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Paying for results: Contracting out employment services through outcome-based payment schemes in OECD countries

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Abstract

OECD countries deliver publicly-funded employment services through different institutional arrangements. While in most OECD countries the majority of such services are delivered by public employment services, in two in five OECD and EU countries (or regions) they are partly or fully contracted out to external providers, including for-profit and not-for-profit entities. Contracting out employment services to outside providers offers many potential benefits: an increased flexibility to scale capacity in line with changes in unemployment, the possibility of offering services more cost-effectively, the option to better tailor services through the use of specialised service providers and the possibility to offer jobseekers choice of providers. However, achieving these benefits will depend on the actual design and monitoring of the contracting arrangements that are put in place. Focusing on the job brokerage, counselling and case-management employment services typically provided by public agencies, this paper reviews the experiences of OECD countries that have contracted out employment services through outcome-based payment schemes. It highlights the need to carefully consider questions related to the design and implementation of this form of contracting: fostering competition amongst potential providers, setting appropriate minimum service requirements and prices for different client groups, and ensuring the accountability of providers through monitoring and evaluations. These issues are discussed based on country examples, which are also detailed in factsheets contained in the online annex of the paper.

Résumé

Les pays de l'OCDE fournissent des services d'aide à l'emploi à financement public par le biais de différents arrangements institutionnels. Alors que dans la plupart des pays de l'OCDE et de l'UE, la majorité de ces services sont fournis par les services publics de l'emploi, dans deux pays (ou régions) sur cinq, ils sont partiellement ou totalement sous-traités à des opérateurs externes à but lucratif ou non lucratif. La sous-traitance des services fournis par les services publics de l'emploi à des opérateurs externes présente de nombreux avantages potentiels : une plus grande souplesse pour faire face aux variations du chômage par une externalisation de capacité, la possibilité de fournir des services plus rentables, la mise à disposition de services mieux adaptés grâce au recours à des prestataires spécialisés, et la possibilité de donner aux demandeurs d'emploi le choix du prestataire. Toutefois, la réalisation de ces avantages dépendra de la conception et du suivi des accords contractuels mis en place. En se concentrant sur les services d'appariement, d'accompagnement et de gestion de cas généralement fournis par les services publics, ce papier examine les expériences des pays de l'OCDE qui ont sous-traité des services d'aide à l'emploi par le biais d'un système de rémunération des prestataires en fonction des résultats. Il souligne la nécessité d'examiner attentivement les questions liées à la conception et à la mise en œuvre de cette forme de contrat: la stimulation de la concurrence entre différents opérateurs, l'établissement d'exigences minimales de service et de prix appropriés pour les différents groupes de clients, et le contrôle de la responsabilité des prestataires à travers un suivi et des évaluations. Ces questions sont discutées sur la base d'exemples nationaux, qui sont détaillés dans des fiches descriptives présentées dans l'annexe en ligne.

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Paying for results: Contracting out employment services through outcome-based payment schemes in OECD countries

1. Introduction

1. Ministries, public employment services (PES) and other public agencies engage in many different forms of partnerships to deliver publicly financed active labour market programmes (ALMPs). One form of partnership is contracted-out employment services, where employment services such as job brokerage, counselling and case-management of jobseekers are delivered in a quasi-market setting through contracted providers. One important potential benefit of contracted-out employment services is the enhanced flexibility to quickly augment the capacity of existing PES provision, providing that a contracting framework exists – a feature that can be helpful in times of economic crises, such as that induced by COVID-19.¹ In addition, by helping to manage demand during “peaks”, the flexibility offered by contracted employment services can help governments avoid long-term cost commitments and possibly provide services more cost-effectively. Private providers can also augment the existing provision of employment services by bringing complementary skillsets or competencies from outside the public sector. In 2020, in two in five OECD and EU countries (or regions), employment services were contracted out to external parties, including both for-profit and not-for-profit entities (OECD, 2021^[1]).
2. The contracted-out delivery of public services is often referred to as a quasi-market, as a monopolistic public provider is replaced with competitive independent ones. Le Grand and Bartlett (1993^[2]) dubbed the term “quasi-market” since it differs from conventional markets in a number of ways, including: i) the possibility that not-for-profit organisations may be among the providers; ii) the fact that both purchasing power and decisions about payment terms ultimately rest with a contracting authority; and iii) that the end-user – i.e. the recipient of employment services – may not have the power to exercise choice.
3. Three types of payment models exist in outsourced employment service provision. First, employment services may be contracted out through “cost-reimbursement” contracts, whereby providers are paid for the expenses actually incurred, subject to stipulations determined during the procurement process. Such contracts may specify performance goals – which may be used to determine whether a contract is renewed or prematurely terminated – but payment is not contingent on achieving them. Second, fixed-price (or “fee-for-service”) contracts establish a fixed fee for providers, regardless of the actual cost of providing services. Compared to cost-reimbursement contracts, the contractor assumes some financial risk, but the financial incentives for performance remain weak. One potential advantage of fixed-price contracts is their predictability – both the service provider and the contracting authority know in advance how much will be paid. A third type of contract consists of “payment-by-results”. In contrast to the first two types of contracts, these involve giving providers financial rewards for achieving specified (employment) outcomes.

¹ Examples of initiatives provided by contracted providers as a direct response to the COVID-19 crisis include *Corona-Joboffensive* (“corona job initiative”) in Austria, *Rebond.brussels* (“Rebound Brussels”) in Belgium, and *Job Finding Support* in the United Kingdom (see OECD (2021^[1]) and Department for Work Pensions (2020^[81]) for details).

4. The focus in this paper is on contracted-out employment services using “payment-by-results” or “outcome-based” contracts.² This type of contracting may give providers the flexibility to deliver a range of innovative services that may not be feasible for PES due to a combination of capacity, resource and institutional constraints. Providers may experiment with new service delivery models that can be individually tailored and try different methods for motivating discouraged jobseekers. Contracting out employment services also offers the potential for increasing cost-effectiveness of employment service provision. This can be accomplished with the use of competitive tenders and paying fees to providers on the basis of results, hence transferring some of the financial risk from the contracting authority to the providers. Contracting with multiple providers within a given service area can enable clients to exercise choice over their service provider, thus introducing some degree of consumer sovereignty.
5. Contracted-out employment services using an outcome-based payment model were first adopted by OECD countries in the 1980s. The outcome-based contracting of publicly-funded employment services first emerged in the United States in 1982 with the adoption of the federally-funded Job Training Partnership Act. This programme provided local public agencies administering employment services with financial incentives tied to labour market outcomes (Barnow and Smith, 2004_[3]). While the precise means of administering the programme was not specified by the US federal government, many public agencies contracted their vocational skills training and employment services to private providers via outcome-based payment schemes (Butler, 1988_[4]). The United Kingdom was the next country to introduce outcome-based contracting of employment services in 1987 (Finn, 2009_[5]). Ever since then, the United Kingdom has widely adopted contracting to complement the work of its PES, with different programmes introduced over time to reflect the shifting challenges in the UK labour market. Another country at the forefront of the adoption of contracted-out employment services is Australia, which in 1998 created a fully outsourced employment placement market that replaced its PES. Since then, many OECD countries have trialled the provision of contracted-out employment services with an outcome-based payment component, with some adopting or moving towards relatively large-scale contracting (e.g. the Netherlands, Sweden, Italy) while others did not (e.g. France and Germany). The replies to a recent OECD questionnaire indicate that one in five OECD countries intend to expand their use of such services going forward (OECD, 2021_[1]).
6. The shift from the monopolistic public provision of employment services to a quasi-market arrangement faces a number of challenges given that the transaction costs for setting up, running, and regulating a quasi-market are non-negligible and good results are not guaranteed (Struyven and Steurs, 2003_[6]). Countries across the OECD have taken different approaches to creating and managing quasi-markets for employment services. While national institutional characteristics are important drivers in shaping the markets that eventually emerge, there are several aspects that any implementation should consider and where lessons from past experiences can be useful.
7. This paper is based on in-depth reviews of contracted out schemes in over a third of OECD countries,³ while also including findings from additional OECD countries based on a review of the international literature. Section 2 of the paper discusses the process of

² Note that the terms “payment-by-results” and “outcome-based payment schemes” are used interchangeably. Similarly, the terms “jobseekers” (when used in the context of placement to contracted providers) and “clients” are also used interchangeably.

³ This includes examples from Australia, Belgium, Canada, Finland, France, Ireland, Italy, Korea, the Netherlands, New Zealand, Poland, Sweden, the United Kingdom, and the United States.

creating a quasi-market for employment services, highlighting important issues of consideration when such markets are introduced for the first time. It distinguishes two different types of markets based on client referrals, on the one hand, and voucher systems, on the other hand, which give jobseekers the choice of provider. The development and evolution of the market for employment services will depend to a large degree on the contract structure, the clients served by contracted providers and the price paid, which are discussed in Section 3. Once a market has been established, performance management needs to ensure that the services are of high quality and support the targets set for the contracted provision, as discussed in Section 4. Section 5 provides an overview on the evaluation literature of contracted-out employment services, while Section 6 concludes. Greater detail for the countries that were reviewed is given in a separate [Online Annex](#).

2. Creating a quasi-market for employment services

8. Fully reaping the potential benefits of contracted-out employment services requires creating a competitive or contestable quasi-market for such services. Such a quasi-market for employment services differs from a prototypical, perfectly competitive market in several important aspects (Grand and Bartlett, 1993^[2]). One key aspect concerns the market participants' objectives: in a quasi-market, the profit motive is not the driving factor for all providers because non-profit or public organisations may also be involved. Not-for-profit organisations may strive to achieve goals in line with their specific mission, such as helping certain demographic groups or disadvantaged clients. A second important aspect concerns barriers to entry: as the ultimate payer of services, the contracting authority has the authority to determine who is awarded a contract (in the case of a competitive tender scheme) or who is eligible to receive clients (in the case of a voucher scheme). Finally, in the case of competitive tender schemes, the suppliers in the employment services quasi-market typically change only from one tender round to another. This is important because tender rounds each usually last several years.
9. Regardless of the specificities of such quasi-markets, the underlying rationale for their implementation remains similar as in other markets: harnessing the potential of competitive forces to provide services more cost-effectively, with greater scope for innovative or higher quality solutions. In this respect, introducing market forces into employment services can be seen as a natural extension of similar reforms in other sectors. The introduction of market forces into sectors that had previously been highly regulated has a long history in OECD countries, beginning in earnest in the 1980s, when OECD countries began a process of deregulation that liberalised entry and removed other market features that had been hindering competition (Araujo, 2011^[7]). Regulatory reforms have been most prominent in the electricity, gas, railways and telecommunications sectors, with a mixed-record in some sectors. In the railway industry, for example, vertical separation can create severely misaligned incentives between those operating the track network and those providing train services.⁴ However, abolishing the government's monopoly has arguably been a considerable success in other sectors, such as the telecoms industry. More generally, decreasing product market regulation has been shown to have a large and positive effect on GDP per capita in OECD countries (Égert and Gal, 2017^[8]).
10. In employment services, private contractors may experiment with a variety of different strategies and service delivery methods to help place their clients into sustained employment. Given the specific needs of their individual clients – including different and

⁴ A related set of concerns arise in instances where market failures lead to disparities in provision, particularly spatially (e.g. rural vs urban).

potentially multiple barriers to becoming and remaining employed – the effectiveness of a provider’s approach can also be difficult to accurately assess in advance. For this reason, fostering competition between the employment-service providers can be a helpful way to ensure that contractors provide useful and effective services to their clients.

