating them as passive benefit recipients – and increasing their chances of a return to work. Strategies to activate the unemployed include referral to active labour market programmes (ALMPs) such as training or employment measures to prevent loss of motivation, skills and employability as a result of long-term unemployment. However, of prime importance are also other types of interventions designed to ensure continued effective job search. These include emphasis on options for returning to work from the very first contact with a newly-registered unemployed client; regular reporting and confirmation of unemployment status; monitoring and review of clients’ job-search efforts; direct referrals to vacant jobs; the set-up of back-to-work agreements and individual action plans; and short job-search training courses.

4.1 Types of intervention

38. **Initial registration** for placement is often a precondition for benefit payment. Entitlement to benefit may begin on the day of registration for placement (Germany, United Kingdom) or can be retroactive back to the date of loss of work (Netherlands). None of the three countries imposes a waiting period before benefit starts (as do, for example, Japan, Norway and Sweden). Availability checks (with their impact on benefit status) tend to be part of the initial registration interview, which is now conducted entirely via telephone in the United Kingdom, and increasingly so in Germany.¹⁰

39. In the Netherlands, from the very first contact the emphasis is placed on options for returning to paid work. Jobseekers register at the public employment service, the CWI, which assesses labour market availability and job-search prospects. The use of the so-called “Chance-meter” usually allows the registration interview to determine which clients will remain with CWI and which will be handed over to UWV or municipalities for reintegration purposes (see Box 2). Registration should occur within the first week of unemployment, otherwise entitlement is not retroactive. All benefit application forms are then forwarded to UWV or the municipalities. However, since the processing of the benefit application takes at least eight days, job offers are being made during this period, and in fact, in almost 1 out of 5 cases, inflow into regular unemployment benefit is prevented either through a new job start (in which case benefits can

9. The combined 2004/05 responses to this questionnaire are forthcoming in a separate OECD document and follow up on a previous (1999) survey, the results of which were presented in OECD (2001a).

10. Few countries that responded to an OECD questionnaire give concrete evidence as to the frequency of referral to vacancies during the first contact. JCP statistics show that in the United Kingdom the proportion of jobseekers with a job submission at first contact increased from 6% in October 2001 to 16% in July 2004, but fewer than 1% actually result in a job entry (DWP, 2005a).

still be paid on a daily basis up to the actual take-up of the job or signing of contract) or otherwise withdrawal of the application.¹¹

40. In Germany as in the United Kingdom, no retroactive payment is possible should registration occur after the first day of unemployment. Also, a recent legislative provision in Germany envisages sanctions if registration does not occur immediately after dismissal is notified (*i.e.* before it takes actual effect). Behind this provision is the same kind of rationale as in the Netherlands: preventing the inflow into benefit by using the time available for referring applicants to vacancies as fully as possible.

41. **Regular reporting and confirmation of unemployment status** (which may include reporting of a brief work spell) create opportunities for PES counsellors to encourage job search and deliver information and services. OECD countries implement a variety of procedures. Almost half of them require regular (*e.g.* weekly or monthly) declaration in person at a local employment office. Such in-person visits are often used for presenting job-search evidence, checking the vacancy register with a subsequent request to the jobseeker to apply for certain openings, and further provision of information, for example on collective information or training sessions offered by the local office. This is also the case in the United Kingdom (fortnightly “signing on” of persons claiming Jobseeker’s Allowance with presentation of the required “Actively Seeking Employment” information). However, the OECD mission had the impression that JCP staff were stretched to the extent that fortnightly reviews were difficult to implement fully. At one Jobcentre, reviews during the first three months of an unemployment spell had been reduced in length from 10 to 5 minutes.

42. Some other OECD countries rely rather on regular declarations to be made by post, telephone or internet, with the internet channel gaining in importance. In the Netherlands, unemployment insurance benefit recipients make regular declarations by post. Germany belongs to a small group of countries which do not require declarations at any fixed frequency: reporting instead takes place during intensive follow-up interviews (see below).

43. A clear majority of OECD countries now seem to have explicit regulations for **monitoring job-search efforts**. This feature is definitely on the rise. While countries continue to differ as to the type of verification of independent job search – for example, employer confirmation of applications or jobseekers filling in details of applications into standardized forms – the number of countries requiring in-person interviews, where counsellors review documentation provided by the jobseeker, appears to be on the increase. It should be noted, however, that too-rigid requirements, with high minimum frequencies to be reported, may risk generating perverse effects, such as employer cynicism about too many solicitations, or pressure to quickly accept jobs inappropriate for the individual.

44. In the Netherlands, the CWI supervises job-search activities of clients profiled as easy to place, while private providers monitor search efforts of those persons contracted out to them by UWV or municipalities. The unemployment insurance law requires jobseekers to report and document by mail on a standardized form a minimum of four applications every four weeks. Evidence can be application letters, but also personal notes about more spontaneous “walk-in” applications or about efforts to set up a business. Thus, the requirement is less rigid than it looks at first sight. The rule is usually interpreted according to the individual situation; for example, jobseekers with skills that are in high demand are encouraged to take more than four actions in the 4-week period. In any event, the CWI seems to feel that the regulation has become inefficient and “too bureaucratic”: recipients tend to apply for any vacancy in order to comply with

11. A respective “prevention quota” (*i.e.* the percentage of jobseeker registrations where inflow to unemployment benefit is prevented) is included in CWI’s annual target agreement with the government.

the rule, and this tends to disturb the general functioning of the matching process for publicly-advertised vacancies.¹²

Box 2. Determining jobseeker categories through profiling

Jobseeker profiling is used in a growing number of OECD countries to assess the strengths and weaknesses of unemployed clients, estimate their chances of finding work and design corresponding intervention strategies. Profiling is usually designed to filter out various easy- and hard-to-place categories of jobseekers, which are offered services of different intensity. Prediction accuracy is therefore an important element in the efficiency of a profiling system, since low accuracy can lead to considerable waste of employment service resources.

The Netherlands has the strongest experience with profiling among the review countries. In 1999, it introduced the "chance-meter" as a tool to determine jobseekers' distance from the labour market. With the help of a checklist and a decision-making matrix, the CWI counsellor assesses the jobseeker's personal situation, occupational and skill profiles and capacity for independent job search. Four groups ("phases") of jobseekers are thus established. Those with a significant chance of finding work quickly, *i.e.* within six months, are placed in Phase 1 and normally stay with CWI. The remainder are interviewed a second time to establish their membership of one of the other phases and to determine an advice with regard to reintegration activities, when transferring them to one of the other service providers in the chain (UWV or municipalities). Phase 2 and Phase 3 jobseekers are considered to have a chance of finding work either within a year or after more than one year respectively, with the help of labour market instruments. Phase 4 clients are considered to have only small chances of finding work, due to serious barriers.

Sixty to seventy percent of CWI inflow is profiled into Phase 1 and the remaining 30% to 40% into Phases 2 to 4. In terms of stock, however, the distribution is much more slanted to the hard-to-place: in May 2005 out of almost 700 000 unemployed persons 18% were in Phase 1; 20% in Phase 2; 29% in Phase 3; and 27% in Phase 4 (with some cases undecided). There is considerable dissatisfaction in the Netherlands with the current profiling model. Above all, its predictive power has been relatively unsatisfactory: in only 3 out of 5 cases is CWI accurately predicting the timing of exit from unemployment, while many in Phase 1 find work only *after* 6 months, and many in Phase 2 or 3 find work *more rapidly* than predicted. The latter type of client is therefore transferred too rapidly to the UWV or municipalities, before the CWI has had a chance to undertake any placement effort. In addition, UWV and municipalities undertake their own profiling, before classifying their clients into target groups contracted out to private providers.

The Ministry of Social Affairs and Employment has evaluated the profiling system and will probably replace it – starting in late 2006 or 2007 – by a classification of jobseekers into two groups based on their capacity for independent job search.

Germany also classifies jobseekers into four groups: (1) "market clients" who need no support since they are expected to find a new job rapidly; (2) those who need support with motivation and job-search strategies; (3) those with skills deficits or other obstacles that need specific measures; and (4) clients who are not considered placeable within the next 12 months (after which they will be transferred to the local ARGE). The BA concentrates its efforts on client groups 2 and 3, and has been criticised for hardly spending any effort on group 4, although it suffers a financial penalty for every person that becomes long-term unemployed. The ARGE usually adopt the BA's four-way classification, but they have a much higher share of group 4 clients than local BA offices. Only after transfer to an ARGE do they receive the intensive service corresponding to their official designation (*Betreuungskunden*).

The **United Kingdom** has not developed any specific profiling instrument for JSA recipients. Jobcentre Plus has tried in the past to identify jobseekers who are likely to find work quickly by themselves, but has decided that this cannot be done with enough accuracy to make any savings. However, for Incapacity Benefit claimants a field trial is currently under way.

12. These views expressed to an OECD team may be somewhat at odds with the expected intensive job-search activities of clients contracted out to private providers. At a visit to Randstad Rentree in the Dutch city of s'Hertogenbosch, for example, this particular provider explained that during the first four weeks, clients are expected to undertake typically about 20 job-search actions per week, of which at least nine are direct job applications.

45. In the United Kingdom, and in an increasing number of cases in Germany as well, the jobseeker signs an “integration agreement” or “Jobseeker’s Agreement” with the employment counsellor, where the required job-search efforts are detailed. Among German unemployment insurance beneficiaries, clients in profiling groups 2 and 3 need to demonstrate their job-search activities to their employment counsellor roughly every two months, and their number can be estimated (based on participant observation) as between four and six during that period; verbal evidence or personal notes are usually accepted. In the United Kingdom, requirements are stricter: at least two steps a week are usually required, so that the number of demonstrated job-search actions – again, verbal evidence is accepted – can be estimated at about ten per month (a number also required in many US states). When on an active measure, UK clients do not need to continue applying for jobs, while they are expressly required to do so in the Netherlands (Hasselpflug, 2005).¹³

46. **Direct referrals** of registered unemployed to vacancies, normally implying an obligation to attend a job interview with an employer, can be an important type of PES intervention. For example, they can be targeted on jobseekers who are thought to be making few realistic job applications on their own initiative. Usually PES counsellors negotiate with the employer on the various potential ways of advertising a vacancy: from open vacancies with full contact details, to semi-open vacancies (where the counsellor gives out the contact information), to closed vacancies (where referrals of pre-selected candidates are made).

47. For the Netherlands, available evidence suggests a preponderance of semi-open vacancies in CWI offices (see SZW, 2005a). The holding of pre-selection interviews among CWI clients nevertheless seems quite rare. In comparison, nine out of ten vacancies on the website of the German federal employment agency are advertised openly, with full contact details, while pre-selection interviews are again quite rare. In both countries, regular interviews with employment counsellors usually result in several direct client referrals that need to be followed under threat of sanctions. Any efficient job counsellor will discuss the client’s account of recent job-search activities in the light of vacancies on the computer system in the client’s professional area, adjacent fields or beyond (in line with “suitable work” criteria). The United Kingdom has the most detailed information on these issues among the three countries. Vacancies handled in JCP offices are almost evenly split between open (46%) and semi-open (54%). An average of six submissions are made per client annually, with treated vacancies receiving an average of eight referrals.

48. The procedure for PES follow-up of referrals to vacancies is of some importance. Feedback on outcomes can provide valuable information on both the vacancy and the jobseeker, and help the employment service to handle its mediation more effectively in the future. Countries differ as to their intensity of such follow-up and to the methods used (written reporting, telephone follow-up, etc.). In the Netherlands, the CWI usually asks the employer about the outcome of direct referrals, while application outcomes are also discussed with the jobseeker during the next regular interview. The information obtained from employers should improve in the future since, following a recent evaluation report, the CWI will be giving extra attention in 2006 and subsequent years to improving employer contacts and services.