11. The rest of this section describes the various considerations that should be taken into account when creating a market for employment services. It distinguishes between two types of models: markets based on client referrals, where jobseekers are referred to contractors by a public authority, and those based on vouchers, where jobseekers choose from which provider they receive employment services.

2.1. Creating a diverse and level playing field: Attracting different types of providers

12. An important precondition for creating a competitive quasi-market is to have multiple potential providers, possibly from different backgrounds, who are willing to enter the market for the provision of employment services. This section describes the types of providers that are involved in providing employment services in OECD countries and the possible barriers to entry that may limit their participation.

2.1.1. Potential providers of employment services

13. Across the OECD providers of contracted-out employment services have a variety of company and organisational backgrounds, including both “for-profit” and “not-for-profit” organisations. While the provider structures differ across countries, they include providers in the following categories:
 1. *For-profit employment and related services providers*: Large markets for contracted provision of employment services for example in Australia, Italy, the Netherlands, the United Kingdom and the United States facilitated the growth of (“for-profit”) companies specialising in delivering publicly contracted employment services to support jobseekers, especially disadvantaged jobseekers. Larger providers may have operations in a number of countries, with many companies originally being founded in Australia, the Netherlands, the United Kingdom and the United States. For example, one of the providers in the Irish *JobPath* programme was an experienced provider from the United Kingdom. Australian providers deliver(ed) programmes in Canada (Ontario) and France. At the same time, however, private providers need not be large, and the size of companies may vary depending on the market structure. For example, in the Netherlands many providers are “one person-providers” servicing only 10-15 clients each (Finn, 2012^[9]).
 2. *Not-for-profit employment and related services providers*: In terms of the services provided, not-for-profit organisations delivering contracted-out employment services are similar to their “for-profit” counterparts and may share common interests represented in joint industry bodies, as in Australia and the United Kingdom. Not-for-profits may include charities, non-governmental organisations (NGOs), and other social economy⁵ actors that specialise in providing assistance to those furthest away from the labour market including long-term unemployed,

⁵ The social economy comprises the set of associations, co-operatives, mutual organisations, foundations and social enterprises, whose activity is driven by values of solidarity, the primacy of people over capital, and democratic and participative governance (OECD, 2018^[80]).

homeless, people with a disability etc. In some countries, municipalities may also act as providers for a contracting authority at the national-level. In most countries that contract out employment services with highly result-based contracts, the share of not-for-profit organisations is relatively small.⁶ In Australia, some not-for-profit organisations established a separate profit-making branch to deliver the employment service activities, with any profits remitted to the parent organisation (OECD, 2012_[10]). In the UK, contracts are usually too large to be delivered by not-for-profit organisations, which however still participate in contracted provision as subcontractors to larger prime providers (Lane et al., 2013_[11]).⁷ In contrast, in the United States, large contracts were awarded to not-for-profit organisations in the *Back-to-Work* programmes in New York City (2006-2017), where approximately half of providers were not-for-profit providers (Desai, Garabedian and Snyder, 2012_[12]).

3. *Private recruitment services providers*: While there are overlaps between the sectors, private recruitment services agencies are separated from the first type of provider listed (“private employment and related services”), as their business model is mainly focussed on serving employers. The private recruitment agency sector includes a wide range of companies providing labour market and human resources services, including agency work, direct recruitment, and career management.
 4. *Training providers*: In some countries – for example Australia, Canada, Italy and Sweden – providers of vocational education and training entered the market for contracted provision of employment services. Given that many of these providers have contracts with the PES to offer ALMPs to jobseekers, providing counselling and job-brokerage services presents a natural extension of their existing services.
14. Broadly speaking, the contracting authority may choose between setting up two types of market structures (Freud, 2007_[13]): (i) a “prime contractor” model, where procurement is comprised of a small number of contracts being awarded to larger providers; or (ii) one with many smaller contracts for clients. In the case of the prime contractor model, the size of the contracts may result in each prime contractor engaging the services of sub-contractors. This may be done for all clients or only to handle the needs of specific client groups and may include subcontractors from the non-profit or even the public sector. Prime contractors may also assume a coordinating role, working with a large number of public bodies responsible for different client groups. A prime contractor approach was adopted by the United Kingdom with its *Work Programme* and New York City with its *CareerAdvance* programme (see [Online Annex](#) for detailed factsheets on the respective programmes). An alternative approach is to either award smaller contracts, each relating to different sub-groups or geographical units, to a wide range of providers, or to provide vouchers to jobseekers. Such a system may make it easier to foster competition between providers and provide a hedge against the risk of a single contractor failing, as well as making it easier to terminate a contract in the event of poor performance. Such approaches have been adopted in large-scale programmes in the Netherlands and Italy, for example (see [Online Annex](#) for details). However, increasing the number of providers also has potential drawbacks, as it

⁶ For example, in the Netherlands providers are mostly for-profit entities: only 4% were non-profits, who specialized in placing disabled clients (Sol, 2008_[77]).

⁷ The Work Programme in the United Kingdom (2011-2018) had two types of prime providers have developed different supply chain models, with 14 primes also delivering end-to-end services themselves (“delivery primes”) and four primes acting as “managing primes”, with no own end-to-end services (OECD, 2014_[24]).

may increase monitoring costs for the contracting authority and make it more difficult to ensure that any minimum service standards are being enforced.

15. An important aspect of contract design relates to potential providers' willingness to take on risk. If the prime contractor model is combined with a strong results-based payment scheme with delayed payments, it may favour bigger, multi-national for-profit actors. For this reason, the contracting authority should conduct consultations with potential providers throughout the service delivery chain, including with subcontractors if larger contracts are foreseen. This can help ensure that those designing the contracts understand the financial capacity of different providers and their willingness to take on the potential risks associated with payment-by-results contracts. A better understanding of these factors can help inform the design of schemes, including the appropriate balance between outcome-based payments and "fee for service" payments. Such consultations were conducted in the United Kingdom prior to its introduction of the *Work Programme* in 2010 (National Audit Office, 2015^[14]) as well as well as by Ireland prior to its introduction of *JobPath* (Department of Social Protection, 2003^[15]).

2.1.2. Managing barriers to entry

16. High barriers to entry stifle competition, leaving established providers to possibly become complacent and offsetting the potential benefits of contracting-out employment services. Certainly, setting basic criteria for providers may be necessary to avoid low-quality outcomes or outright fraud, which is why countries set basic standards for potential providers based on, for example, past experience in providing similar types of services or accreditation by a competent authority (see Section 2.4 for details). However, the necessity of any criteria should be carefully considered and their merits balanced with possible performance management procedures, which can have a similar function in ensuring that poorly-performing providers are quickly identified and replaced, if necessary (for more discussion on monitoring providers, see Section 4.).
17. Ensuring that barriers to entry are not unnecessarily high is equally important in both newly-created and well-established markets. In newly created markets, the conditions have to be made attractive enough to encourage entry to the market, possibly from multinational firms with experience in providing similar services in other countries. This requires that tendering plans are announced early amongst potential tenderers as well as making contracts long enough – and, possibly, large enough – to encourage the entry of new providers (Mansour and Johnson, 2006^[16]). In well-established markets, barriers to entry should remain low to ensure that they are contestable: even if served by a small number of firms, contestable markets can nevertheless be characterised by competitive outcomes because of the threat of potential short-term market entry (Baumol, Panzar and Willig, 1982^[17]).⁸ In both established and newly-created markets, the complexity of the tendering application process will also importantly affect barriers to entry, with greater complexity providing an advantage to either larger providers with the requisite institutional capacity and expertise or to incumbent providers with past experience in navigating the process. Barriers to entry may also vary across service areas – in less densely populated areas or

⁸ Perfectly contestable markets have three main features: i) there are no barriers to entry or exit, ii) no sunk costs, and iii) all incumbents and potential new entrants have access to the same level of technology. Although such stylized perfectly contestable markets are difficult to find in practice, the notion of a contestable market is useful for assessing existing markets and their degree of contestability.

those with a smaller number of potential clients, for example, it may be more difficult to attract providers.

18. A quasi-market that rewards the achievement of long-run employment outcomes may eventually be dominated by a limited number of fairly large organisations which are able to invest and implement complex strategies (Struyven, 2004^[18]). In the United Kingdom, for example, a survey of employment services providers found that at least two thirds of respondents had been delivering programmes for at least ten years (Armstrong et al., 2010^[19]). In the extreme case, these organisations may each resemble a traditional PES even though they operate within a market framework. The result could be an oligopolistic market with limited competition that could have a correspondingly detrimental effect on the cost-effectiveness of the employment services contracts. Avoiding such “supplier capture” may then even require preferential measures to keep the door open for newcomers, by e.g. setting different criteria for new market entrants than for entrenched incumbents.
19. At the same, allocating greater market shares to more effective providers can improve labour market outcomes for jobseekers while making better use of public funds. Increasing market concentration has in fact been observed in most countries following their initial rollout of contracted employment services. For example, Australia’s initial nationwide rollout in 1998 began with 306 service providers (OECD, 2012^[10]). During subsequent contracts, this decreased to 205 during the 2000-2003, almost halved to slightly more than 100 in the next three contract periods (spanning the 2003-2012), and then more than halved to 44 providers for the 2015-2020 period (Jobs Australia, 2015^[20]). This increase in concentration was not coincidental but reflected a concerted effort on the part of the government to reward well-performing providers: during the 2003 *Job Network* tender round, the best 60% of providers had their contracts automatically rolled over, leaving the bottom 40% to compete with new entrants to the market (Davidson and Whiteford, 2012^[21]).
20. Another important element for lowering barriers to entry and fostering competition is transparency: ensuring that all parties involved have access to the same information. Importantly, this may include information on the historical cost of service delivery and, to the extent client groups are segmented based on employability, detailed information on past exit rates from unemployment. For example, Ireland’s Request for Tenders documentation for its nationwide rollout of the *JobPath* programme of contracted-out employment services for hard-to-place clients contained detailed historical statistics on the demographic characteristics of its clients and on their exit rates from unemployment along a number of relevant dimensions (Department of Employment, 2014^[22]). To the extent that information cannot be ascertained in advance by market participants – in other words, that the issue is not transparency but uncertainty – it may make sense to allow for revisions to the payment structure as the contract evolves and further data emerges.
21. A final potential barrier to entry relates to contract duration, which determines the time horizon providers have for recouping the sunk costs associated with entering the market and for fine-tuning their operations in order to become more efficient. Short contract durations may pose a challenge for providers, resulting in reduced willingness for upfront investments (e.g. specialised software), but also leaving less time to master the provision of efficient job matching services (e.g. through training staff or building a network with potentially hiring employers) and moving up a learning curve. A short programme piloting contracted provision in France in 2007 showed that private provision were less efficient than comparable public provision, especially in the short run (Behaghel, Crépon and Gurgand, 2014^[23]). But evidence from large-scale programmes also shows that contracted providers often have teething problems, with placement rates increasing for subsequent

cohorts (see e.g. OECD (2014^[24]) for UK *Work Programme*, [Online Annex](#) for Sweden's *STOM* programme).

22. Whenever quasi-markets for employment services are created, contracts between public authorities and independent providers of employment services are of limited duration. Contracts in trial and pilot programmes are generally relatively short in duration – from as little as six months, for example, in a pilot scheme in Sweden (see [Online Annex](#)).⁹ As such, they may struggle to attract providers – possibly including those with international experience – without the promise of larger and longer contracts in the future. In contrast, contracts on a larger scale and for national schemes typically span over several years. In Australia, where all employment services have been delivered through quasi-markets since 1998, the current contracts will have been seven years in duration upon their conclusion. Similarly, contracts in the Irish *JobPath* programme were for six years, contracts in the UK *Work Programme* lasted for seven years, and contracts in the most recent round of *Wisconsin Works (W-2)* programme in the United States include the option for an extension to up to 12 years in total.
23. While longer contracts may be more attractive from the perspective of providers, longer contracts can pose challenges for the contracting authority. One challenge relates to performance management, as e.g. the general labour market situation may change over time and underperforming providers need to be replaced (see Section 4.2). A second challenge relates to risks that longer contracts may impose on the contracting authority: the possibility that poorly-designed contracts, which may not be well thought-out or not foresee contingencies over a longer time horizon, may lead the contracting authority to incur considerable unanticipated costs over the duration of the contract period. Such a scenario arguably occurred when the US state of Wisconsin first contracted-out its employment services in the late 1990s, when generous financial rewards for declines in the number of social assistance recipients, combined with strong economic and employment growth, results in high profits for the contractors (Heinrich and Choi, 2007^[25]).

2.2. Markets based on client referrals

24. How jobseekers are referred to private providers will affect the development of the market for these services and the resulting degree of competition. One mechanism for matching jobseekers with private providers consists of referrals made by a contracting authority such as the PES. Typically, such referrals are binding for jobseekers, as they must comply with the referral to their assigned provider if they are to continue receiving unemployment benefits or social assistance. This section discusses important factors that need to be taken into account in designing employment services based on an arrangement with such compulsory referrals. An alternative arrangement, discussed in the subsequent section, is to give jobseekers vouchers for the provision of employment services from the provider of their choice.

2.2.1. Setting-up the market: Ex-ante competition

25. One form of competition is upfront during the tendering process, during which time bids from a sufficiently high number of suitable bidders should be encouraged (ex-ante competition). The critical element here is to create a playing field in which both for profit and not-for-profit organisations may equally participate in submitting bids, including both

⁹ Durations refer to period when providers received referrals of new participants. The actual contract period is longer and depends on the maximum period each participant receives services.

national players as well as small niche organisations. It may also result in the formation of new organisations or joint ventures, including both national and international actors.¹⁰ Large tender lots – meaning contractual obligations to serve a large number of referred clients – may result in a market structure with large prime organisations¹¹ that have the capacity to take the financial risk of large contracts. Furthermore, in the European Union the Services Directive may require tenders being open EU-wide.¹²

26. The design of the call for tenders can have an important effect on the likelihood of a potential contractor submitting a bid. Large for-profit organisations, particularly those with international experience, will have relatively little trouble with the transaction costs of bidding for new contracts and start-up costs of new locations given their expertise and experience (Struyven, 2004_[18]). They are also more likely to have access to working capital and have a strong balance sheet, which are important given the gap between the provision of employment services and the receipt of payment for sustained employment outcomes (National Audit Office, 2015_[14]). In contrast, larger providers may be dissuaded by small contracts that would not allow them to cover their potentially larger fixed entry costs or to reap the benefits of economies of scale. Nevertheless, they may be willing to bid for small contracts for pilot programmes where there is a promise for a wider-scale rollout in the future.¹³ They are also more likely to have the resources and expertise to branch out into related lines of service with a new public service contract. For non-profit organisations, a key factor concerns their size and geographic coverage. Smaller, niche players, may be limited to applying for contracts relating to specialised target groups in a limited geographic area. They may also have limited resources for competing in a tender system given limitations in terms of staff, financial capacities and willingness to take on risk.
27. If a playing field with high levels of competition is the stated aim, contracting authorities can adopt two approaches to encourage the participation of a wide array of organisations in the bidding process and service delivery network (see [Online Annex](#) for an overview of country examples). One option is to split large tender lots into smaller ones, either geographically or in terms of the target client groups. This allows smaller organisations to

¹⁰ In a pilot programme in Belgium (Flanders) that was conducted from 2006-2009, contracts were awarded to a variety of different types of organizations: four for-profit organizations, five non-profit organizations, and one consortium where a for-profit organization sub-contracted to a non-profit organization (Cockx and Baert, 2015_[55]). The for-profit organizations consisted of large international corporations offering various human resources services, including recruitment, selection, and temporary work. The non-profit organizations consisted of organizations which typically worked for the public sector with expertise in the provision of counselling and other employment services, including for socially disadvantaged groups. Australia's initial nationwide rollout of contracted-out employment services in 1998 was allocated equally across government, for-profit and not-for-profit private providers (OECD, 2012_[10]). By the 2009-2012 period, the shares had shifted to 3%, 36% and 61% for these entities, respectively.

¹¹ Potentially prime contractors work with a network of sub-contractors. In the UK *Work Programme* some of the prime contractors did not run any front-line services themselves, but only managed a network of sub-contractors (OECD, 2014_[24]). In other settings the prime contractor may have enough local area presence not to be in need of sub-contracting.

¹² The EU Services Directive applies to tenders worth EUR 750 000 or more (Directive 2014/24/EU).

¹³ The comparatively cost-effective performance of for-profit providers in the 2006-2009 pilot programme in Belgium (Flanders) was arguably attributable to the implicit promise of being rewarded with larger contracts in the future. For-profit providers achieved better employment outcomes for their clients compared to both non-profit providers and the PES despite being paid less and having a relatively small share of payments contingent on outcomes (Cockx and Baert, 2015_[55]).

be competitive in specific niches while allowing larger actors to submit bids for several lots and potentially be awarded multiple contracts. Such an approach was initially taken in the US state of Wisconsin, with the state split into many small lots, with more than one lot within a geographic area for more specific services such as helping individuals with a disability. The second option is to encourage the organisations to whom the contracts are awarded – the prime providers – to cooperate with multiple subcontractors, including non-profit entities. The latter approach was adopted in the United Kingdom with its adoption of the “Merlin Standard” for prime providers: instead of mandating cooperation, the government committed to playing a stewardship role, establishing best practices in supply chain management and equitable treatment for smaller providers (Finn, 2012_[26]). It also established a mediation process overseen by the government agency issuing the contracts, with cases where mediation was not successful being noted and taken into account when reviewing the prime contractor’s subsequent contract with the government.

2.2.2. *Nurturing a vibrant market: Ex-post competition*

28. A second form of competition is after the contracts have been awarded: competition during the contract period. This is often more difficult to achieve than ex-ante competition. It may include competition between more than one provider operating within one contract area, as well as keeping both market entry and exit relatively costless in order for markets to be contestable. In this regard, it is important to both ensure transparency in providers’ performance and allow referrals to vary based on that performance. An example of a good practice can be found in Australia, which measures performance of its providers through its “Star Rating” system that allows it to compare performance of different providers operating in the same area (see Box 4.1).¹⁴ Jobseekers have some freedom to choose providers upon entering the system, with referral shares being allowed to vary within a 30% tolerance range of each provider’s business share (Davidson and Whiteford, 2012_[21]). The use of vouchers (as in e.g. the Netherlands or Italy) to give eligible jobseekers the right to receive services from the private placement agency of their choice can also serve to reward providers for good performance if clients can make informed decisions about their choice of private providers.
29. However, facilitating exit and replacing underperforming providers can prove challenging in practice, as experience from the United Kingdom shows (OECD, 2014_[24]). From its introduction in 2010, the UK *Work Programme* envisaged shifts in market share based on performance. During the first 22 months of contracts, however, no provider should have received an increase in market share, as they were all technical in breach of rules due to underperformance. In fact, all providers faced potential contract termination at the end of the second year. Nevertheless, the monitoring authority waived the original market share shift rules and changed the allocated market shares of some of their providers. In March 2014, almost three years into the contracts, the UK agency administering the contracts finally announced the termination of one provider’s *Work Programme* contract due to underperformance. An important take-away from the UK experience is thus that it is more difficult to replace underperforming providers in the presence of large tender lots or an absence of geographic overlap among providers.
30. The possibility to terminate contracts on the grounds of underperformance is thus an important element in contract design. This should take into consideration whether to use competition between potential providers only during the tendering process (as e.g. for

¹⁴ A similar rating system, modelled largely on the Australian one, exists in Sweden. In Italy, a range of outcomes are reported for jobseekers to make an informed choice.

JobPath in Ireland) or also whilst contracts are running with more than one provider per geographical area (as e.g. in Australia).