49. Germany tries to follow the same approach, but officials usually note that there is little cooperation by employers in communicating the reasons for not hiring, and in determining whether a job applicant sent by the office seemed available and co-operative or not. In the United Kingdom, it is rather

13. The UK Jobseekers Allowance regulations were recently amended by increasing the number of required weekly job-search steps from two to three (www.publications.parliament.uk/pa/cm200405/cmhansrd/cm050110/text/50110w31.htm, www.publications.parliament.uk/pa/cm200304/cmstand/deleg4/st040329/40329s01.htm).

the jobseeker who is asked to fill in the respective information in the “Actively Seeking Employment” form for the fortnightly signing.

50. **Regular intensive interviews** are another important counselling tool for maintaining the client’s work focus. They usually start with a detailed intake interview held about a week or two after initial registration, with the aim of registering sufficiently detailed information to allow successful matching. In the Netherlands, after CWI assesses the jobseeker’s distance from the labour market at the initial registration interview, with people assessed as not job-ready it conducts a second more intensive interview to determine a proposal to UWV or municipalities with regard to reintegration activities. Depending on their profiling category, for a large percentage of newly registering unemployed a third detailed interview will then be held at UWV or with municipalities’ social assistance offices. The United Kingdom has a specific four-day target for the intensive (40 to 45 minutes-long) interview after initial registration – called a Work-Focused Interview – where an individual action plan, the Jobseekers Agreement, is usually established. A “better-off” calculation presenting evidence that return to work will be more lucrative than remaining on benefit is usually also part of this interview. In Germany, the detailed interview usually takes place within a week after initial registration. It is here that an integration agreement is signed and the rough initial profiling at registration is replaced by a more detailed jobseeker classification (see Box 2 above).

51. Following the initial phase of unemployment, intervals between intensive interviews differ widely, both among countries and among client types. Most OECD countries give a substantial amount of discretion to the counsellor or case manager as to the frequency of calling in an unemployed person for interview. By contrast, a few countries have a fixed schedule of interviews at specific durations of the unemployment spell, while some others may set a maximum interval. The United Kingdom has the most rigid schedule among the three countries surveyed, in that the jobseeker initially needs to attend quarterly (13-week) reviews, on top of the fortnightly signings. For JSA clients, following entry to the New Deal the interval between interviews is reduced to one week. More recently, job centres have also been implementing work-focused interviews at various intervals for recipients of non-employment benefits: the scheduled interview frequency is highest for lone parents with older children (see Section 4 below).

52. At the CWI, employment counsellors can use much discretion in deciding reporting intervals. One local office (a joint CWI/UWV office in Amsterdam) indicated to an OECD mission team that contacts and interviews had increased from one every two months several years ago, to one every fortnight currently. On the other hand, counsellors in some offices may ask “Phase 1” clients for a restart interview only when the initial six-month period accorded to them is approaching its end (*i.e.* when these, contrary to initial expectations, have not found work within that period).¹⁴ At the German *Bundesagentur*, while in the past placement officers also had much discretion in deciding interview frequency – for example, a prescribed three-month interval required in the mid 1990s was abolished in one of the first revisions of employment regulations under the incoming federal government in 1998 – the recent German version of a “tighter benefit regime” has implied more rigid practices: intervals between follow-up interviews now tend to vary by client group determined through profiling (as a rule, three months for the most job-ready category; two months for the intermediate categories 2 and 3; and – surprisingly -- six months for the category at greatest distance from the labour market). Whether the aim of a one-month contact frequency, mentioned in a 2003 BA circular, can ever be reached will depend on further improvements in the staff/client ratio.

14. There are many complaints that the CWI is not always following the “six-months” rule and keeps Phase 1 clients for longer periods, before handing them over to UWV or municipalities – perhaps due to organisational start-up problems and to a primary concern with intake procedures after the rise in unemployment during 2003 and 2004 (SZW, 2005a).

53. Setting-up **action plans** with the client has become an important element of activation strategies. Their name may vary (guidance plan, jobseeking agreement, activity agreement, etc.), but in each case the individual action plan is a written document to be signed by both parties, describing the jobseeker's situation and laying down some actions to be taken. In most countries for which information is available note that such action plans are prepared in the initial phase of unemployment, in which case they usually specify availability requirements as well as job-search activities and strategies. An action plan at a later stage in the unemployment spell will usually warn that at a certain point in time, if no employment has been found, the client will probably be placed into an ALMP.¹⁵

54. In the United Kingdom, the action plan is referred to as the Jobseeker's Agreement and is completed at the initial work-focused interview. The Agreement is reviewed at 13-week intervals, and changes its character after long-term unemployment of (for adults) 18 months, when clients enter one of the New Deal programmes (starting with a "Gateway" period of intensive counselling which, if necessary, determines the programme to be entered at the end of the period, *i.e.* education, subsidised employment or a job in the voluntary sector).¹⁶ Germany considers the initial integration agreement as an action plan, but has not laid down any fixed scheduling for entry into active programmes. In the Netherlands, proposals for action are included in the reintegration advice which clients receive when delegated to UWV or municipalities. UWV and municipalities are responsible for implementing the "Comprehensive Approach", under which all unemployed persons with an obligation to work, who are not able to find work on their own initiative, will receive an activity offer aimed at labour market reintegration or social activation within 12 months (youths within six months) (NAP, 2004).

55. In conclusion, an activation strategy encourages jobseekers in their efforts to find work by providing job-search support and requiring regular contact with employment services. A work focus of all interviews starting with initial registration, regular reporting of job-search efforts, the signing and regular review of reintegration agreements and obligations to participate in intensive or full-time programmes after a certain duration of unemployment are all part of this strategy.

4.2 Benefit eligibility and benefit sanctions

56. As noted above, "activation" regimes tend to be coupled with greater emphasis on benefit eligibility criteria, monitoring of work availability and a tightening of suitable-job requirements. In this context benefit sanctions, usually stops or reductions of benefit payment, have also received increasing attention as a last-resort mechanism in the counsellor's "tool kit" for enforcing the range of requirements imposed on jobseekers. Several recent studies from the Netherlands and Germany find that the imposition of a sanction has a positive effect on re-employment rates (Abbring *et al.*, 2005; van den Berg *et al.*, 2004; Wilke, 2003). Box 3 lists in some detail suitable-job requirements currently in force in Germany, the Netherlands and the United Kingdom.

57. Sanction regimes in the three review countries can be briefly summarised as follows. The Netherlands has the longest and most precise list of sanction categories (five categories with 26 sub-divisions). The law seems to leave to local agencies much discretion in deciding sanctions, for example

15. As pointed out in OECD (2001a), if the action plan involves assignment to a longer-term programme, it should occur some time prior to assignment so that "motivation effects" (*i.e.* increased activity to find market work) have time to operate. On motivation effects of referral to activation programmes, see also OECD, 2005d.

16. A significant problem encountered during the OECD mission is that participation in New Deal 25 Plus can be avoided either by cycling between JSA and Incapacity Benefit, or by switching back and forth between JSA and short-term employment. In both cases, the "clock" starts again and clients may never reach the 18 months duration which triggers entry to the New Deal.

combining benefit reductions of 5 to 30 % with specific durations of temporary benefit stop. In general, a principle of proportionality between the sanction and the type of violation of jobseeker obligations will be applied. However, refusal of a full-time job offer or a place on an ALMP will be met quasi-automatically with a full benefit stop.¹⁷

Box 3. "Suitable work" criteria

Practically all OECD countries have adopted some definition of "suitable work" in order to *i)* guide the job offers made to unemployed clients by employment services; and *ii)* assess clients' availability for work, in the sense that persons who appear unwilling to take up a job offer for particular reasons may be considered as not available for work and therefore be sanctioned or excluded from benefit payment. However, as in the case of sanctions discussed above, more severe suitability criteria will not necessarily translate directly into referral practice, since many job counsellors are hesitant to refer their clients to jobs below their qualification levels. Of the three countries, this argument seemed particularly pronounced in Germany, where job counsellors argue that they receive negative feedback from employers who strongly dislike unmotivated applicants who feel "too qualified" for the job.

Germany: While up to the late 1990s a principle of "occupational protection" applied for UI recipients, in principle today, a UB I beneficiary may be expected to accept any job corresponding to his/her working capacities, to the extent that general or personal reasons are not incompatible with the nature of the job. However, a principle of "earnings protection" still applies: up to 20% less salary is suitable within the first three months; up to 30% less between three and six months; thereafter, any job paid at or above the level of unemployment benefit is suitable.

Maximum commuting time to and from a job is 2½ hours a day for an eight-hour job, two hours a day for a six-hour job. Relocation can be requested after four months of unemployment (unless there are important family reasons).

Different criteria apply for UB II recipients: any job a person is able to do physically or mentally, independent of salary or qualification level. Caring responsibility for a child three years and above is not an obstacle if a place in childcare is available.

Netherlands: For CWI and UWV clients, during the first six months of unemployment, a suitable job refers to employment corresponding to the client's level of qualification. After that the jobseeker needs to extend search to jobs requiring different and possibly inferior skills. Persons with lower and medium-level education must accept any job as suitable after six months, and those with tertiary education after 18 months.

Maximum commuting time to and from a job is three hours a day by public transport. Considering the size of the Netherlands, this comprises a large part of the country.

According to the 2004 Work and Social Assistance Act, social assistance recipients can be asked to accept all "generally accepted employment".

United Kingdom: There is no precise legal definition or regulation of suitable employment in the United Kingdom. At the initial stage of an unemployment spell (up to 13 weeks, "permitted period"), the jobseeker is allowed to restrict his/her job search and availability. In fact, the type of employment which the jobseeker will search for is agreed in the first intensive interview with the personal advisor. Jobseekers are normally allowed to look for work within their usual occupation, or at the previous salary level, or within a restricted area. Thus, in the permitted period, jobseekers themselves may define their criteria of suitable employment, subject however to the criterion of "reasonable prospects" of finding work despite these restrictions (which advisors may discuss when negotiating the initial Jobseeker's Agreement). After the initial three months, depending on their circumstance jobseekers may be able to get agreement to restrict their search for a further three months. After six months jobseekers are expected to be available for any work they can do, although job offers can be refused for "good cause".

Maximum commuting time to and from a job is two hours a day during the first 13 weeks of unemployment, and three hours thereafter. Clients must be willing to consider relocation to ensure "reasonable prospects" of finding employment.

17. These regulations apply to unemployment insurance beneficiaries. For social assistance recipients, the maximum temporary reduction of benefit is 20%.

58. The United Kingdom also has a large number of detailed sanction categories (17 in all). There are three types of sanctions. Varied length sanctions of between 1 and 26 weeks are imposed for voluntary quit and refusal of employment without good cause. Fixed-length sanctions of initially two weeks, then four weeks followed by 26 weeks in repeat cases, are imposed for refusal to attend an employment programme or carry out specific directions by JCP advisors. A “disallowance” is a benefit stop in case of entitlement doubts, for example in cases of insufficient job search. All sanctions are decided by a Sector Decision Maker outside the job centre on the basis of written evidence, not directly by the personal advisors involved in the case. In fact, between 2000 and 2005 only 46% of cases referred by advisors (where the latter had notified a possible infraction) resulted in a sanction, of which again a certain percentage were overturned through “reconsiderations” or appeals¹⁸ (DWP, 2005c).

59. Germany had in the past only four types of sanctions, (a) for voluntary quit; (b) refusal of work; (c) refusal of an ALMP; and (d) quit of an ALMP.¹⁹ Since 1985, the sanction for voluntary quit has been a 12-week benefit stop. Sanctions for categories (b) to (d) were actually softened and made more flexible in 2003, depending on whether a first infraction (three weeks benefit stop) or repeat infractions (6 and 12 weeks) are involved. Cumulated durations of 21 weeks benefit stop will lead to exclusion (sanctions for voluntary quit enter this calculation). In recent years, sanctions for late registration, insufficient job search (a two-week benefit stop) and non-attendance (a one-week benefit stop) have been added, but no statistics are publicly available yet for these categories.²⁰ Finally, sanctions for UB II recipients involve benefit reductions (for example, by 30% in case of refusal of a job offer).²¹ In contrast to the United Kingdom, German employment counsellors decide on sanctions themselves; however, there is extensive appeals activity, with one study showing that half of all sanctions were being lifted within a week (Wilke, 2003). One recent change that may reduce the success rate of appeals in the future is the reversal of the burden of proof, whereby a benefit recipient now needs to demonstrate that a certain job offer was unsuitable.