2.3. Markets based on vouchers

31. An alternative assignment mechanism for matching clients with private providers consists of vouchers. Under a voucher system, jobseekers are given a choice of which private provider to procure employment services, which are paid by the contracting authority. Voucher systems share many similarities with training voucher systems, which are used by a wide range of OECD countries and beyond (OECD, 2019^[27]). Different to some training vouchers, co-payments by the participants are, however, not a feature of employment service vouchers.
32. The maximum payment amount typically varies based on the profile of the jobseeker, with possibly differential payments of attachment fees (non-outcome based payments) and the outcome-based payments. In contrast to some schemes where jobseekers are subject to mandatory referrals to private providers, under voucher systems private providers are not guaranteed referrals: they are responsible for attracting clients. Voucher schemes have been most widely used in the Netherlands, where they have been in place since the early 2000's, but they have also been used in other countries, such as Belgium, Italy, Korea, New Zealand and Sweden.
33. A key argument in favour of voucher schemes is that they introduce consumer choice: clients are in principle able to receive services from the providers they think will offer the best quality services (Struyven, 2004^[18]). This greatly simplifies the tendering process for the contracting authority. It relieves the contracting authority of some of the responsibility in choosing providers, and may enable clients to receive more tailor-made services. However, in order for the potential benefits of such consumer sovereignty to be realised, several conditions must hold. First, individuals must have a choice of different providers not only in theory, but also in practice. For example, they must not be constrained to a single provider in their geographic vicinity. This may be difficult to guarantee for remote areas or for clients with very specific needs. Second, consumers must have adequate and reliable information on the various providers in order to make an informed choice. This should include information on the precise services offered by different providers and their past performance. And finally, jobseekers must exercise their consumer sovereignty prudently, making an informed, conscientious choice of the optimal provider for them.
34. The experiences of OECD countries which have employed voucher-based schemes provides some lessons on their implementation. In Italy, which has both a national voucher scheme and 18 regional schemes, some regions provide jobseekers with detailed information on the services and outcomes associated with different providers. For example, in the Veneto region, the local PES ranks providers based on number of hours of counselling, job placement rates, vocational training rates, and customer satisfaction indicators. This has resulted in a fairly concentrated market: although there are over 100 providers, the largest five providers have just over half of the total clients, with the largest ten having 70% of clients. In the Netherlands, there are thousands of different private providers – most of them, one-person providers – providing services to clients via vouchers from the PES (in the case of unemployment benefit recipients) or the municipalities (in the case of social assistance recipients). This has arguably resulted in a market that is not transparent and that is difficult to administer, with jobseekers having difficulty making an informed decision about which provider to choose (Robbe, 2017^[28]).

2.4. Tender procedures: Selecting the providers of employment services

35. Carefully selecting providers is an important precondition for any successful implementation of contracted-out employment services, particularly for longer-term or larger contracts. One important goal of the tendering process is a two-way exchange of information between the contracting authority and the employment services providers. For the providers, it is important to receive information on the types of clients that they are to service, their specific barriers to employment and the types of services that may be required (this information is particularly important if providers are to bid on prices; see Section 3.3.1). For the contracting authority, it is important to establish the proficiency of a private provider in serving the target groups and its capacity to provide these services. The tendering process is thus intended to bridge the information asymmetry inherent in any market for employment services.
36. This section describes the formal tendering process typically used to award contracts to providers. However, in certain cases, the contracting authority may bypass these typical procedures, possibly due to the lack of experience with contracting or due to the small number of suitable providers with sufficient capacity. Such a process of “negotiated acquisition” was used, for example, in procuring employment services in New York City (United States) in the late 1990s (Desai, Garabedian and Snyder, 2012_[12]). In fact, many countries occasionally use such procedures in public procurement more generally: in 2019, amongst EU countries, only two countries issued calls for tenders for every public procurement procedure; in all the rest, negotiations with firms were used at least in some cases (European Commission, 2021_[29]).

2.4.1. Tender stages and award criteria

37. The number of tender stages typically reflects the complexity and scale of the contracts to be awarded and the referral mechanism. Arrangements where providers are guaranteed referrals typically have more complex tendering procedures than one where jobseekers are provided with vouchers:
1. *One-stage procedures.* Typically associated with voucher-based contracting arrangements, in a one-stage procedure every interested tenderer submits a bid or expresses an interest in providing services to voucher recipients and the contracting authority then decides on eligibility. In Italy, three types of accreditation procedures exist for establishing eligibility as service providers under the reintegration voucher: i) regional authorities may determine that public employment offices are eligible to provide services via the reintegration voucher; ii) private service providers may be accredited according to regional accreditation systems; and iii) private service providers may be accredited at the national level by ANPAL, the national PES (OECD, 2019_[30]).
 2. *Two-stage procedures.* In the first stage, potential tenderers first submit an expression of interest and full tender documentation may not yet be published. During this stage, potential tenderers may need to demonstrate their prior experience, certify their capacity to work in a geographical area, or establish their financial capacity. These criteria are then used to identify eligible tenderers for the second stage, which is used to award contracts. Between the two stages, the contracting authority may conduct consultations with the tenderers to facilitate information exchange (for example, on past employment outcomes of client groups) as well as to clarify details on the tendering procedure.

38. In order to avoid low-cost, low-quality outcomes, countries typically chose a combination of quality and price tender award criteria (see Table 2.1). Given the substantial costs of replacing poorly-performing providers, it makes sense to give considerable weight to quality criteria and perhaps set a minimum quality threshold. In awarding government contracts, such a two-stage sealed bid tender process with a minimum quality threshold is more commonly used for complex services where a multitude of relevant aspects need to be considered (Carpinetti, Piga and Zanza, 2006_[31]). A recently launched pilot programme in Canada, the Employment Services Transformation, adopted such an approach (Ontario Ministry of Training, Colleges and Universities, 2019_[32]). In the first stage, providers were scored on qualitative criteria, including their prior experience and proposed approaches to handling clients. To qualify for the second stage, providers had to meet a minimum quality threshold; in the final scoring, approximately 80% of the points were awarded based on qualitative criteria (with the remainder comprised of cost criteria; [Online Annex](#)).
39. The Australian Government does not use cost as a selection criterion in its employment services tenders. In contrast, past performance carries a weight of 30 percent in the Australian selection criteria, as providers typically have a long history of delivering employment services. Their performance during the entire contract period is assessed through a complex statistical measuring system (“Star Ratings”), which rewards placement performance adjusted for differences in jobseeker characteristics and local labour market conditions (Box 4.1). This may also reflect that a market price for employment services has been established, after more than 20 years of fully contracted out employment services. The Australian system has, however, been criticised for increasing market concentration over the years and high barriers to entry into the market (OECD, 2012_[10]).

Table 2.1. Market structure, contractor characteristics and selection criteria

Country	Programme name	Market structure	Types of contractors awarded contracts	Selection criteria
National programmes and large-scale local/regional programmes				
Australia	jobactive	Usually more than one provider operating in each contract area; jobseekers given choice for choosing providers	Large for-profit providers usually operating in multiple areas throughout Australia. 44 providers in the 2015-2022 period.	Governance (10%), Past performance (30%), Achieving outcomes for Job Seekers (30%), Meeting the needs of Employers (30%)
Ireland	JobPath	1 provider per contract area; 2 providers in total, each with 2 tender lots	For-profit providers with experience in providing training and employment services in the United Kingdom & Ireland	Cost (40%), Implementation of Services (18%), Delivery of Services (30%), Contract Management and Governance (12%)
Italy	Reintegration voucher (assegno di ricollocazione)	Geographically overlapping providers, with large numbers of different types of providers within each region, including the local offices of the PES	In 2018, there were 354 public providers (public employment offices) and 2 017 private providers, with 1 649 private providers having national accreditation (ANPAL, 2019). Larger regions tended to have more providers (e.g. 486 providers in Lombardy).	Minimum quality standards (clients are given vouchers to select from accredited providers). Educational institutions and employers/trade unions automatically eligible
Korea	National Employment Support Programme	One or more providers in each of the 49 Regional Labor and Employment Offices; provider number depends on the target number of participants	As of 2021, there were 533 contracted providers throughout Korea under the programme. Different types of providers including small, sole proprietorship business as well as larger for-profit and not-for-profit providers	not available
Netherlands	Reintegration markets / Open-house contracting	Thousands of providers, overlapping geographic areas	Mostly for-profit entities: only 4% were non-profits (mostly specialised in placing disabled clients)	Voucher-based model with client choice. Criteria for becoming a provider vary depending on contracting authority and target groups
United Kingdom	Work Programme	18 contract areas: two or three providers per contract area; 40 individual contracts (4x3 + 14x2)	Large prime providers; 14 primes delivered end-to-end services (delivery primes) and four primes managing primes, with no own end-to-end services. The 18 primes worked with over 800 sub-contractors.	Equal weight on quality and price
	Restart	England and Wales are divided into 12 contract areas with one "prime" provider per area	Prime providers work with sub-contractors; end-to-end service delivery roughly split half-and-half between the prime providers' own offices and their sub-contractors. Around four-fifth of the supply chain are private companies, around 6% come from the voluntary sector, around 7% from the public sector, and around 8% are employee-owned companies. Seventeen percent of the providers are small- and medium-sized enterprises (SMEs).	Qualitative criteria 65%; financial and performance offer 35%; innovative is the involvement in local economy actors in setting quality criteria and assessing bids (see annex)
United States (NYC)	CareerCompass, 2016-present	2 providers per service area for most service areas (serving general population); 5 service areas	Mostly for-profit organisations providing employment and training services throughout the US; also includes some not-for-profit organisations	Proposed services and client journeys (30%), providers experience and strength of partnerships (20%), other various qualitative aspects (50%)

Pilot programmes				
Canada (Ontario)	Employment Services Transformation	One provider for each of 3 catchment areas	A local subsidiary of a for-profit employment services corporation based in Australia, a consortium led by a non-profit based in New York state, and a local university	70% based on qualitative criteria, 22% based on bid price, and remaining 8% based on final stage interviews
France	Private Placement Operators scheme	One provider for each of 16 geographical areas	11 different providers were chosen; these included temporary agencies, consultancies specialised in the placement of workers after mass layoffs, and international firms specialised in the placement of job-seekers	not available
Sweden	Kundval Rusta och matcha (KROM)	20 delivery areas covering roughly a quarter of Sweden (as of June 2021). Overlapping markets with varying degrees of competition.	Mostly for-profit corporations, but also includes some non-profit entities.	Voucher-based model; any provider fulfilling eligibility criteria can provide services.

Source: Authors' compilation based on [Online Annex](#).