60. These characteristics of sanction regimes in the Netherlands, Germany and the United Kingdom give some indication of why sanction statistics often lack comparability between countries. While ideally sanctions should be transparent and credible, there are varying levels of arbitrariness in the application of sanctions by individual counsellors and between local labour offices. Legislation may allow for flexibility in the implementation of sanctions, as for example in the United Kingdom where they can vary between 1 and 26 weeks for the same kind of violation. Many counsellors are reluctant to apply sanctions even if they would normally be called for, since they prefer to keep a relation of confidence with their clients. This may be especially so when vacancies are rare. For example, one German study found lower sanction rates in office districts with high unemployment and unfavourable vacancy/client ratios. Where vacancies were more numerous, *i*) clients were more risk-prone in refusing job offers; and *ii*) counsellors made more referrals to vacancies, leading to more numerous job refusals followed by sanctions (Oschmianski and Müller, 2005).²² Thus, sanction rates do not necessarily reflect effectiveness of enforcement, and there are many other factors apart from a stricter sanctions regime that might explain higher sanction rates. Paradoxically, mild sanctions may facilitate their application, while stricter sanctions legislation may have

18. On average, 10% of decisions are appealed, but no data are available as to the proportion of initial sanction decisions overturned through appeals.

19. Penalties for non-attendance were always possible, but were not considered sanctions, and no statistics on them are available.

20. Preliminary statistics received upon request from the *Bundesagentur* show that sanctions for non-attendance have become the second most frequent category after voluntary quit, while those for insufficient job search are rare.

21. The most severe sanction for UB II recipients is that for youths below the age of 25, where refusal of a job offer entails the complete stop of cash payments and their replacement by in-kind benefits.

22. Variability in the application of sanctions in the Netherlands is pointed out by Doeschot *et al.* (1999).

the effect of reducing their incidence, possibly because of a deterrence effect, but also since job counsellors are reluctant to apply sanctions which they consider unreasonably harsh or have a high chance of being overturned on appeal.

61. Table 3 presents available data on the incidence of benefit sanctions in the three review countries, related either to benefit inflows (in the case of “voluntary unemployment”) or to the stock of beneficiaries. First, in the three countries, between 2 and 8% of new benefit claims are sanctioned on grounds of voluntary quit (including dismissal for fault); in the most recent available year, the rate was highest in Germany with 5.9%. In comparison, European Labour Force Survey data reveal that the proportion of the unemployed who left their previous job voluntarily (rather than lose it through dismissal or termination of a fixed-term contract) has been around a quarter in recent years in Germany and even higher in the Netherlands (above 30%) and the United Kingdom (above 40%). It seems therefore that only a fraction of voluntary quits effectively meet with a sanction.²³

Table 3. Incidence of unemployment benefit sanctions

	Germany			Netherlands			United Kingdom		
	1995	2000	2004	1995	2000	2003	1997/8	2001	2004
<i>As a percentage of the inflow to benefits</i>									
<i>Sanctions for “voluntary unemployment”</i>	6.4	7.0	5.9	4.4	8.0	4.8	4.3	3.3	2.7
<i>As a percentage of the average stock of beneficiaries</i>									
<i>Sanctions for behaviour during benefit period</i>	1.0	2.6	4.6	31.1	25.9	33.6	10.3	19.8	19.3
Refusal of work	0.5	1.6	3.7	} 0.8	} 1.1	} 1.6	1.2	3.3	2.5
Refusal or quit of ALMP	0.5	1.0	0.9				2.2	2.9	2.9
Insufficient job search and/or availability	..	..	..	} 30.3	} 24.8	14.3	2.1	1.6	1.3
Administrative infractions ^a	..	..	..			17.7	4.8	12.0	12.6

.. Data not available.

a) Includes sanctions (benefit stops or reductions) and fines in the Netherlands, adjusted for double counts.

Source: Special submissions by the *Bundesagentur für Arbeit* and by UWV; and DWP (2005c).

62. Second, the annual incidence of sanctions for refusal of suitable work is currently highest in Germany, after having risen steeply since the mid-1990s, as a consequence of both tightened suitable-job requirements and internal circulars from BA headquarters requesting tougher eligibility checks by job counsellors. By contrast, it is surprising that the sanction incidence for refusal or quit of an ALMP is highest in the United Kingdom, where spending on and annual inflows into ALMPs are lower than in the two other review countries.²⁴ The Netherlands has the highest sanction incidence among the review countries, due to a very high incidence for the categories “insufficient job search” and “administrative infractions”. The latter category includes benefit sanctions and fines for late registration, failing to provide information on change of status, not filling out the required administrative forms, and not complying with job counsellors’ directions or action plans.

23. This discrepancy may arise because employment service staff regard certain reasons for quitting, for example for family or educational reasons, as justified.

24. The high sanction rate may be the result of strict application of the requirement for specific target groups to participate in New Deal “options”. It could also be due to client willingness to forego benefits, since these are relatively low.

63. A previous OECD publication (Gray, 2003, Table 1)²⁵ presented sanction rates for 14 countries (among them Germany and the United Kingdom) in the late 1990s. Among those countries, Japan, Switzerland, the United States and Norway had sanction rates for voluntary quit of over 10%, *i.e.* higher than the three review countries in Table 1. Concerning sanctions for behaviour during the benefit period, the United States and Switzerland had sanction rates of over 40% per year of benefit receipt (not per benefit spell), which shows that the comparatively high sanction rate (33.6% in 2003) in the Netherlands is not unique.

64. The Danish Ministry of Finance carried out two surveys on job availability rules for the unemployed, in 1998 and 2003/04, and subsequently constructed an index for the strictness of eligibility criteria (Hasselpflug, 2005). Most of the criteria used are related to the “interventions” and “activation” measures discussed in this section (job-search requirements; job availability during an ALMP; mobility criteria for suitable work; and sanction characteristics). While there are limits to such a strictness indicator²⁶, it is interesting to observe that of the three countries discussed in the present report, the Netherlands was ranked highest among a sample of 25 countries, while the United Kingdom was ranked among the lowest, with Germany in between, but below average. The Netherlands received its high score both on the availability and on the benefit sanctions indicator. Compared with the 1997 survey, in 2004 the Netherlands had increased its strictness somewhat (as had most of the countries in the study), while the United Kingdom had relaxed some eligibility criteria.²⁷

25. Gray (2003, Table 1) is a revised version, with correction of a data error relating to Canada, of a table first published in OECD (2001a).

26. Among the limits to a formal strictness indicator based on legislation or ordinances discussed in OECD (2000) are: *i*) the often too general wording of respective legislation; *ii*) the variability of implementation arrangements; and *iii*) the impact of court rulings, for example on the validity of benefit sanctions.

27. The low ranking of the United Kingdom was mainly due to the relative lack of availability requirements while participating in an ALMP, and to low scoring on occupational and geographical mobility requirements. More generally, Hasselpflug (2005) considers that there is a pattern whereby EU countries with relatively high unemployment benefit replacement rates also have relatively strict availability rules, and vice-versa (apparently the case in the U.K.).

5. Strategies for applying activation policies to “inactive” groups

65. One of the most striking developments in employment and social policy during the past decade has been the increased attention that is being paid to applying activation principles, first developed for the unemployed, to working-age recipients of other, non-employment benefits (the disabled or lone parents, for example). However, while for unemployment benefit recipients, availability-for-work rules strengthen the requirement to participate in employment programmes, assistance to recipients of other benefits is usually not tied to such requirements. Poorly-controlled access to such “non-employment” benefits can undermine the impact of activation measures, as some of the long-term unemployed enter benefit schemes that facilitate inactivity.

66. Not all people who receive non-employment benefits can or should work. For example, the payment of a full income-replacement benefit without work-related requirements is appropriate in many situations of incapacity or care responsibilities. However many inactive people, including those declaring disabilities, can work and wish to work at least on a part-time basis. For example, in international surveys, a significant proportion of disability benefit recipients do not consider themselves as disabled. This percentage is about 30% in the Netherlands and over 40% in the United Kingdom. About a quarter and almost half of them, respectively, are in employment (among OECD countries this share averages about one-third, reaching over two-thirds in Sweden: see OECD, 2003a, Chart 3.7).²⁸ Some countries have experienced large increases in the caseload of people claiming benefits for a musculo-skeletal condition or mental condition (e.g. work-related stress), which in the past were less frequently compensated. These figures suggest that, particularly where disability benefit recipiency rates are high, disabilities can often be compatible with some type of employment.

67. More generally, the growth in non-employment benefit caseloads and associated expenditures is a long-term challenge for public policy. Reversing this trend and changing work expectations among groups that are currently inactive will, *inter alia*, require *i*) ensuring that people who are able to work do not enrol in non-employment benefit schemes; and *ii*) creating the right incentives and providing targeted assistance to those already on non-employment benefits who could potentially work. Below, such strategies will be discussed with a particular reference to the three review countries (Carcillo and Grubb, 2006) discuss reforms in a larger variety of OECD countries).

5.1 Extending work-availability requirements

68. The Netherlands was among the first OECD countries to implement “welfare-to-work” strategies, seeking to achieve rapid return to work by recipients of several types of non-employment benefits. These strategies tended to include alterations to gate-keeping procedures for disability benefits, and an extension of availability-for-work requirements to larger proportions of the caseload for non-categorical social assistance benefits and lone-parent benefits.

69. More specifically, the Dutch government it has conducted several administrative drives to re-examine existing claims to disability benefit, resulting in a number of claimants losing their entitlement. In 1996 the unemployment assistance benefit (RWW) was abolished and its former beneficiaries were required to claim the social assistance benefit (ABW). Although this was not in itself an activation

28. This finding should however be interpreted with care because depending on the country, a high rate of employment among disability beneficiaries might reflect the inclusion in the statistics of some non-income-replacement benefits (such as a disability living allowance) which are compatible with working, partial disability benefits paid to people who regularly work part-time, and long-term sickness benefits paid to individuals who are not actually working but are still formally employed.

measure,²⁹ ABW was also reformed to put more emphasis on active measures. For example, the 1996 legislation stated that lone mothers could be required to work when their youngest child reached five years, compared to 12 years under the previous legislation. Then in 2004 the rate of the national government financing linked to the social assistance costs actually incurred by municipalities was reduced to zero: since then, municipalities receive an annual grant related to *expected*, rather than actual costs – implying incentives to reduce caseloads (Struyven and Steurs, 2003; van der Veen and Moulijn, 2004). Also in 2004 municipalities were given increased freedom to define work requirements. Thus, some municipalities have extended work-availability requirements to lone parents with children of any age, depending on circumstances. Finally, the Netherlands recently abolished the special category of unemployment benefits (originally created in 1984), paid to older workers (starting from age 57.5) without any job-search or availability obligation.

70. In contrast to the Netherlands, the United Kingdom does not generally require lone parents on Income Support to be available for work, even if they join the New Deal for Lone Parents programme. Nevertheless, JCP offices encourage lone parents to join the programme and to take up or increase hours of paid work. The government has set a target of 70% of lone parents being in work by 2010 (up from 55% in 2002), and to reach this target, job centres have scheduled more frequent compulsory meetings with lone parents, and increased the work focus of all interventions (Evans *et al.*, 2003; DWP, 2006). The United Kingdom is also an interesting example of policy change in the area of work-availability requirements for the *partners* of assistance beneficiaries – such requirements can potentially bring a significant share of the inactive population into the labour force. Since 2001, depending on age, couples without dependent children have been required to make a joint claim for social assistance, thus enforcing the obligation for both partners to actively look for a job and attend interviews at local job centres. Before the reform, usually only the head of the household claimed benefit. Partners are also encouraged to enter a specific programme, the New Deal for Partners (DWP, 2005*d*).

71. Germany, by merging the unemployment assistance and social assistance benefits into the UB II scheme, has also increased the work focus and extended availability requirements of assistance beneficiaries. In addition, as in the United Kingdom, all employable partners of (UB II) benefit recipients, who are not already working, now need to register for work, unless they have caring responsibilities or are engaged in initial education (Bundesagentur für Arbeit, 2005*a*).