2.4.2. Procurement timeline

40. A final important consideration is the procurement timeline. Important steps in this procedure include consultations with potential providers, designing the tendering procedure, allowing for bids to be submitted and assessed, and preparations for launching service delivery. If these timelines are too short, the process will favour established providers at the expense of new market entrants and it may impede providers' ability to devise innovative solutions or build extended supply chains with specialist providers (Mansour and Johnson, 2006^[16]). A short timeline for implementation may also induce a slow ramp-up of performance, leading to poor outcomes for clients referred in the initial rounds (as was observed in the initial rollout of the UK Work Programme).
41. Given the complexity of the tendering procedure, an ideal timetable would be to allocate as much as a full year from the beginning of the tendering procedure until when contractors are to begin receiving clients (for an example of a detailed timeline, see Mansour and Johnson, 2006^[22]). Such a protracted timetable was used, for example, in the UK *New Deal* tendering process, which occurred between December 2001 and November 2002, as well as during Ontario's tendering procedure for its *Employment Services Transformation* pilot programme, which was initiated in April 2019 and commenced in January 2021. This can allow contracting authorities to allocate a certain amount of time during the tendering process for clarifications from potential bidders, and can allow for subsequent corrections being issued during the tender. Important details may become apparent only with time, particularly given the various potential providers: for example, the contracts may need to take into account that bids from not-for-profit providers may not be liable for value-added tax.

3. Stylised facts for contract design in contracted out employment services

42. A challenge in designing contracted-out employment services is aligning the incentives of private providers so that they act in accordance with the objectives of the public contracting authority paying for the services. This so-called principal-agent problem concerns the difficulties in motivating one party – in this case, the private provider – to act in line with the best interests of the principal – in this case the contracting authority – instead of its own interests. The problem arises because the two parties have different interests and because the private provider (the agent) possesses information not known to the principal, such as the precise details of their service delivery operations or how useful a particular approach may be for a specific client. As a consequence, the agent can exploit the information asymmetry to their advantage and the principal cannot ensure that the agent is working in the principal's best interests. It is worth noting that principal agent problems are not exclusively associated with outsourced employment services, as they may also be present even when employment services are provided in-house — but they may not be clearly identified as a prominent factor.¹⁵
43. Contracted provision of employment services often targets jobseekers who are furthest from the labour market in terms of finding employment or with more complex barriers to

¹⁵ Public organisations may have objectives that conflict with those of the funding authority (typically, the central government). Public organisations representing local or regional governments may wish to promote the economic development of certain regions, for example, or they may allocate funds to activities based on popularity with voters rather than based on the net present value of the increase in employment income for a jobseeker.

labour market integration (see Section 3.1), which may increase information asymmetries. Governments contracting out employment services therefore aim to apply different mechanisms that can serve to align the interests of the agent with those of the principal. This may concern the contract design with respect to the service model (see Section 3.2), the incentives set through the pricing model (see Section 3.3), as well monitoring and performance management (discussed in Section 4.).

3.1. Client groups in contracted provision

44. The majority of OECD countries contracting out employment services to outside providers set a maximum duration for jobseekers' participation in contracted provision and use contracted provision only for some specific client groups. An exception are countries where all employment services are delivered through contracted providers, such as Australia and the US programmes discussed here, where no public alternative exists. This section provides first an overview of programme durations in time-limited programmes and second some typical target groups of contracted provision, drawing on examples provided in the [Online Annex](#).

3.1.1. Participation in contracted-out employment services is usually of limited duration

45. Countries outsourcing the provision of employment services usually set a maximum duration for participants' attachment with one provider. Time limits may be the result of a limited duration of income replacement benefits as e.g. - in Wisconsin (United States).¹⁶ In many countries, the participants in contracted-out provision of employment services, however, receive means-tested unemployment or social assistance benefits with unlimited duration (e.g. Australia, Ireland, and New Zealand). The contracting authorities therefore set a maximum duration during which participants receive employment services by a contracted provider, which is here referred to as the "pre-employment period".
46. Participants who have not found employment during the pre-employment period may be referred back to public provision (e.g. Ireland, United Kingdom) or change provider (e.g. Australia). The schemes presented included in the [Online Annex](#) have different maximum pre-employment periods. Some examples are:
- Maximum of 6 months: Pilot schemes in Sweden¹⁷ and France, as well as *Employment Zones* in the United Kingdom.
 - Up to 12 months: The *National Employment Support Programme* in Korea lasts 6 months, but may have a 3-months follow-up period; *Employment Placement or Assistance Initiative* contracts in New Zealand, *STOM* in Sweden, and *Restart* in the United Kingdom have a maximum duration of 12 months.
 - 12 months or more: In the UK *Work Programme* the pre-employment period lasted up to 24 months; in Australia's *jobactive* scheme "work-ready" jobseekers remain up to 24 months with one provider, while harder-to-place jobseekers remain up to 36 months.

¹⁶ *Wisconsin Works (W-2)* targets recipients of *Temporary Assistance for Needy Families (TANF)*, which has a lifetime limit of 60 months.

¹⁷ For youth participating in the Swedish pilot programme, participation was as short as three months only (Benmarker, Grönqvist and Öckert, 2013_[73]).

47. For participants placed into employment, a notional “in-work period” starts. This refers to the period when participants have found employment (or started education) and providers start to receive outcome-based fees. During this time providers have a vested interest to keep in touch with participants to support their employment retention and, hence, receive additional payments of outcome-based fees. In-work support may involve continued counselling and career advice for clients, mediation between the participant and their employers, or discretionary monetary support (e.g. to cover childcare). In the Irish *JobPath* programme providers had to guarantee at least 13 weeks of in-work support once a participant started a new job (see Table 3.1). Often there are, however, few contractual details around the in-work period.

3.1.2. Clients groups in contracted-out employment services

48. Countries contracting out employment services in payment-by-results schemes typically target specific client groups. An exception are countries where all employment services are delivered through contracted providers, such as Australia and the US programmes discussed here, where no PES exists. Where employment services are contracted out only for some client groups, outsourcing of services for long-term unemployed and other hard-to-place client groups seems to be prevalent in an international comparison. The duration of unemployment is sometimes used to determine referrals to contracted provision, while in Sweden a statistical profiling tool guides the referrals. Some schemes – e.g. in Germany and Denmark – focussed on more job-ready jobseekers instead, with more difficult-to-place jobseekers receiving services from the PES (Rehwald, Rosholm and Svarer, 2017^[33]; Winterhager, 2006^[34]). Countries with larger scale outsourcing may cover very different client segments or run different schemes for different client groups. In parallel to the above criteria, clients are sometimes randomly selected from an eligible group, which can serve the twin purposes of facilitating an impact evaluation of the programmes and adhering to the budget allocated for the programme. Some client group examples are provided here, while more details can be found in the [Online Annex](#):

- Schemes targeting disabled and people with a health condition: New Zealand’s *Placement or Assistance Initiative contracts*; *Work and Health Programme* in the United Kingdom; *Fit-for-Work* programme in the Netherlands; and *Employment Support Programme for the Disabled* in Korea.
 - Schemes for long-term unemployed benefit recipients: *JobPath* in Ireland; *Work Programme* and *Restart* in the United Kingdom.
 - Programmes targeted at low-income households and other vulnerable groups: *National Employment Support Programme* in Korea; *CareerCompass* and *CareerAdvance* in New York City (United States) for all claimants of social assistance benefits.
49. Targeting specific client groups can serve several purposes. First, it can provide more tailored support to jobseekers with specific barriers to unemployment, possibly with providers who have experience with addressing specific problems or barriers (for a discussion of the benefits of different types of providers, see Section 2.1). Second, it can minimise the deadweight associated with providing potentially costly services to clients who would have experienced similar outcomes even in the absence of such an intervention. For example, referring individuals to contracted providers only once they are considered long-term unemployed can serve as a simple screening mechanism to avoid paying providers outcome fees for placing readily employable individuals into employment. However, such a strategy may come at the cost of not providing support to hard-to-place

jobseekers early on in their unemployment spell, when they are still closer to the labour market.

50. An important consideration with respect to client groups is whether participation in contracted provision is on a mandatory basis or on a voluntary basis. Voluntary participation in contracted provision is associated with another challenge important for contract design considerations, which relates to providers having influence over choosing participants who they serve. This is often referred to as “creaming” or “cherry-picking”. Providers then might cream-skim or cherry-pick jobseekers who are perceived as more job ready and easy to help, rather than participants who might not find employment or only after long periods of intensive support. One option to account for creaming in voluntary programmes is to offer lower fees than would be paid if the programme was mandatory. For example, the UK *Work Programme* had participants with similar employment obstacles but for some participation was voluntary, while for others it was mandatory. Consequently, the maximum possible fees per client in the mandatory group were much higher than in the voluntary group.¹⁸ If the outsourced scheme involves high per-client expenditure, as is the case for longer training programmes, some creaming might be efficient, ensuring that training is only delivered to participants who can benefit. Nevertheless, if provider performance is rated in terms of the per-participant employment outcome rate, providers have a perverse incentive to restrict their intake to more-employable participants, so as to achieve a high rating.
51. Mandatory programmes, in turn, are usually associated with conditionality requirements for the participants such as work-search conditionality for recipients of unemployment benefits or work-preparation conditionality for recipients of incapacity benefits. Research has shown that such conditionality requirements can increase the rate at which jobseekers transition into employment or off unemployment benefits (Abbring, Berg and Ours, 2005_[35]; Van Den Berg and Van Der Klaauw, 2006_[36]; Boockmann, L. Thomsen and Walter, 2014_[37]; van den Berg, van der Klaauw and van Ours, 2004_[38]; Lalive, Van Ours and Zweimüller, 2005_[39]). Unemployment benefits in OECD countries are associated with a set of eligibility criteria concerning job-search requirements and suitable work, with sanctions for non-compliance (Immervoll and Knotz, 2018_[40]). Non-compliance procedures such as warnings or sanction for non-compliance, however, typically remain under the control of the relevant government authority.¹⁹ Hence, providers often have an obligation to inform participants about their responsibilities and obligations, but they typically cannot apply sanctions in the case of non-compliance. Instead, reporting procedures need to be established for providers to report participants’ non-compliance back to the PES (or other relevant authority), which then applies warnings or sanctions. Such reporting mechanisms need to be established²⁰ and can involve higher transactions costs in

¹⁸ The *Work Programme* included participants receiving the incapacity benefit “Employment and Support Allowance (ESA)”. For ESA recipients with a youngest child under five or who were full-time carers, participation was voluntary (“ESA volunteers”), while for other ESA recipients (“New ESA claimants”) participation was mandatory. In 2011/12, the maximum possible fee for the voluntary group was GBP 3 700, while for the mandatory group the maximum possible fee was GBP 6 5000.

¹⁹ Exceptions include the *Activation Programme* running in Israel from 2005 to 2010, which entrusted the providers caseworkers also with sanctioning of participants (Benish, 2015_[76]), as well as the ongoing W-2 programme in the US state of Wisconsin (see [Online Annex](#) for details).