72. Further, Germany requires parents receiving the UB II benefit with children from age three onwards to be available for work as soon as institutional child care is available – the law requires municipal authorities co-operating in the ARGE to give priority to this clientele in local child-care provision.³⁰ However, the new German federal government in 2005 did not see fit to follow the Dutch example by abolishing the special exemption of older unemployment insurance beneficiaries (starting from age 58) from job search or availability for work – a clause that keeps over 100 000 persons off the official unemployment count.

29. The Dutch abolition of the unemployment assistance benefit by itself was not necessarily an activation measure: the German Hartz IV reform of 2005 actually went in the opposite direction, transferring many social assistance recipients to an unemployment assistance benefit. (UB II). The “activation” results more from the fact that availability requirements for social assistance were tightened in 1996, and that local authorities were made fully responsible for benefit costs in 2004.

30. Work requirements are of course difficult to impose when the availability of child care remains insufficient, as in Germany. This may also explain the lack of requirements in many other countries for parents whose children are below school age.

5.2 *Tighter gate-keeping of entry to incapacity benefits*

73. As noted, evidence suggests that many disability beneficiaries have considerable remaining work capacity. At the same time, rates of return to employment for individuals who have been on disability benefits for several years remain low (about 1% per year or less, for all but two countries with statistics in OECD, 2003b). Based on such evidence, tighter gate-keeping to avoid initial entry into incapacity benefits seems to be critical for increasing long-term activity and employment rates among people with partial work incapacity. There are several ways to improve gate-keeping.

74. First, creating financial incentives for firms can influence the level of inflows into disability schemes, for they share a responsibility in monitoring sickness leaves. Indeed, in many countries, the main track to disability is *via* long-term sick leave. This is why certain countries have tried to reinforce incentives for employers to monitor sick leave by making them financially responsible for paying a share of the respective benefits:

- In the Netherlands, since 1995 employers are required to pay sick workers their full wage for a maximum of a year and are responsible for the rehabilitation of sick employees either within or outside their companies. If they fail to do so, they can be sanctioned by having to pay sick employees for more than one year.
- In the United Kingdom, employers have been financially liable since 1986 to bear the first 28 weeks of statutory sick pay before public benefits start to be paid.
- In Germany, employer responsibility for sick pay is restricted to six weeks.

75. Differentiation of employer health insurance premiums can create similar incentives for gate-keeping entry to disability schemes. In the Netherlands, the 1998 reform introduced experience rating of employers' premia, which are calculated on the basis of actual disability costs incurred by a firm's employees. This strategy, along with the extension of responsibility for financing employee sickness benefits, appears to be having an impact and seems to explain much of the fall in inflows to disability benefits since 2002 (Koning, 2004).

76. Second, as regards medical evaluation, efficient gate-keeping requires early checks during the initial period of sickness absence from work, which can help envisage alternative solutions to long sickness leaves that often lead to permanent inactivity.

77. Third, the strictness of criteria used in the process of evaluation, along with periodic retesting, are also important. For example, it is helpful when assessments can clearly distinguish between full and partial disability, so that the nature of an appropriate continuing availability-for-work requirement is identified.³¹ Review countries have recently reinforced assessment procedures:

- Since 2001, in Germany disability benefits have been granted only on a temporary basis, except in cases of 100% disability.
- In the Netherlands, a retesting launched in 1994 and completed in 1998 led to reclassification of disability benefit entitlements – in some cases, benefit loss – in 30% of all cases. In October 2004, a large-scale obligatory re-examination of people below the age of 50 receiving disability benefit was started: large numbers of employees were reassessed as having work

31. Germany, for example, where the share of *partial* disability pensions has declined from one-third in 1970 to less than 1 in 10 today, could pay more attention to this distinction.

capacity greater than originally assessed. With the new “Work and income according to labour capacity” Act, the Netherlands also changed the underlying definition of partial disability assessment, by raising the minimum loss in earning capacity to qualify for it from 15 to 35% (SZW, 2005b; OECD, 2004).

- The United Kingdom, following the introduction of the “All Work Test” in 1995 and the New Deal for Disabled People in 1998, introduced in 2000 a new incapacity assessment procedure. Previously the focus was on whether levels of incapacity were high enough to qualify for incapacity benefits. The Personal Capability Assessment (PCA) focuses on what kind of work people can do in various functional areas. In addition to an “Incapacity Report” this assessment generates, in relevant cases, a “Capability Report” for the Personal Adviser assisting the person’s return to work.

78. The evolution of reciprocity rates in Figure 1 shows that disability gate-keeping efforts in the Netherlands and the United Kingdom have not been fully effective in the past. In general, successful gate-keeping would require, at the end of a long sickness leave, giving permanent and full disability status only in a limited proportion of cases. Rejection rates for disability benefit applications are already high, averaging about 40% across a sample of 13 OECD countries (OECD, 2003b). Overall, few countries have succeeded in keeping inflow rates low only through measures that assist and encourage return to work, and some recourse to strict eligibility criteria and administrative procedures is also necessary.

5.3 *Employment services for recipients with limited work capacity*

79. The employment services that are used for groups that have only recently been required to seek work are often similar to those used for the long-term unemployed: job-search training, assistance and monitoring, intensive counselling and direct placement assistance, with targeted use of training. Municipalities in the Netherlands and the new employment service consortia in Germany use activation, work-first and in some cases workfare measures and hiring subsidies for their social assistance caseloads, including lone parents.

80. The use of work-first strategies for target groups that previously were not expected to work finds some indirect support from certain impact evaluation findings:

- Employment-focused programmes tend to be more effective than education-focused programmes for disadvantaged groups (Michalopoulos *et al.*, 2002).
- Unemployment can in itself be a cause of poor health while employment has a positive impact on well-being (Dodu, 2005). For example, in relation to back pain, randomised controlled trials routinely fail to demonstrate any benefit from even short periods of rest, whereas continuing normal activities, within the limits of pain, have been consistently shown to lead to more rapid recovery (Lee, 2005).
- Entering formal employment status improves the sense of well-being and social integration among people with both physical and mental disabilities.

81. However, there is also the need for specific assistance strategies targeted on barriers to employment due to poor health or care responsibilities to ensure maximum effectiveness. One key parameter for successful return to work is a stable, personalised client/counsellor relationship that includes help in tackling specific barriers and continuous job-search stimulation.

Programmes for lone parents

82. Practices in the Netherlands and in Germany regarding availability requirements for parents in relation to their children's age were noted above. Children's age limits, up to which parents are not required to work, vary widely in OECD countries. In the United Kingdom, until children turn 16, lone parent beneficiaries are not required to be available for work, but they are now required to participate in occasional work-focused interviews, which probably have some impact although evaluation evidence has been mixed (see Carcillo and Grubb, 2006, Box 6). Interviews take place every six months the first year, and then annually. The personal adviser tries first to assess the barriers to employment and evaluate how seriously parents are engaged in job search. But the main aim of the interview is to make parents aware of the disadvantages of staying outside of the labour market, and prove to them they can be better off by working (earning simulations for part-time/full-time jobs, including tax credit and child care provisions). The adviser also provides information about the advantages of participating in the (voluntary) New Deal for Lone Parents programmes. The recently-announced *New Deal for Welfare* (DWP, 2006) envisages holding interviews every three months with lone parents whose youngest child is at least 11 years old.

83. Even when work or other activity requirements are imposed, in the absence of sufficient child-care availability they are often not effective in terms of job entries; this is the more so for low-skilled parents with young children, given their lack of resources for private child care and the limited financial gains from low-paid or part-time work. An ability to assure lone-parent clients that child-care is available helps to overcome objections to the principle of working, allowing counsellors to concentrate on job placement.

Programmes for the disabled

84. Strategies addressing the individual needs of disabled clients will often require dedicated resources from employment services, working in close co-operation with medical services. In general, a balance needs to be kept between programmes that focus on the medical condition, and those that focus on conventional return-to-work assistance and incentives. To achieve this, Germany created from 2001 onwards integration agencies for the disabled in every PES district (focusing on those with over 50% disability), where rehabilitation providers and employment offices cooperate to provide individual solutions to job placement and job retention. Another innovation introduced in 2001 is the "stepwise" labour market reintegration for people undergoing medical treatment with weekly or monthly increases in working hours (OECD 2005b).

85. In the United Kingdom, the New Deal for Disabled People (NDPP), introduced in 1999, aims to strengthen disabled clients' work focus. Under the NDPP, contracted Job Brokers work closely with local training providers, medical centres and local employers to follow through their disabled clients' work experience. However, since participation is voluntary, only a small share of the eligible population has registered with NDPP – for example, in 2005 only 3% of beneficiaries were moving onto NDPP within six months of their claim start (DWP, 2005a). Outside of the New Deal programme, intervals between intensive interviews for the stock of IB recipients remain large (often 3 years). However, more recently the "Pathways to Work" programme has started to require a more intensive series of work-focused interviews for new claimants (see Box 4).

86. *Vocational rehabilitation* is often critical for achieving or securing employment. Several countries, along with measures to reduce inflows to disability benefits, have recently strengthened requirements for disability benefit recipients or claimants to participate in rehabilitation measures early in the process, because it is usually difficult to require return to work once people are durably installed in the disability status. As pointed out in OECD (2003a), there is a major distinction between countries in which participation in such programmes is voluntary and those where it may be compulsory before a disability

benefit can be granted. While rehabilitation is not obligatory in the United Kingdom and the Netherlands (where, however, employers are required to offer early intervention), in Germany both the right to rehabilitation and the principle of “rehabilitation before pension” are laid down in several acts. Disabled persons are required to support their rehabilitation as efficiently as possible, and certain benefits can be suspended where such support is refused. Further, legislation requires early intervention (starting during sickness absence) and speedy implementation of the necessary rehabilitation measures.

87. *Subsidies* to private sector employment of the disabled exist in most OECD countries, whether in the form of increasing workers’ net wages, reducing employers’ labour costs, or compensating employers for workplace or schedule adaptation. Sheltered employment schemes are also widespread and, related to the quasi-permanent nature of participation in many cases, are potentially costly. The Netherlands are among those countries where government expenditure on these schemes has been particularly high (European Commission, 2002). Several pieces of legislation have encouraged municipalities in the Netherlands to move away from public provision and to place disabled clients with private employers.³² In turn, since 2005 employers are offered financial incentives for hiring handicapped persons by means of a “no risk” insurance that compensates them in case a new (handicapped) hire has an above-average sickness absenteeism or falls again long-term ill (SZW, 2005a).³³

88. Finally, there is a case for increasing the autonomy of disabled people in their choice of strategy for entering or retaining employment. In Germany, job retention of employees with serious disabilities is encouraged through an entitlement to hire people to provide them with special assistance on the job (or employers may hire such assistants for them), a feature which appears to be relatively rare in international comparison.³⁴

89. In sum, recent experience from the three review countries and elsewhere demonstrates that there is considerable scope to apply activation strategies to persons receiving non-employment benefits, albeit with appropriate modifications for the specific characteristics of each group. Strengthening gate-keeping, introducing adapted work availability requirements and improving the offer of services are the two main requirements.

32. Nevertheless, the number of people employed under the terms of the Sheltered Employment Act (*i.e.* mainly in sheltered workshops), which had reached 100 000 in 2000, is currently still at 95 000 (SZW, 2005c).

33. In Denmark, subsidised jobs in the private sector called “flex-jobs” now play a key role in the management of entry to disability benefits. Individuals who are only partly disabled are entitled to a “flex-job”; conversely, full disability benefits are only granted to people who are unable to work in a “flex-job” (Samoy, 2005).