²⁰ For example, early feedback from the Swedish KROM programme suggests that provider staff found it difficult to get in touch with PES staff or were unsure on how to approach the PES (Benmarker et al., 2021_[74]).

comparison to some publicly delivered systems and potentially result in weaker conditionality regimes. For example, in a French pilot programme, private providers were found less effective than comparable PES provision. Part of this may have been driven by the absence of a sanction threat, as private providers – different to the PES – were not explicitly in charge of monitoring and sanctioning participants and virtually no participant at the private provider was sanctioned (Behaghel, Crépon and Gurgand, 2014_[23]).

3.2. “Black box” or (minimum) service requirements?

52. Outcome-based contracting implies that providers are largely or fully paid on the basis of the results they achieve. This in turn means that in an extreme scenario, there are no contractual agreements on the types of services clients receive. This is often referred to as a “black box” approach to service delivery, i.e. there are no mandatory service components and providers are free to choose which interventions to offer to participants in order to help them into, and to sustain, employment. On the one hand, this approach has the benefit of offering considerable discretion to providers to decide, on a case-by-case basis, which services to offer individual clients and adapt these to changing labour market needs. On the other hand, a fully-fledged “black box” model without any agreed minimum services could result in providers “parking” the hardest-to-place clients. Parking occurs when providers accept participants, but then provide little or no services to those who are perceived to be harder to place.
53. Countries’ experiences with “black box” contracting models indicate that the parking of hard-to-place clients often occurs in practice. When Australia’s provision of contracted-out employment services was initially rolled-out in 1998, it began with such a “black box” system. Providers were given considerable flexibility and no minimum service requirements, but with a differential fee structure where the highest fees paid for those who were hardest to place in a job. However, the initial system suffered from low levels of service for some hard-to-place clients and the gaming of the contracts by some of the private providers (Finn, 2011_[41]).²¹ Also the UK *Work Programme* had a black box approach to service delivery without mandatory service components and resulting in the parking of some harder-to-help clients (OECD, 2014_[24]). For Dutch contracted-out welfare-to-work services Koning and Heinrich (2013_[42]) found that fully performance-contingent contracts increased job placement rates for unemployment insurance recipients with relatively good job-finding prospects and they found no evidence of parking. In contrast, the fully performance-contingent contracts did not raise job placements of disability insurance claimants on average, with the evidence suggesting parking of hard-to-place clients, possibly driven both by risk and cost considerations of providers. Comparing a range of different contract designs used for private employment service providers in Germany in 2009 and 2010, Homrighausen (2014_[43]) finds that high outcome-based fees increased the integration success of private providers in the short and longer run in comparison to models with high performance-independent upfront fees.
54. In black box contracts with largely or fully performance-based fees, parking is a legitimate strategy for providers and may be efficient from the provider’s perspective: if the provider assesses the likelihood of an employment outcome for a participant to be close to zero, the provision of any services over the attachment period would be wasteful. Attachment periods are usually of limited duration and may – if too short – not provide enough time to invest in hard-to-place clients. As OECD (2014_[24]) notes, “[p]arking is likely to arise

²¹ “Gaming” refers to a situation where the contracted providers exploit weaknesses in the contract design through undertaking activities which result in better performance on contractual criteria but do not improve employment outcomes of the jobseekers (Finn, 2011_[41]).

because employment outcome payments fail to reflect the full social value of employment outcomes. In this case, service provision is unprofitable for the provider although it is profitable for society.” Being “written off” by the provider can however have far-reaching consequences for the client concerned including their self-esteem, intrinsic motivation and willingness to find work. Furthermore, even if providers are unsuccessful in placing individuals into employment – as is likely the case with a sizable share of their clients – they may have been successful in bringing them closer to the labour market, increasing their likelihood of entering employment in the longer term.

55. An alternative to a pure black box service model is to specify minimum service requirements. Programmes that adopt minimum service requirements can prevent providers from focussing their attention only on the most readily employable groups. Such requirements arguably provide a level of consistency in the system for both clients and providers and make it easier to compare the quality of services. Some elements, such as local office locations may be left at the bidders’ discretion, but may affect the assessment of bids during the tender stage.²² For example, for the Irish *JobPath* programme providers had to guarantee a maximum commuting time of 60 minutes for participants attending one-to-one meetings with employment counsellors, while the British *Restart* programme requires maximum commuting times of 90 minutes by public transport.
56. Both black box and minimum service contracts usually have some contractual service specifications such as requirements on local office facilities (e.g. accessibility for disabled people, premises that provides for privacy/confidentiality of clients), authorised and not authorised activities for programme participants, or educational background requirements for providers’ counsellors.²³
57. Programmes covered here have adopted a variety of different approaches regarding minimum service requirements (see Table 3.1). Often the minimum service requirements are set by the contracting authority and are the same for all contracted providers (in systems with more than one provider). While addressing parking (or at least full negligence of clients) to some degree, minimum service requirements may also be beneficial from a welfare perspective, as it keeps clients from becoming disconnected from the labour market. In addition, service requirements can vary across client groups based on their employability. For example, in New Zealand, the least employable clients must be served by providers via at least once weekly, in-person contacts, while for the most employable ones, monthly contacts via electronic means suffice.
58. While contracts may include minimum service requirements, upfront service fees paid to providers in such contracts are seldom defined as compensation for the minimum services. While the pay-outs may be in arrears and conditional on providing evidence of the delivery of the minimum services, they may nevertheless not cover the costs of the service provision. For the UK *Work Programme*, the British government did not set minimum service requirements in the request for tender, but asked providers to include minimum service in their tender offers (OECD, 2014^[24]) and included them in the contracts with successful

²² For example, in Australia, tenderers must demonstrate in their bid that the local office structure sufficiently covers local labour market needs. The tendering authority may select lower ranking bidders when geographic coverage is not sufficient in higher-ranking bids.

²³ For example, in the Swedish *KROM* programme the services provided should not cover medical rehabilitation or occupational rehabilitation, as this is not foreseen in the programme. In Slovenia, employment counsellors both in the public and the private sector must have tertiary education and pass an exam offered by the PES.

tenderers. These minimum service levels were made public so that clients were able to judge whether providers delivered what they had promised.

59. Regardless of the type of minimum service requirements imposed on providers, it may be useful to have a mechanism in place for the contracting authority to learn more about the specific strategies providers adopt to work with different types of clients. Such an information sharing mechanism could be implemented either formally or informally to re-design contracts in the future or, possibly, share with other providers. However, providers may be reluctant to fully disclose their good practices – which they may consider trade secrets – and it is also unclear to what extent successful practices could be transferred from one provider to another.

Table 3.1. Pre-set minimum service requirements in results-based contracts

Minimum service requirements as set by the contracting authority in the request for tender

Country, programme name and duration	Minimum service requirements
Australia: Jobactive – Stream B ^a (2015-2022)	Conducting a comprehensive initial interview, developing an individual action plan with the jobseeker, arrange, monitor and manage jobseekers' annual activity requirement.
Belgium (Flanders) – Vouchers for coaching and mediation in concession (2021-2022)	Compiling an individual action plan for each client, which is then shared with the contracting authority (VDAB). Together with the participant, the contractor structures the actions that should lead to sustainable employment and translates these into assignments with deadlines.
Canada (Ontario): Employment Services Transformation (2021-present)	Providers are scored on a variety of key performance indicators, including surveys of customer satisfaction, with possibility of early termination for poor performance.
France: Private Placement Operators scheme (2007-2008)	Weekly counsellor-client meetings and a counsellor caseload of no more than 40 jobseekers per counsellor
Ireland: JobPath (2015-2021)	Initial meeting, face-to-face meetings ^a at least every 20 days, individual action plan, in-depth meetings every quarter, in-work support for at least 13 weeks, final meeting.
Italy: Reintegration vouchers "Assegno di ricollocazione" (2017-present)	Providers were to provide a revised individual action plan for their new clients (for which they were allocated up to three hours).
Netherlands: Various voucher programmes	Not explicitly defined, but in order to have their contract renewed, providers must meet a set of minimum requirements (e.g. client satisfaction results, placement percentages) to be on the potential providers list. Providers with better results have a greater likelihood of being selected to continue delivering services.
New Zealand: Employment Placement or Assistance Initiative contracts	Minimum service requirements range from once monthly contact – which can be predominantly electronic – for the most employable group to weekly contacts for the least employable group. Providers are also required to construct an Individual Action Plan for each client.
Sweden: KROM (2020-present)	Individual action plan; individual development meetings of at least 30 minutes with each participant at least once every two weeks (in-person meeting once a month, other meetings can be digital); one activity for each client every week (e.g. skills and competency assessment; study and career guidance; contacts with employers; shorter training programmes; language courses).
United Kingdom: Work Programme (2011-2018)	No minimum service requirements in the request for tender.
United Kingdom: Restart (2021-ongoing)	At a minimum, counsellor-client meetings every two weeks (either face-to-face ^b or through digital contact). Once every four weeks, must have face-to-face meetings.
United States (New York City): CareerCompass and CareerAdvance, 2016-present	Individual assessment of clients. Afterwards, aggregate minimum service requirements apply. For example, in CareerCompass, 56% of clients should participate in supplementary activities that include job search and job readiness and 16% of clients are expected to engage in self-directed job search.
United States (Wisconsin): Wisconsin Works (2013-present)	Providers are required to meet at least once per month with each client, and compile an Individual Action Plan at least every 6 months.

Note:

a. *JobPath* providers had to guarantee a maximum commuting time of 60 minutes for participants attending one-to-one meetings with employment counsellors.

b. Participants should not be expected to travel by public transport for more than 90 minutes from their home address to the provider's premises when attending in-person meetings.

Source: Authors' compilation based on [Online Annex](#).

3.3. What price to pay for contracted out employment services

60. A key element of contracted-out employment services is setting the price the contracting authority pays for the successful delivery of services. Outcome-based contracts imply that a programme’s objectives can be clearly defined in measureable outcomes and that the outcomes can be attributed to the contractors’ interventions. When these pre-conditions are not met, other forms of contracting such as “cost-reimbursement” or “fixed-price” (or “fee-for-service”) contracts should be considered. For employment services, this requires the ability to track post-participation outcomes (i.e. employment – including self-employment – or education) over a longer period.²⁴ This information is key for the contracting authority, in order to define the value of the services bought and, hence, set the price for the outsourced services. Likewise providers need it to cost their activities and set a price. This section first discusses the process of developing a price for outsourced employment services. Next, considerations for payment models with respect to results-based and not results-based fees are presented. While pure results-based payment models have been used on a number of occasions in outsourced employment services, mixed models are more prevalent. The weight of results-based fees also has important implications for the market structure in quasi-markets for employment services, as discussed in Section 2.1. The final sub-section presents differential payment models, which are important in programmes with a diverse range of participants with respect to their distance to the labour market.

3.3.1. Linking prices of contracted provision to the costs and benefits of contracted provision

61. The delivery of publicly financed employment services (or “placement and related services” as in the OECD classification of labour market programmes) is rarely assessed with respect to the costs and the benefits such systems provide. Budgets for employment services and active labour market programmes may vary in line with unemployment as for example in Denmark, the Netherlands and Switzerland (OECD, 2021_[44]). However, the full cost and benefits of placing jobseekers into sustainable employment are seldom assessed as a “per-unit” cost. Nevertheless, this is important when contracting out such services to independent providers, especially as one driver for governments in contracting out employment services is to achieve government savings – i.e. a net benefit – in comparison to alternative delivery modes of employment services. Contracting authorities usually do not publish their price-setting mechanisms in detail. This sub-section therefore presents some general considerations important for the price setting of employment services. The challenge for contracting authorities is to design payment models that attract providers to participate in tenders, to ensure that payment models create the right incentives to achieve the desired outcomes, as well as to formulate performance expectations to achieve value for money (see Section 4.).

62. A natural starting point for setting fees in contracted provision is a cost-benefit analysis of a planned scheme, taking into account the benefits of a change in outcomes (i.e. the value of placing additional individuals in employment) and all costs of the contracted provision. Ideally, cost-benefit analysis takes into account the “full” costs and benefits for the individual and society as a whole – i.e. taking into account impacts such as health, social impact, economic activity, environmental impacts and crime. In practice, contracting

²⁴ Participants in employment and related service provision are usually unemployed and registered with the PES. To trace post-unemployment outcomes, the PES, hence, requires access to a register that traces employment outcomes (OECD, 2020_[75]).

authorities often only consider the impacts on government net expenditure and contrast the costs of contracted out employment services with the potential benefits.

63. The contracting authority can then develop (notional) prices of contracted provision, taking into account minimum performance expectations over and above the non-intervention level – i.e. the outcomes that expected to occur in absence of any changes to the delivery mode – and the structure of the payment model with respect to the weight of service versus outcome fees (see Section 3.3.2). Hence, contracting authorities may set a high proportion of fees paid on a results-basis with the aims to ensure that providers would run a loss, if they do not achieve a sufficient number of employment outcomes. Minimum performance targets for providers in turn, aim to contractually obligate providers to achieve a minimum rate of employment outcomes (see Section 4.1).
64. The price structure developed by the contracting authority may then be used to set a price in the request for tender. Prices set at the tender stage are shown in Table 3.2, including the maximum possible fee per jobseeker in the last column. When a price is set by the contracting authority, the price may act as “lead price”. In the request for tender, bidders may be invited to consider offering lower prices, which are part of the cost criterion in the tender assessment. During the tender stage, it is important to provide bidders with comprehensive information around how the non-intervention level and performance expectations have been developed. Bidders require this information to assess whether the payments generated through the programme cover their costs and offer a sufficient reward for the financial risk that payment-by-results schemes imply. When the payment model is not attractive enough to providers, tenders may close without bids being submitted.²⁵ Some countries have taken a different approach, leaving the price-setting completely to market forces. This approach has been used for the Irish *JobPath* programme and the French Private Placement Operators pilot ([Online Annex](#)). The contracting authority’s own price considerations then remain notional and are never published.
65. Whichever approach chosen the contracting authorities often aim at having full transparency on the costs of tenderers. In order to assess the potential profit margin, tenderers could be asked to lay open all the expected costs associated with the delivery of the services proposed in their bid. This approach has been used for the Irish *JobPath* and the British *Work Programme* scheme. As the Irish Government did not set lead prices in the tender, the tenderers’ costs plus profit margin translated into the fees eventually paid (Department of Social Protection, 2013_[45]). In case of the British *Work Programme*, costs did not directly translate into prices, as the contracting authority set lead prices. Providers had then option to offer lower prices. The information on providers’ costs is important for the contracting authority in assessing the bids. It supports the financial assessment and viability in different scenarios (e.g. different economic scenarios) to minimise the risk of providers defaulting because of cash-flow difficulties (National Audit Office, 2015_[14]). Risks, nevertheless, remain, as the transparency during the tender stage may not safeguard against providers later gaming the contract. The British National Audit Office (2015_[14]) highlights the risk of schemes with both service and outcome fees, where providers may try to maximise their profit margin on service fees, ignoring the results-based fees. OECD (2014_[24]) highlights the related risk of excessive parking of more difficult-to-place

²⁵ In the United Kingdom, the tender for a pilot offender rehabilitation programme at Leeds prison in 2012, closed without a successful bid (National Audit Office, 2015_[14]). In Bulgaria, tenders published in 2017, 2018 and 2019 for the provision of supported employment of people with disabilities by private mediators (in contracts with large outcome-based fees) closed without applications received by the PES.

jobseekers when providers cannot meet the performance expectations and, hence, do not generate enough income from results-based fees.

66. Furthermore, contracting authorities may need to develop contingency plans for possible “over-performance” of providers. When the US state of Wisconsin’s W-2 programme was first implemented in the 1990s, providers ended up earning profits amounting to 10% of the contracts’ value, which included social assistance payments, leading to allegations of excessive profits (Heinrich and Choi, 2007_[25]). This requires a good understanding and assumptions around the non-intervention level, as well as an understanding of the full costs but also benefits of higher than expected performance (Mansour and Johnson, 2006_[16]). When contracting-out employment services, (sustained) employment outcomes for the participants will not only be driven by the providers efforts to match participants to jobs, but also the overall labour market situation, which may change over the course of the contracting period. To address the possibility of paying an excessive price in an upbeat labour market, the pricing model of the Irish *JobPath* programme contained a link with labour market developments. The contract enabled the contracting authority to apply discounts to the initial prices submitted by tenderers if employment exceeded a certain reference level. The reference level assumed relatively weak employment growth and was surpassed by the positive labour market developments in Ireland in the years following the *JobPath* roll-out. Consequently, the contracting authority applied discounts in later years of the contract.²⁶

3.3.2. Most payment models include both service and outcome-based fees

67. Well-designed payment-by-results models increase the likelihood that a programme will be cost effective, as providers receive all or a large proportion of the fees per client only after achieving contractually agreed employment outcomes for participants. Outcomes usually refer to participants’ labour market integration and sustained employment or educational and training outcomes. While outcome-based fees often constitute the largest share of the potential fees per participant, payment models usually have a combination of service- and outcome-based fees. Common forms of service fees are:
- *Administration/ attachment/ registration fees*: Paid to providers for each participant starting on the programme and often not conditional on the provision of any particular service to the participants. Such fees support the upfront financing of providers’ operations, but only to a limited degree.
 - *“Fee-for-service” payments*: Paid in exchange for services provided to each participant and usually paid in arrears (against evidence of actual provision of services).
 - *Flexible service funds*: Payments that depend on the number of participants served, which can be used flexibly across all participant, but must be spent on specific services.²⁷

²⁶ After growth in aggregate employment exceeded the baseline figures foreseen in the tender, payment fees were reduced by 8% in 2017 (Office of the Comptroller & Auditor General, 2018_[66]).

²⁷ Australia has been helping job seekers through a flexible *Employment Fund* for many years. For each client a notional allocation goes towards the *Employment Fund*, which is then available to purchase goods or services for each individual jobseeker according to their needs. The *Employment Fund* is used to reimburse purchases made by employment services providers for any jobseekers to enhance their employability.

68. Table 3.2 provides an overview of different types of fees paid, including information on the weight of service and outcome-based fees as a proportion of the maximum possible fees per client. For the examples shown in Table 3.2, outcome fees range from 30-100% per client, and in most programmes outcome-based fees make up for the larger proportion of the total potential fees per client. The UK *Work Programme* paid a small and declining attachment fee in the first three years of the contracts, which dropped to zero from year four of the contracts. Large fee-for-service payments carry a risk of over-serving clients instead of focussing on outcomes. In this Swedish *KROM* programme this is countered by paying speed premiums. When clients are placed early, all non-claimed service fees are paid as a speed premium (see [Online Annex](#)).
69. Increasing the proportion of up-front service fees may be a necessary strategy for contracted out employment services that are rolled-out during a recession (OECD, 2009^[46]). Not only does the cost of placements increase during a recession due to decreased job vacancies, providers paid results-based fees may also demand a risk premium for their services in an environment of heightened uncertainty. Increasing the proportion of service fees paid in advance would account for both of these factors. For example, New York City converted payments to 100% fixed fees during the COVID-19 pandemic (see [Online Annex](#)). Furthermore, given that projections of aggregate employment growth are often subject to an unusually high degree of uncertainty, it may make sense to make the provider fees (service and outcome-based fees) contingent on realised macroeconomic indicators, with *ex post* adjustments for deviations from the reference employment growth scenario (e.g. example from Ireland discussed before).
70. Outcome-based fees are usually contingent on employment outcomes for participants over a minimum period.²⁸ Rewarding only the conclusion of a job match clearly carries the risk of undesirable outcomes such as very short-term contracts or even fraudulent behaviour (e.g. one-day contracts to fulfil the notion of an outcome). A common requirement is that the participants stop claiming out-of-work benefits, although some programmes may also reward employment outcomes associated with part-time unemployment benefits. Programmes in some countries only pay a single outcome-based fee after a minimum period. For example, the Swedish programme *KROM* pays a single outcome fee after four months. *KROM*, different to most other programmes shown in Table 3.2, rewards both employment and educational outcomes. The optimal length of the outcome measurement and payment of outcome-based fees is a matter of judgement and practicality. OECD (2005^[47]) argues for a period of more than two years, as the pay-off of investments into employment services may only amortise then. However, this is difficult to administer and most countries stop paying outcome fees after a much shorter period. A number of schemes pay results-based fees for different employment durations (see Table 3.2), which may go up to 12 months as in the Irish *JobPath* programme or two years for some payment groups in the UK *Work Programme*. One challenge for providers is often the requirement to provide evidence of the participants continued employment, as not all countries link their unemployment and employment registers to enable automatic tracking of employment outcomes.

²⁸ One problem associated with tying outcome-based payments to only tangible results such as employment outcomes is that it does not provide incentives for providing activities that do not have immediate tangible results but increase the likelihood that an individual will enter employment further into the future. One approach, piloted in Australia, involves a measure of “distance travelled” towards employment, based mainly on comparing survey responses addressed to jobseekers and providers at different points in time (OECD, 2014^[24]).