34. Disabled workers in Germany can thus act as employers of these personal assistants, whose costs are usually covered by the regional disability agencies. Personal assistance funding is significant, between EUR 250 and EUR 1 000 per month (www.logos-net.net/ilo/159_base/germany/ger_rap/leg.htm, www.eurofound.eu.int/2001/12/feature/de0112238f.html). Several other countries fund severely disabled people to hire a personal assistant to help them at home and with studying, but not necessarily at work. Help at work is mentioned in Finland (www.socialeurope.com/onfile/country_profiles/payments_finland_en.htm) and Sweden (www.forsakringskassan.se/sprak/eng/funkhind)

Box 4. From incapacity to employment in the United Kingdom

The number of people in the United Kingdom who remain outside of the labour market because of disability is higher than in most other OECD countries (although not as high as in the Netherlands). While solid economic growth during the past decade has cut claimant unemployment to below 1 million, the number of people claiming incapacity benefit (IB) has remained above 2½ million, which equals 7% of the working age population. About 5% of prime-age men (25-49) are inactive because of illness or disability.

The large majority of those claiming the benefit have been diagnosed with common health problems, and many of them would be capable of returning to work if the right support was given. As in other OECD countries, some of those actually receiving a disability benefit report that they do not suffer from any disability: this share is 45% in the United Kingdom, suggesting that the mismatch is even stronger there than in other countries. A key weakness of the IB scheme is the easy access to benefits that it provides. For example, there is an automatic transfer into IB upon exhaustion of sick pay and a JSA recipient can easily transfer to IB without first undergoing a medical assessment. In fact, a higher benefit level provides an incentive to shift from JSA to IB.

The UK government currently aims to remove the disincentives resulting from the design of the IB scheme. In particular, the Pathways to Work pilots are being progressively extended across the country. This programme comprises a mandatory work-focused interview from the eighth week of claiming, five additional monthly interviews with a personal adviser for those who can work but are not likely to return to work (to encourage people to enrol into New Deal for Disabled People, for instance), the completion of an action plan as well as an earlier scheduling of Personal Capability Assessment. Services offered include a benefit payable upon return to work, immediate access to a variety of existing labour market programmes, and participation for six to 13 weeks in "condition management" programmes. For those entering Incapacity Benefit between late 2003 and early 2005, six-month off-flow rates from benefit rose to nearly 40% in Pathways to Work pilot areas which compares with nearer 30% in non-pilot areas (Blyth, 2006).

Under the new Employment and Support Allowance, which is scheduled to replace IB from 2008 on, new claimants except for the most severely disabled will need to participate in work-focused interviews, produce action plans and, as resources allow, engage in work-related activities or see their benefit level reduced. Also, the Personal Capability Assessment has a much stronger focus on how claimants can be helped back to work. And after the encouraging results from the pilots, the Pathways to Work programme will be implemented nationwide by 2008.

"Condition management" programmes have been developed for three main medical conditions experienced by the Incapacity Benefit client group: moderate mental health, cardio-respiratory and musculo-skeletal conditions. These programmes focus not on achieving full medical recovery through external treatments, but on teaching the individual how to "manage" their ongoing condition in day-to-day life, including the work environment. For example cognitive behavioural therapy, a technique that work psychologists may be able to implement after relatively brief training, can involve helping a client who suffers from anxiety and depression to identify the times and the triggers that are most likely to provide an anxiety attack, and then supporting them to learn how to handle these situations in a work-like environment.

Sources: OECD, *United Kingdom Economic Survey 2005*; DWP, 2006; Winspear and Robertson, 2005; and www.dwp.gov.uk/medical/hottopics/pathways.asp.

6. Reintegration markets and contractual arrangements

90. Activation strategies for unemployed and non-employment benefit recipients can be managed entirely by public services, but can also be managed *via* private intermediaries. Among the three review countries, the Netherlands has gone furthest in setting up market-type arrangements, with the aim of increasing the efficiency of services and improving reintegration outcomes. Within the OECD area, Australia was the first country to set up a large-scale reintegration market (see Box 5). Arrangements in both countries are characterised by a “purchaser/provider” split, where private-sector and non-profit organisations compete for the acquisition of publicly-funded tenders. They can be compared in a number of respects, although important differences stand out (as discussed below). To a certain degree, contractual relationships between commissioning (government) bodies and private-sector or non-profit implementing organisations also characterise employment services in Germany and the United Kingdom, although these countries still rely mainly on public provision. The three review countries manage their reintegration markets through a mixture of financial incentives, control mechanisms and measures for improving market transparency and information provision.

6.1 Placement activities and contractual arrangements in Germany

91. Under its “Agenda 2010”, Germany started its far-reaching structural reforms in employment services later than the two other review countries. The laws for “modern labour market services” (Hartz I to IV, 2003-2005) introduced several types of contractual arrangements with private providers. They were passed with the proviso that the new labour market policy elements ought to be regularly evaluated and, to allow incorporation of evaluation results, a number of provisions were introduced with an expiration date. In January 2006, the federal government published the first evaluation results commissioned from over 20 research institutes. They refer to the Hartz I to III Acts, and do not cover the merging of the two benefit streams “unemployment assistance” and “social assistance” under the Hartz IV Act. These are *interim* results, characterised by the government as “work in progress” (further result will be made public in 2007).

92. The evaluation results cover numerous labour market policy features, such as job subsidies to private employers, support for business start-ups, public sector job creation, and “mini-jobs”. However, the text below only refers to those results of most relevance for the present report, namely the re-organisation of placement activities and contractual arrangements with private providers (Bundesregierung, 2006; WZB/Infas, 2006; IZA/DIW/infas, 2006).

93. Concerning the intended transformation of the federal employment office into a modern service provider, efficiency and transparency of client service and mediation are considered by the evaluation institutes to have considerably improved. This is considered to be due, *inter alia*, to *i*) the redesign of the reception and intake areas in local offices; *ii*) the establishment of call centres for various types of contact; *iii*) the improvement of staff/client ratios through the hiring of additional placement officers (although targets have not yet been fully met); *iv*) organisational improvements in employer contacts; and *v*) the diffusion of a “management by objective” culture throughout the organisation. However, several elements related to activation seem, so far, not to have had the desired effects. For example, the allocation of resources to four client types established through profiling is considered insufficiently differentiated and the *de facto* exclusion of the hardest-to-place from counselling and placement services potentially counterproductive. Also, the desired quantitative effects of the new requirement for early registration have failed to materialise (WZB/Infas, 2006).

94. With respect to the new contractual arrangements, the assessment finds that reintegration outcomes have so far remained below initial expectations. There are four central elements in the German strategy of contracting-out employment services. First, since 2002 private providers can be contracted by the PES for placement of its clients, or for specific placement-related tasks (case management, profiling,

job application techniques, etc.). After six months the unemployed have an entitlement to be referred to private placement agencies. Since 2004, contracts are regularly put up for tender, with regional PES purchasing centres deciding on bids based on quality and price. As in other countries, there has been a trial-and-error process with regard to tendering details, the relative weight of price and other factors, etc.³⁵ As in the Netherlands (see further below), there is a tendency towards result-oriented pay structures and smaller batches. In 2004, relative to the average annual stock of unemployed, about 14% were contracted out to private providers.³⁶ Quantitative evaluations of the major programme elements showed that participants, on average, did not find a job more rapidly.³⁷

95. Second, the Hartz Commission had proposed that employment agencies contract with temporary work agencies which would employ and hire out unemployed clients as temporary workers, with the ultimate aim of finding them regular employment. Again based on public tendering, all local agencies have since concluded contracts with “personal service agencies” (PSA), which have a total stock of 25 000 to 35 000 employees (higher targets were initially set, but never reached). PSAs receive both a basic payment per person-month and a success premium for placement in regular employment. Contrary to initial expectations, evaluation results show that within a given year the transition rate of PSA employees into regular employment was lower than that of a control group, mainly due to lock-in effects. Only from the ninth month onwards did re-employment rates exceed those of the control group.³⁸ Following these disappointing results, the use of PSAs by employment agencies has been scaled down significantly.

96. Third, recent reforms introduced placement “vouchers”. These have been much used by agencies as an activation instrument. All clients can request them after six weeks (until 2004, three months) of unemployment, and use them to purchase services from private placement agencies. In case of success, the private agency which has made the placement receives EUR 2 000 (in two instalments), while there are no up-front or service fees. This instrument has however not had the desired results, so far. In 2004, over 10% of the unemployed received vouchers, but the first instalment was paid on only 8% of the vouchers distributed, and in only half of those cases did the employment relationship last over six months so that the second instalment was paid. Private agencies tend to view the success premium as too low for undertaking intensive placement efforts. There is also a problem of quality after the liberalisation of the private placement market. Further, agencies need to prove that a placement was the result of their own efforts in order to claim any fee. There is little incentive for them to improve overall motivation, or assist or monitor the jobseeker’s independent job search – since this would tend to result in entries to employment for which no fee can be claimed, or which occur *via* a different agency. Quantitative impact assessment show no improvements in exit from unemployment through use of a placement voucher.

35. One background document to the Hartz acts introduced by the federal government notes as a principle for tendering decisions that “... the most economical, and not necessarily the least expensive bid ought to be considered; below-average integration effects should not be compensated by price concessions ...” (Deutscher Bundestag, 2002).

36. However, only one-third of these were contracted out for full placement services, and two-thirds for shorter, placement-related tasks.

37. This result applies to the contracting-out under one particular section of the employment promotion act (§ 37 SGB III) of 635 000 clients for placement or placement-related tasks in 2004. By contrast, one small sub-contracting programme with 20 000 participants (based on § 421i of the same act) reduced the average unemployment spell by at least one month. Further analysis of organisational and/or payment structures that allowed this positive outcome in comparison with other arrangements, is needed. More generally, in view of the short history of, and agencies’ start-up problems with such arrangements, more time needs to pass for evaluation results to become more solid [Bundesregierung (2006), pp. 131ff.].

38. Apart from this unfavourable performance, it has been pointed out that PSA-type subsidies create unfair competition with regular temporary work agencies operating in the market.

97. Fourth, in line with the increased focus on reintegration rates, the number of training participants subsidised by the PES has strongly declined in recent years; in addition, the average duration of training measures has significantly decreased. In this context, the training voucher is a new instrument providing “client sovereignty” and freedom of choice. The voucher allows the unemployed to choose themselves which training provider to use when participating in a recommended type of measure. Local PES offices thus no longer have any direct influence on a client's choice of provider. However training organizations need to be recognised by certification agencies cooperating with the employment service and choice is limited to those providers and measures with potentially high reintegration rates (usually interpreted to mean training with a projected 70% rate of exit from unemployment six months after the end of the client participation period).

98. The interim evaluation of the new training regime based on vouchers and projected reintegration rates notes strong creaming effects, implying disadvantages for the less skilled. Although with the new training programmes, exit from unemployment occurs sooner after completion of a measure than without participation, the effects have not proven to be sustainable. Over the medium-term, voucher users did not take up regular, unsubsidized employment more often than a control group (although long-term effects that would imply a lesser importance for the “lock-in” factor remain to be analysed) (IZA/DIW/infas, 2006; IZA, 2006). In conclusion, when taken together, the four central elements of “privatised” employment services in the German reform strategy have produced relatively disappointing results, although it needs to be kept in mind that the reforms have not been operating long enough to draw definitive conclusions about their effectiveness.³⁹

6.2 *Employment Zones in the United Kingdom*

99. In the United Kingdom, contracting-out arrangements have been introduced into New Deal programmes for unemployment benefit (JSA) recipients that are principally entrusted to Jobcentre Plus. In 2002, a number of private-sector led New Deals were set up. In this model, private providers need to closely follow the stages of the public New Deal model (motivational training, “Gateway” and “Options”). However in 13 deprived areas with high unemployment, the New Deals for JSA recipients after 18 months of unemployment are replaced by Employment Zones (EZs), which give providers more discretion in designing their interventions when compared to standard New Deal programmes. EZ providers service annually 30 000 clients referred by the Jobcentre Plus network, both adult long-term unemployed and youths (aged 18 to 24), who have already finished a first period of New Deal for Young People and been unemployed for a further six months (and thus would, in non-EZ areas, enter the New Deal for a second time). Some “early entrants”, with certain labour market handicaps, are also referred to New Deal providers. Among other features of EZs are:

- The current contract period started in 2003 and will last up to 2009/10, *i.e.* it covers a considerably longer time span than contracts in either Australia or the Netherlands. Under this contract there are two kinds of EZ: *i)* single-provider zones; and *ii)* multi-provider zones where up to three providers operate. In the latter, each provider is awarded a fixed market share and clients are randomly assigned across providers. The Department for Work and Pensions is responsible for setting up the contracts, referring typically between 1 000 and 7 000 clients to a given provider over the contract period.
- The case management involves job search, job placement and if necessary other intensive assistance. It has three stages, totalling a maximum of 12 months. In Stage 1 (up to four weeks) the provider interviews the jobseeker to identify any obstacles to reintegration. If the provider

39. Jacobi and Kluge (2006) come to a more positive result, when assessing the evaluation of the full range of Hartz I to III reforms (wage subsidies, start-up subsidies, “mini-jobs”, etc.), which are not the subject of this paper.

decides to take on the client (which is usually the case), an action plan is established and the client passes to Stage 2. Lasting a maximum of 26 weeks, Stage 2 contains intensive job placement efforts by the provider who also administers and pays out the unemployment benefit to the client in this period. In this respect the EZ structure is unique, since neither in Australia nor in the Netherlands is the benefit payment function reallocated to the provider network. Stage 3 is a 22-week follow-on period, where the provider can continue working with the clients (although they have returned to JCP) and can still claim the outcome fee in case of placement.

- Providers can stop their payment of benefit in cases of insufficient client co-operation, but then clients can reapply to Jobcentre Plus for benefit, which will be paid unless and until the employment service (the JCP “Sector Decision Maker”, see section 4.2 on benefit sanctions) decides to apply a sanction. However, Jobcentre Plus typically soon refers the client back to the EZ provider, so that providers in the longer term still have to pay up to 26 weeks of benefit.
- In multi-provider zones, providers receive three types of payment, as shown in Table 4:
 - A fixed fee of GBP 400 for Stage 1;⁴⁰
 - GBP 1 200 (varying slightly by locality) for Stage 2. This amount covers the average cost of paying Jobseeker’s Allowance over a 26-week period, given that the average client claims for only 22 weeks. When a client remains unemployed for 26 weeks, actual costs exceed GBP 1 400 so the provider suffers a net loss under this heading. But when a client is placed early in Stage 2, the provider keeps the remaining amount as profit;
 - Upon entry to work, there is a first fee of GBP 400, and then of GBP 3 600 after 13 weeks in employment. There is no top up for 26 weeks outcomes as in Australia.

100. One quantitative evaluation of this programme (Hales *et al.*, 2003) found that about a year after each person first became eligible for referral, 34% of EZ participants had experienced a spell of work at some time, compared to 24% in the comparison group that entered Jobcentre Plus New Deals. After about two years, the 10 percentage point difference had faded to 4 percentage points, but was still at 8 percentage points when the comparison was restricted to jobs of more than 16 hours per week (the type of job that attracted an outcome payment for EZ providers). Hales *et al.* concluded that “... the zones were substantially more effective in helping participants into work than ... would have occurred [under] New Deal 25 Plus”.

40. Since providers transfer the customer to Stage 2 as soon as an action plan has been created, Stage 1-only payments relate to cases where the client finds work before the EZ provider has been able to create the action plan. This will typically occur by coincidence (but this is not very common for the unemployed EZ clients, who will have been unemployed for 18 months) or because the client takes up work specifically to avoid participation in the Employment Zone (“motivation” effect): in these cases the provider is unable to deliver services.

Box 5. The Australian Job Network: some key features

Since the second half of the 1990s, Australia has delivered employment services mainly through contracts with private and non-profit community providers – since 1998, the “Job Network” – while its previous public placement service was effectively abolished. The only purchaser of private employment services is the Department of Employment and Workplace Relations (DEWR). There have so far been three tender rounds, for contract periods commencing in 1998, 2000 and 2003 respectively, with some change each time in the structure of the Job Network. Adjustments can be characterised as follows:

- The number of contracted providers has decreased significantly from 300 in the first two years to a little over 100 in the third (current) contract period, while the size of the remaining providers has considerably increased. Thus, there has been considerable concentration and professionalisation in the employment services market. In 2003, the market share of the top 10 providers had reached 55% and there were only seven new entrants among the 109 providers chosen.
- The initial arrangement, with three separate levels of service (Job Matching, Job Search Training, and Intensive Assistance) which could be delivered to a given client by different providers, was replaced in 2003 with an arrangement where the same provider delivers all services for a given unemployed person. Today, in standard cases, the service continuum starts with counselling, followed by job-search training and, after 12 months, a period of Intensive Support. The 2003 contract also addressed the problem of “parking” (which arose when jobseekers had little regular contact with their provider) by introducing fees linked to the delivery of specific employment services, particularly face-to-face interviews. The prescription of a service continuum, with arrangements for systematically recording some of the services delivered and the expectations detailed in the Job Network Code of Practice, have partly replaced the initial “black box” concept which implied that the government could pay for employment outcomes without needing to be informed about the strategies pursued to achieve these outcomes.
- In the first and second tenders, price paid a role in deciding among bids. In the 2002 tender, pricing (the structure of fees under which providers were invited to work) was fixed so that the selection of providers was based only on assessments (based mainly on track record in the case of existing providers) of capacity to deliver services and achieve outcomes. In all three contracts, funding has included fees *i)* on commencement or at a fixed rate for services delivered, and *ii)* for outcomes defined as employment lasting 13 or 26 weeks. However the relative size of the two elements has considerably evolved. For example, the outcome fees are now about 40% of total income received by a provider for a client who is placed within the first 12 months, and about two-thirds for a client who is placed after 3 years of unemployment. In the current contract, funding is also provided through a Job Seeker Account which is earmarked for purchasing special services that address barriers to reintegration.
- DEWR evaluates provider performance in terms of employment outcomes, reporting the results as “star ratings”, which incorporate regression adjustments to reflect differences in jobseeker characteristics and local labour market conditions. This ranking helps jobseekers exert choice, but is mainly important for selecting providers. In future tender rounds, contracts with the best-performing providers will be automatically renewed. This partial roll-over of existing contracts will reduce the disruption of provider operations which characterised past tender rounds, where all providers faced a degree of uncertainty about the continuation of their operations and devoted resources to preparation of their bids.

Changes in contractual arrangements have been guided by evaluation findings. For example, evaluations showed that many long-term and hard-to-place jobseekers received little assistance from their providers in Job Network Stages 1 and 2, and this was a key factor behind the introduction of fees for service and the individualised Jobseeker Account.

Some early evaluations of Job Network found that the impact of key services on employment outcomes was very small, although possibly no worse than under previous public employment service, but for significantly lower total cost (DEWR, 2003; OECD, 2001b and 2005c; and Productivity Commission, 2002). However there is evidence that performance has improved considerably through time, plausibly due both to improvements in the contracting framework and to the operation of competition in terms of eliminating lower-performing providers from the market. The total number of three-month employment outcomes doubled between 2002 (in the second contract period) and 2004 (when provider operations in the third contract period had stabilized), with comparable increases for several groups classed as disadvantaged (indigenous and disability benefit and lone parent benefit recipients).

DEWR (2006) further reports that for clients who commenced in late 2003 (receiving services within the third and current contract period), the net impact of Customised Assistance has increased substantially (as compared with Intensive Assistance which it has replaced). A year after entry, survey data show that 46% of these clients were in employment, compared to 36% for a matched comparison group (a net impact of 10 percentage points). In administrative data, impact on the percentage fully off benefits was 4.5 percentage points a year after entry, rising to 6.3 percentage points 20 months after entry. Such figures probably understate the full impact of intensive services, since these tend to also increase rates of exit from unemployment before participation in them starts through a "motivation" effect (in Australia called a "compliance" effect).

101. A second quantitative evaluation (Hasluck *et al.*, 2003) compared employment outcomes in EZ areas with similar areas where the Jobcentre's New Deal operated, and concluded that "the EZ programme had a small positive impact on the programme target group, relative to their situation when supported by mainstream JCP services" (p. 77). Claimants entering long-term unemployment after April 2000 (when EZs started operating) had relatively higher rates of exit from unemployment than those in comparison areas, and those who found work had relatively lower rates of re-entry to unemployment, suggesting that their employment was more sustained (op. cit., Executive Summary). However, positive net impacts were fairly small, with the proportion of long-term claimants who remained unemployed 15 months later being, for adults, about 48% in EZ areas and 51% in comparison areas. This study found no evidence of displacement effects on groups not referred to EZ providers, or of creaming (selection of the more-employable clients by EZ providers) (op. cit., Figure 5.8). These findings relate to the 2000-2003 Single Provider EZ contracts, while solid impact evaluations of multi-provider contracts are not yet available (see Hirst, 2006, for an initial assessment).

102. A visit by an OECD team to one EZ provider gave evidence that the high quality of advisors, good staff/client ratios and individually tailored (including financial) assistance measures are likely to explain much of the superior outcomes – an impression shared by the comparative study of personal advisors in Jobcentre Plus and EZ provider settings by Joyce and Pettigrew (2002). Another reason for success is the stringent "work first" focus of provider activity, with extensive use of work trials (a test period in a job of up to 15 days). However, against the background that little training is provided in the process – vocational training occurs only after a specific need for it has been established with a potential employer – placements are mainly into low- or semi-skilled jobs. Also, the focus on 13-week outcomes can be considered "provider-friendly" and more attention could be paid to longer-term placements (in Australia, Germany and the Netherlands, outcome payments are triggered by longer job durations).

Table 4. Income for a provider in UK multiple-provider Employment Zones, 2005

	Placement after a few days in Stage 2		Placement after 21 weeks in Stage 2		Placement after 26 weeks in Stage 2	
	GBP	%	GBP	%	GBP	%
Stage 1	400	7	400	9	400	10
Stage 2	1 200	21	0	0	-230 ^a	-6
Placement fee	400	7	400	9	400	10
13-week outcome fee	3 600	64	3 600	82	3 600	86
Total	5 600	100	4 400	100	4 170	100

a) This fee, which is supposed to cover the average cost of paying Jobseeker's Allowance, becomes negative, if placement has not occurred after 21 weeks. Calculations are based on a weekly benefit level of GBP 57 in 2005.

Source: OECD team visit to WorkDirections, Brent, United Kingdom, September 2005.

6.3 *The pluriform reintegration market in the Netherlands*

103. A few comparative accounts of similarities and differences between the Dutch and Australian market models have already been published (e.g. Grubb, 2003, Struyven and Steurs, 2005). These studies show that:

- Both models have gone through a trial-and-error process of continuous adaptation and adjustment of their respective system, with a view to creating a market and payment structure that promotes competition, improves the transparency of procedures and reduces creaming effects and other inequities in provision.
- While Australia has rather moved away from price competition, selection by tender and results-based funding, and has increased performance control by central government, the Netherlands have stressed results-based funding and intensified the tender mechanism.⁴¹
- With the UWV, municipalities and employers, the reintegration market in the Netherlands has a large number of purchasers of services and only limited co-ordination among them. By contrast, in Australia (as in the UK Employment Zones), the central government contracts with the private providers centrally, and subjects them to nationally consistent contract management, based on much longer contract periods.
- While Australia decided to leave both direct placement and reintegration services, for both easy-to-place and hard-to-place jobseekers, to the private Job Network, the Netherlands has in principle left the direct placement function and services for easy-to-place jobseekers with a public provider (CWI).

104. The Dutch reintegration market developed in several steps, as discussed, *inter alia*, by Sol and Hoogtanders (2005). Importantly, at first the public employment service became the provider from whom municipalities and social insurance organisations purchased services. The obligation to buy from the PES was then lifted in 2000 and replaced by a fully-fledged tendering system where reintegration programmes are purchased from private providers. Since that time, the UWV contracts have evolved considerably, in terms of, *inter alia*, payment structures, criteria for selection among bidders, the extent of customer choice, and the degree of freedom for providers to choose procedures and programmes. In addition, the role of longer-term training within the system is being constantly reviewed.

105. As outlined above, the UWV was obliged to contract out all reintegration programmes to providers from 2000, while municipalities from 2002 were required to contract out 70% of their reintegration budget. However the requirement for municipalities was removed in January 2006. Although many officials in welfare administrations complain about high transaction costs and believe that they could do a better job than outside providers, it is likely that municipalities will continue to rely on outside provision for a large proportion of their reintegration services.

106. In addition to UWV and local authorities, employers commissioning rehabilitation from medical service providers act as purchasers in the reintegration market. UWV and municipalities handle annually from 60 000 to 80 000 cases each, and employers close to 10 000 cases. The UWV market is dominated by

41. It should however be noted that although Australia has increased the use of provider fees that are not directly related to results, the survival of providers in the Australian market is strictly conditional on results as quantified in the nationwide comparative system of "star ratings", which has no counterpart in the Netherlands.

large providers,⁴² while the municipalities market more often works with smaller ones, often from the non-profit sector.

107. In the first half of 2004 (last available data), there were over 660 providers, of which more than half were medical providers, 35% were reintegration service providers and 9% were training institutes. Three out of five providers were small with 1 to 10 employees, one-quarter were medium-sized, and 13% of providers had over 100 employees.⁴³ Of the 232 reintegration service providers, only 47 had contracts with the UWV, the rest with municipalities. UWV partners had increased from 34 in 2002, which tends to show that the market is not closed and that there is room for new bidders in each contract round (Bruttel, 2004).⁴⁴ Nevertheless, the level of concentration in the UWV market is high, with the 10 largest providers servicing 75% of reintegration cases.⁴⁵

108. This preponderance of large providers emerged from the first UWV tenders, after which tendering methods were changed towards smaller batches with more frequent allocation of contracts (every three months), and much shorter contract periods than in Australia (several years) or the UK Employment Zones.⁴⁶ While UWV manages contracts centrally, it divides the market up by labour market region and by target group (currently five for unemployed clients and 17 for recipients of disability benefit). Selection of bidders is usually based on four main criteria: *i*) past experience of provider within the local labour market; *ii*) price; *iii*) offered placement rate; and *iv*) proposed placement methods. Even though there is no sophisticated “star rating” as in Australia, ranking provider experience in one contract round can serve as the basis for extending some contracts into the next round. Of prime importance in this respect will be whether a provider has reached or surpassed his own proposed placement rates.

109. Considering all types of contracts, Dutch providers get on average EUR 4 000 to 5 000 for successful placement and reintegration services. Over the past two years, the UWV – as well as some municipalities – have tended to increase the share of “no cure-no pay” contracts, particularly for short-term unemployed clients from the Phase 2 profiling group. For the long-term unemployed and other hard-to-place groups in Phases 3 and 4, the principle of “no cure-less pay” applies. In the former type of cases no income is received until placement is achieved. Two months after placement into a job of at least six months duration, the UWV pays the provider an outcome fee with separate components for the set-up and execution of the reintegration plan, as well as for the placement itself. There can also be a placement bonus for placements of longer or indefinite duration and a speed bonus for customers that have been placed within a specific amount of time after the reintegration plan has been authorized by UWV (with the amount of time depending on jobseeker characteristics). The amount of the fee components is subject to

42. Although in 2005 when jobseekers were allowed to choose their own provider through "Individual Reintegration Agreements", they often chose small providers – sometimes with little previous experience in the field.

43. Data are from the RWI reintegration monitor; see DWP (2005e)].

44. This contrasts with the diminishing number of new providers in each tender round in Australia.

45. One interesting parallel between the Netherlands and Australia is that the previously public provider (Kliq and Employment National, respectively) initially had a large market share, but practically “withered away” at later stages.

46. To be precise, providers in Australia have both a relatively long-term framework contract with the purchaser and an indefinite duration of responsibility for a given client; UK Employment Zone providers have a long-term framework contract (2003 to 2009-10) but a maximum of no more than a year's responsibility for a given client; and UWV providers in the Netherlands have contracts in relation to "batches" of clients but not a longer-term framework contract (early contracts required providers to deliver services for up to two years after the last client referral; see Grubb, 2003).

competitive bidding. To ease provider cash-flow problems the UWV can, upon request, provide a cash advance of 20% on the contracted fee.

110. “No cure-less pay” contracts are somewhat more complex, in that providers are paid immediately for the set-up of the reintegration plan, and also for offering follow-up services to the customer for a limited time after placement. In such contracts, competitive bidding is more restricted.⁴⁷ Municipalities may follow the UWV contract types, but are not required to do so; in view of the client characteristics, “no cure-no pay” contracts are rather rare on the municipal market. In fact, much of the municipal reintegration budgets are spent on long-term jobs in the public sector and on sheltered employment.

6.4 Some further considerations on payment structures

111. In many subcontracting arrangements, the principal retains a right to issue instructions to providers during the contract period, and re-contracts with providers based on an overall perception of their “quality”, including a co-operative working relationship. This creates a risk that ‘preferred provider’ arrangements, with a lack of market transparency, will re-emerge. The risk is mitigated by procurement directives, which prescribe the degree of transparency that municipalities should apply in their contracting of (reintegration) services. Under such arrangements, the details of the payment system are not critical: the provider might be paid a fixed fee or paid for employment outcomes, but in either case providers can adjust their operating costs so as to remain profitable. Their survival depends on the principal's overall perception of their service quality, and the results from the system as a whole depend on the quality of the principal's perceptions.

112. By contrast, when contracts are managed in an “arm's length” way only on the basis of measured outcomes, payment and contracting structures are critical for overall system performance. Public employment services often take benefit caseload decline or short-term post programme employment entries as their measure of successful outcomes. However, ideally the outcomes measured would include off-benefit, employment and wage rate outcomes measured for several years after referral to the provider (consistent with research findings to the effect that the full impact of programmes is revealed only when outcomes are tracked over a sufficiently long time period). According to OECD (2005c), an appropriate formula is $(B+tW)$, where B is the saving in benefit payments that results from clients leaving the unemployment rolls, t the tax rate on earnings and W represents earnings of clients who have returned to work. The impact of employment services on $(B+tW)$ can be interpreted as an indicator of their impact on social welfare as well as on the government's financial balance.

113. An efficient quasi-market management needs to build on a financing structure that reflects the above considerations and ensures an optimal level of spending on employment services. This can be done in two ways:

- *Model (1)*: By paying employment service providers the total value of employment outcomes at the margin (*e.g.* payments to providers should increase by the value of each *additional* six-month job placement, in terms of benefits saved and tax revenue according to the $(B+tW)$ formula). This implies that the providers achieving a placement rate that, although positive, is no higher than what would have happened without their services are paid no outcome fees. The UK Employment Zones roughly follow this model insofar as providers receive a fixed fee per unemployed person that corresponds to expected average benefit costs, and then have to pay the person's actual benefit costs. Using this method, the total amount that providers spend on employment services is determined directly in the market. If employment services have no impact for a particular client group (such as those who are already highly motivated and

47. The maximum fee that providers are allowed to bid is 20 % of the total fee for all components combined.

employable or those who are completely unemployable), the market will not support spending on them. The major advantage of this approach is that it creates correct incentives in contexts where measured employment outcomes are not comparable (*e.g.* across regions or client groups with different levels of disadvantage). The fixed fee per unemployed person should be set at a level where the average provider can only make a small profit. This can be done by competitive tender, with providers competing in terms of the fixed fee they are prepared to work for: such a tendering process generates higher levels of the fixed fee for more-disadvantaged client groups.⁴⁸

- *Model (2)*: By paying reintegration service providers a fixed service fee per client, while using measures of the quantity and quality of outcomes to eliminate underperforming providers (*i.e.* not re-contracting with them in future contract or tender rounds). This arrangement allows ineffective providers to make a profit (by taking the fixed fee but providing no substantial services) in the short run: it is only effective in the long run, when players of this kind are eliminated and only providers who spend (almost) the whole amount of the fixed fee on services are able to survive.

114. Various mixed models (somewhere between the two approaches outlined above) are feasible – for example, the Australian Job Network combines the “pay-for-results” and the “outcome measurement and non-recontracting” strategies, as evidenced by the recent rollover of the majority of providers into the 4th contract period. This is relatively complex, but potentially advantageous in terms of averaging out each model’s inherent weaknesses.

115. What is the role of competitive bidding in these models? As outlined above, fees are not open to competitive bidding either in Australia or in the UK Employment Zones, but they are to some extent in the Netherlands’ tenders. Under Model (1) above, the government needs to correctly set the scale of payments to providers for reducing benefit dependency and increasing employment rates at the margin: there is no reason to believe that competitive bidding will set this marginal fee at the correct level. But the fixed fee can be set by competitive tender.⁴⁹ It is then possible to allow providers to enter and exit the market freely, based only on their own information about their profitability: less-efficient firms are unable to make a profit in the market given the levels of the fixed fee that emerge in competitive bidding.

116. In Model (2), there is no marginal fee. In this case, there is no reason to believe that competitive bidding will set the fixed fee per client at the correct level. Government needs to set the fixed fee at the “right” level where – when providers spend their income from the fixed fee on employment services – the marginal benefit of services in terms of their impact on (B+tW) is equal to their marginal cost. For example, if the government sets a high fee per client for a target group that is not employable at all,

48. This financing structure subjects market players to a high level of risk, particularly upon first entering the market. Inexperienced providers may lose money on their contract and go out of business, imposing additional costs on clients and the purchaser. Therefore, this method works best when the bidders are committed long-term players that can expect to be profitable on the basis of their track record.

49. As a concrete example, an invitation to tender might relate to batches of 100 clients whose outcomes will be tracked for 12 months after referral to the provider. Then contracts specify that providers will receive a fixed fee F plus tW – the total tax paid by these clients on their earnings over the 12-month tracking period – and less B (here, B refers to the benefit payments to these clients over the 12-month tracking period, rather than to savings made on benefit payments). The invitation to tender asks bidders to specify the fixed fee F under which they will operate the contract. For each batch the principal accepts the bid with the lowest value of F (which might be positive or negative). Thus, providers cannot make excess profits. For each batch, the provider's fee income from the principal ($F+tW-B$) is an increasing function of the provider's spending on employment services S . Providers choose the value of S that maximises income less costs, *i.e.* $(F+tW-B)-S$. This is also the value of S that equates the marginal impact of employment services on $(tW-B)$ with the marginal cost of the services, so this system results in an optimal level of spending on services.

providers will still be prepared to provide services to the clients but the government will be wasting its money. At the same time, entry to and exit from the market must be actively managed by government, entirely on the basis of relative performance. In this model, government action – systematically retaining only the highest-performing providers – is the only factor that prevents providers from reducing their spending on employment services below their income from the fixed fee and keeping the difference as profit.

Outcome measures and training

117. Although research highlights the need to take long-term outcomes into account, Australian and UK experience suggests that quasi-market provision of reintegration services can be fairly well managed using short measurement periods (for example, clients staying with a provider for up to a year, with employment outcomes tracked for three or six months). Such short-term outcome measurement however orients services towards rapid “work first”-type placement. It is not suitable for managing the provision of longer-term training for unemployed clients. Such upgrade training or re-skilling may not be essential if the main objective is to reduce benefit caseloads, but it is probably beneficial in many cases and particularly important if the objectives include increasing long-term earnings. Where reintegration services are managed and measured using short-term outcomes, funding for training can be supported in other ways, *e.g.* through the earmarked Jobseeker Account for Job Network clients in Australia or the separate payments by UWV under the “schooling protocol” in the Netherlands. Sol and Hoogtanders (2005) show the pendulum swings in the Netherlands between arguments of “too much” and “too little” training in reintegration contracts, and the schooling protocol payments as well as the increasing number of so-called individual reintegration contracts which usually have a larger training component (and therefore cost more to the taxpayer) show the increased concern of public authorities that training, particularly upgrading of basic skills, may suffer under market arrangements.

Centralised and decentralised market frameworks

118. Labour ministries in Australia (DEWR) and the United Kingdom (DWP) purchase reintegration services as representatives of central government, and apply a centralised governance framework to their contract management. By contrast, the Netherlands has a multi-purchaser decentralised market, where, in addition to UWV, several hundred local authorities have been tendering for services. While this decentralised framework has clearly implied start-up problems, it should not mean that markets for reintegration services cannot function. Although the following remarks apply mainly to the Netherlands, they are also relevant for Germany where *i)* PES tenders and contracts are organised at regional level rather than centrally; and *ii)* the new German employment service consortia (ARGE) – as well as the so-called “opt-out” districts – mainly apply local frameworks and are not subject to the performance management and contracting guidelines applied by the Federal Labour Agency.

119. Whether decentralised reintegration markets can function efficiently or not will depend, above all, on:

- The incentive framework for the decentralised bodies (local authorities/municipalities); and
- The balance between the main weaknesses and strengths of decentralised political models. A weakness is the loss of economies of scale in purchasing and in management more generally (*e.g.* municipal social services departments may not be subject to real external scrutiny, and may adopt self-serving approaches that fail to restrain spending or reduce unemployment). Among the strengths are a greater opportunity for experimentation and methodological innovation, and the possibility of benchmarking each municipality by comparison with others.

120. Greater horizontal inequity (*i.e.* comparable cases being treated differently in different municipalities) is likely to arise although this may in a sense be inherent to decentralisation.

121. Making each municipality responsible for its own benefit costs, while giving it autonomy over how to manage its caseload, as has been the case in the Netherlands since 2004, can already be considered a quasi-market device. In this view, municipalities are the “providers” in the first-level quasi-market (one where poor performance is sanctioned by local electorates), and when each municipality is a purchaser this creates a second level of miniature quasi-markets.

122. The two-stage quasi-market arrangement is more complex than one with a single purchaser contracting directly with multiple providers. In addition to the issue of economies of scale and administrative costs, this may blur the measurement of comparative performance:

- Since different municipalities may adopt different political objectives (for example in terms of requiring lone mothers to work), municipalities that show poor performance on a particular measure (such as benefit costs or the size of welfare rolls) can bring forward many potential explanations/excuses.
- The mini-quasi-markets created by each municipality are small and not comparable (considering the often large differences in socio-economic background characteristics either within or across municipalities), so it may be difficult to benchmark performance of the final providers.

123. Interpreting the Netherlands as a two-stage quasi-market, the first stage (the municipal “providers”) has more instruments at its disposal than, for example, Australian and UK private providers do. For example, while municipalities cannot vary the level of benefits, they have much leeway in defining benefit eligibility criteria and using “workfare” schemes, direct sanctions and “claim diversion” strategies, subject to little supervision by central government.⁵⁰

124. Local financing of assistance benefits was recommended by the OECD (1994) Jobs Study, on the grounds that with national financing the costs of benefit dependency are not adequately perceived by local level actors. The Netherlands example shows that a two-stage quasi-market, if properly organised, can combine local-level incentives and local political autonomy with a degree of national-level economies of scale and competition in the provision of employment services - insofar as many of the providers operate nationally and have a national reputation to maintain.⁵¹

50. Municipal governments are elected, so an inappropriate policy of claim diversion and sanctions might, in turn, be sanctioned by the local electorate.

51. Another issue in the Dutch municipalities’ market is a tendency to develop public/private partnerships. These involve, for example, a longer contract duration, but with the details of the contract to some extent left open in order to allow a more flexible service. They may also involve consultation with service providers relating to the design of tenders and contracts. One argument for such partnerships is that they allow more tailored and innovative services, as compared to a model where all details are put into the initial contract. This can make sense if purchasers retain overall control of the case management process using separate providers for services such as job creation, training, and placement.

Box 6. Information and transparency in a decentralised market for employment services

Without performance measures of some kind, used either to pay providers in line with their outcomes or to make decisions about the re-award of contracts, the potential benefits from market forces and competition in the provision of employment services are unlikely to be realised. Performance measures should preferably be comparable between one locality and another: the additional information in this case makes it possible to use a wider range of (theoretically viable) contracting methods, and allows more accurate replacement of underperforming providers. Thus in a decentralised system, central government's most important role may be in the area of increasing the transparency of the market and achieving economies of scale in terms of accurate measurement and reporting of outcomes.

Nationally comparable measures of the performance of municipal service providers, similar to Australia's "star ratings", might be generated in the Netherlands using a centralised computer system to record client characteristics, benefit amounts and duration, periods in employment and earnings, etc. But central supervision would also be needed to ensure that data (for example, data on client characteristics and employment outcomes) entered by local authorities or their providers respect national guidelines, and to assess the significance of local variation in unrecorded parameters (such as differences in procedures for referring jobseekers to providers). There needs to be some local political acceptance of this role of central authorities: in highly decentralised countries such as the United States, it can become nearly impossible to make valid statistical comparisons of employment service performance or to generate meaningful national statistical aggregates.

Other services provided centrally might include standard software for use by providers; model invitations to tender and model contracts for use by municipalities; good practice guides; financing surveys; and comparative research. Central government might also enforce a general requirement on municipalities for transparency in the contracting process. In the Netherlands, however, the actual development seems to go in the opposite direction, with the requirement for local authorities to put reintegration services up for tender having been recently abolished. But the use of contracting-out and private service provision will probably remain extensive so that the achievement of a transparent performance benchmark for the municipalities market remains a challenge.

To promote transparency, the RWI website already contains a list of all reintegration providers, information on contract types and satisfaction ratings from client surveys. The UWV, which publishes employment outcome rates of all providers – including by target group – on its website, seems to be one step ahead; however, the figures published are crude outcome rates, with no adjustment for local labour market characteristics, for example. So far, the strongest initiatives for quality assurance may have come from the reintegration sector itself. In particular, Borea, the provider organisation, has developed a quality seal, which asks potential members to meet 13 criteria such as: time spent for setting up a tailored reintegration plan; time between start and completion of plan; number of customers who did not receive a reintegration plan; relation between actual placement rates and those laid down in the contract, etc.¹

Also, in 2005 the organisations of purchasers and providers (UWV, VNG and Borea), the RWI and the National Council for Clients (LCR) have started to co-operate to increase the transparency of the reintegration market. In particular, they set up a foundation ("Blip of Werk") to develop performance benchmarks and manage the quality seal. Finally, detailed information on placement and reintegration outcomes can also be obtained from the SZW's quarterly reports. Recent reports show that placement results have remained short of government targets and appear to suggest that there is still much room for improvement in the Dutch reintegration market.

1. See DWP (2005e) for an English translation of the Borea certification criteria.

7. Concluding remarks

125. Germany, the Netherlands and the United Kingdom all implement a “mutual obligation” approach – where benefit recipients are expected to engage in active job search and improve their employability, in exchange for efficient employment services and benefit payment. The strategies include an emphasis on options for returning to work from the very first contact with a newly registered unemployed client; the set-up of back-to-work agreements and individual action plans; regular reporting and confirmation of unemployment status; monitoring and review of clients’ job-search efforts; direct referrals to vacant jobs; and short job-search training courses.

126. Particularly in the Netherlands and the United Kingdom, there is evidence that a considerable proportion of those who enter non-employment benefit schemes (sickness, disability, lone parent and early retirement benefits) have remaining work capacity. Consequently, reforms aiming to apply activation strategies and the “mutual obligation” approach to them (albeit with appropriate modifications) are being increasingly applied.

127. The outsourcing strategies pursued by the Dutch, German and UK employment services are each very different. The Netherlands has been, within Europe, the first country to implement a full “reintegration market” where private sector organisations compete for tenders to supply employment services. However owing to continuing changes in policy at the national level, and the multiplicity of actors involved at local level, statistical comparisons of provider performance are not well developed: at national level, provider outcome rates are published by UWV, but without adjustment for client group and local labour market characteristics. Since the whole employment services system has changed, it is difficult to compare private provider performance against that of the earlier public system at the microeconomic level. In the United Kingdom, by contrast, only a relatively small proportion of local areas are designated as Employment Zones (EZs), where private providers operate, and evaluations have reported relatively favourable short-term placement outcomes as compared with areas managed by the public (Jobcentre Plus) provider. Following the Hartz reforms, Germany’s contracting-out programmes are currently more ambitious than the UK’s. Initial results have been relatively disappointing, but the reforms have not been operating for long.

128. Section 3 of this report, when outlining current features of employment service provision, has listed for each of the review countries some problem areas pointed out in the respective national public debates. Based on OECD missions to the review countries in the Summer and Fall of 2005 and other documentation used for this report, some further points (albeit an incomplete list), concerning how each country might adjust its activation stance are given below.

129. In view of the relatively disappointing results of the interim evaluations from 2005/06, *Germany* could consider the following comments and recommendations:

- Accompanying further improvement in staff/client ratios, PES placement efforts for the hardest-to-place category among the 4 profiling groups should be strengthened and care should be taken that new instruments such as integration agreements and profiling are applied to all client groups, including UB II recipients.
- Appropriate conclusions ought to be drawn from the varying placement results under different contracting-out arrangements that appeared in the interim evaluation, and possibly these arrangements should be unified, with a particular view to job-seeker referral methods and pay-for-results systems.

- Reduce creaming effects under new training voucher arrangements, and make sure that low-skilled trainees are appropriately considered when setting performance targets.
- Improve gate-keeping in the area of disability, *inter alia*, by issuing clear classification standards for the assessment of work ability under the UB II benefit, and clarifying the work capacity of partial disability pension recipients.

130. The *Dutch* reintegration market is still in constant flux, as recently demonstrated by the introduction of “individual reintegration contracts” at national level (for UI beneficiaries) and the ending of the obligation to contract out reintegration services at municipal level (for assistance beneficiaries). It would be appropriate to pay attention to the following problem areas:

- Ensure that the objective of the “comprehensive approach”, that an offer of a reintegration programme should always be made before 12 months of unemployment, is effectively implemented.
- Define more clearly the responsibility of the public employment service (CWI), including its services for Phase 1 clients who are not rapidly placed within the initial six-month period; and improve processes for the hand-over of Phase 2 to 4 clients from CWI to UWV and municipalities and their subsequent start of a reintegration trajectory (indicator *snelle start*). The expected reform of the profiling model should keep these current deficiencies in mind.
- Placement figures for the cohort of unemployment benefit recipients transferred to reintegration providers in 2003 have remained below target (*i.e.* below 40%) and early results for clients transferred to providers after July 2004 may also be considered disappointing. More systematic benchmarking of provider performance in preparation for future contracting rounds and increasing expertise in the purchasing function should help produce better results.
- Start tracking long-term employment outcomes. For example, UWV defines the placement result for the 2002 cohort in terms of whether any placement was achieved by end 2005. It would be desirable to also take account of employment stability, *e.g.* by comparative tracking of average off-benefit and employment rates.

131. The *United Kingdom* could consider taking action in the following areas:

- In view of the intensive official schedule of interventions, Jobcentre Plus staffing levels are scarcely adequate to deliver the full amount of services effectively – a problem that will worsen if unemployment rises. Planned measures for activating recipients of non-employment benefits will spread employment service resources even more thinly.
- Currently, apart from literacy training, training programmes cannot be financed during the first 26 weeks of unemployment: they are mainly reserved for New Deal participants. Some relaxation of this rule should be considered. Within the area of private provision, the Netherlands (like Australia) has devised methods for separate or earmarked financing of longer term training which is not necessarily expected to achieve rapid employment outcomes. The United Kingdom should consider possible arrangements of this kind.
- Rules about Personal Capability Assessments for Incapacity Benefits and New Deal participation for unemployment benefits need to be better coordinated. Currently clients can cycle between Incapacity Benefit and Jobseeker’s Allowance indefinitely without either in-depth assessment of

medical condition or the obligation to participate in a New Deal option. This should be seen as a loophole that needs to be closed.

- The EZ model for delivery of intensive case management services to disadvantaged jobseekers seems generally effective, but the definition of a positive outcome (three months in employment) used for outcome payments is short both by international standards and in terms of labour market needs. The outcome measurement window should therefore be increased, and it seems that providers do not see practical objections to this.

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