71. The proportion of providers' total income generated through service fees is usually small compared to income from outcome-based payments in order to adequately incentivise providers and increase value for money in publicly financed employment service provision. At the same time, however, introducing payment models with a larger share of service fees –possibly combined with lower total potential payments – may also be a sensible strategy to include not-for-profit actors who may find it difficult to operate in a system with largely outcome-based fees.

Table 3.2. Most outsourced employment services pay a large weight on outcome-based fees

Types of service and outcome-based fees and maximum potential per-client fees

Country, programme name and duration	Service fees (details)	Outcome-based fees (details)	Outcome-based fees (weight)	Maximum possible per-client payment
Australia: Jobactive – Stream B ^a (Fees as of August 2021)	AUD 539 administration fee in year 1 (paid six monthly, i.e. AUD 269.50*2)	Payable after 4 weeks (AUD 808.50), 12 weeks (AUD 1 617) and 26 weeks (AUD 2 048.20)	89%	AUD 5 012.70
Canada (Ontario): Employment Services Transformation (2021-present)	Providers receive monthly, lump sum attachment fee payments.	For the least employable group, the maximum potential payments are higher and the distribution of the payments is more front-loaded. For the most readily-employable group, the share of payments for employment at months one and 12 are 0% and 47.1%, respectively; for the least employable group, the respective shares are 9.8% and 37.9%	40-60%	CAD 344 to CAD 3 230
France: Private Placement Operators scheme (2007-2008)	Attachment fee paid upon referral of individual to provider.	35% of maximum contract value paid upon entering employment, 35% if client remains employed for 6 months	70%	EUR 3 000 to EUR 3 947
Ireland: JobPath (2015-2021)	Registration fee (amount determined through provider bid)	Outcome fees payable at 13, 26, 39 and 52 weeks (amount determined through provider bid)	65% or more	Not publicly available
Italy: Reintegration vouchers (2017-ongoing)	Up to EUR 106 for each new client so as to compile a new individual action plan	Payments vary according to client characteristics and type of employment contract, with different payments for permanent contracts, fixed-term contracts of 6 months or more, placements into fixed-term contracts of 3 to 6 months	over 90%	EUR 250 to EUR 5 000
Korea: National Employment Support Programme (2018-ongoing)	Upon completing an individual action plan with participants the providers receive between KRW 400 000 and KRW 650 000 per participant	Outcome fees vary depending on the i) employment competency of the participant, ii) the participant's income in the new job, and iii) the speed of finding employment	58-73%	KRW 300 000 to KRW 1.8 million
New Zealand	NZD 1 040 to NZD 2 704	Vary across three client segments, with payments triggered after 0, 3, 6,9 and 12 months of employment	73-78%	NZD 2 964 to NZD 9 360
Sweden: KROM (2020-ongoing)	SEK 7 260 to SEK 11 880 for 6 months	Paid for either entry into employment or into (longer-term) education/training programmes. 6-month attachment fee is converted into a "speed premium" if client becomes employed before 6-month attachment period	70-80%	SEK 34 820 to SEK 61 760
Sweden: STOM (2014-2021)	SEK 6 500 to SEK 18 200 for 90 days	Performance fees were paid for employment outcomes of at least 4 months or education and training outcomes of at least 20 weeks	50-65%	SEK 18 500 to SEK 36 200
United Kingdom: Work	Attachment fees (GBP 300-600 in	Job outcome payments (GBP 1 000-3500) paid after 26 weeks (some groups	89-100%	GBP 3 700-

Programme ^b (2011-2018)	Year 1 dropping to GBP 0 in Year 4)	after 13 weeks); afterwards 13-26 sustainment payments (GBP 115-370) for every additional 4 weeks in employment depending on payment group (i.e. last payment after 1-2 years)		13 720 (depending on payment group)
United Kingdom: Restart (2021-ongoing)	Attachment fees decrease with duration of attachment. In month 48, the monthly attachment fee is 1/16 the value from month 1.	Outcome-based fees are paid when client after client has earned 6 monthly of cumulated earnings at 16hrs times national minimum wage within 18 months of starting the programme	Approximately 70-80%	Not publicly available
United States (New York City): CareerCompass and CareerAdvance, 2016-present	In the first contract year 100% of the payments were fixed.	For CareerAdvance, outcomes-based payments were triggered based on sustained employment after 1, 6 and 12 months. During the COVID-19 pandemic, payments were converted to 100% fixed fees	30-40%	(only aggregated payments are specified)
United States (Wisconsin): Wisconsin Works (2013-present)	For each referred client, providers receive attachment fees ranging from USD 132 in the urban Milwaukee region up to USD 245 in the less-densely populated rural regions	Separate payments for: job placements after (i) 31 days and (ii) 93 days of sustained employment, respectively; (iii) job placements of individuals who have received at least 2 years of social assistance benefits; and (iv) job placements into high-wage jobs	Approximately 60%	USD 5 000

Notes:

a. Stream B clients are jobseekers with a moderate to high risk of long-term unemployment. The fees refer to a situation when the jobseekers lives in a non-regional area, is 30 years or older and finds employment within the first year of being unemployed. Different fees apply to those under 30 years, those living in regional areas and placed into employment after a longer duration of unemployment. The “maximum possible per-client payment” figure shown in this Australian example is applicable to the particular circumstances outlined in this note.

b. Range provided across nine different payment groups and reflecting the changing fee structure over the first four years. Not reflected is the reduction in job-outcome payments from Year 3 and “incentive payments”. Incentive payments (GBP 1 000 for every additional job outcome) were paid from Year 4 to high-performing providers delivering jobs outcomes 30% above the non-intervention outcome level.

Source: Authors’ compilation based on [Online Annex](#).

3.3.3. Differential pricing to reflect participants distance to the labour market

72. Contracted-out employment services with a narrowly defined eligible group of jobseekers and small-scale pilots may have a relatively homogenous group of referred jobseekers with respect to labour market barriers. In contrast, larger scale programmes aim to serve a wide range of participants, with varying distance to the labour market. Schemes with large and diverse groups of jobseekers typically segment participants into different payment groups. The payment groups may differ with respect to the total potential fees and a different weight of service and results-based fees. Sweden currently trials two different payment schedules with different weights of the service and outcome-based fees.²⁹ Australia increases service fees over time with participants' unemployment duration. Italy's national voucher for employment services makes payments on a sliding scale, depending on a projected probability of remaining unemployed as assessed by a profiling model (see [Online Annex](#)). Another important aspect for schemes with a large variation in regional labour market outcomes is to vary fees by location. Under the *jobactive* scheme, Australia increases fees by 25% in service delivery areas defined as "regional".
73. Such "differential payment models" are designed to encourage providers to work with all participants including those who are less likely to move into work, in order to minimise the risk of parking. The challenge for the contract design is to construct systems that mitigate such behaviour while also promoting or not significantly threatening cost-efficiency in terms of achieving employment outcomes. More sophisticated models could be possible, for example varying outcome-based fees as a function of the quality of job matches and wages earned. The matching quality is implicitly rewarded through paying outcome-based fees over a longer period, assuming that the duration of employment is a signal of quality. Linking outcomes to wages earned is not a usual practice. Most schemes generally reward part-time employment with lower fees than full-time employment (see e.g. Australia and Sweden as example in [Online Annex](#)), and some schemes have tied payments to reductions in benefit payments (e.g. in the US state of Wisconsin).
74. The segmentation of a potentially large and heterogeneous group of jobseekers into different payment groups is another challenge for contracting authorities. Ideally, this is achieved through segmenting jobseekers into "groups", "categories" or "clusters" that include jobseekers with similar characteristics and distance to the labour market. The assumption is that the time until placement into employment has a low standard deviation for jobseekers within the same group, which has important consequences for setting prices.
75. Segmenting jobseekers into groups, may be achieved through a statistical profiling model, which is used to allocate jobseekers across a small number of categories. Allocations to categories are based upon a regression model, which predicts the claimant's probability of becoming long-term unemployed as a function of a large set of variables.³⁰ A growing

²⁹ For the *KROM* scheme Sweden trials two different compensation models. In some areas the payment model offers higher basic compensation, but lower performance fees. The total potential compensation is 8% lower than in the areas with higher outcome-based fees. In Australia, both service and outcome-based fees increase for participants placed later in the unemployment spell. For participants placed into employment between 6 and 12 month service fees (administration fee and employment fund contribution) amount to 25% of the total fees (assuming the participants remains employed for at least 26 weeks). For participants placed between 36-42 months, service fees amount to 32%. For all details and examples from other countries see [Online Annex](#).

³⁰ The variables used differ across countries, but can be broadly characterised as socio-economic characteristics, labour market history, hard and soft skills, jobseekers' behaviour, and regional

number of OECD and EU countries use this kind of profiling to segment jobseekers into different service streams also within the public provision of employment services (Desiere, Langenbucher and Struyven, 2019^[48]). Australia and Sweden use statistical procedures to assign jobseekers to different payment groups before referring them to contracted providers. In Ireland, which mainly referred its stock of long-term unemployed to contracted providers, the duration of unemployment is used to assigning jobseekers to different payment groups: i) passing 12 months threshold on live register; ii) one to two years on live register; iii) two to three on live register; iv) more than three years on live register; v) working part-time while claiming unemployment benefits.

76. Nevertheless, the challenge remains to develop a pricing system that targets the hardest to help, does not create perverse incentives and is still easy to administer (Finn, 2009^[5]). Instead of creating payment groups with a fixed price per participant within one payment group, some commentators have also called for using so called “target accelerator” or “escalator” payment models. Within such models, providers are paid higher fees as the total percentage of participants in each payment group reaching sustained employment increases. Such models would require providers to help a larger proportion of participants to in order to be profitable, but also reflect the higher costs of harder-to-help participants (Finn, 2009^[5]).

4. Performance management in contracted-out employment services

77. Performance management is an important aspect of any service the public sector contracts out. Service contracts typically involve managing the quality delivered through the contracted providers. For outcome-based contracts, performance against pre-set targets must to be managed in addition. Managing contracts requires balancing two competing objectives: promoting innovation and flexibility amongst the private providers while regulating processes and reporting requirements to limit the scope for contract gaming. Contracted providers should be regularly monitored to ensure that they are providing a satisfactory baseline performance through site visits, payment claims verifications and monitoring client complaints. Contract termination clauses should allow for financial penalties or early termination of contracts in the most egregious cases.
78. This section discusses the role of the contracting authority in managing the performance of providers. This involves setting demanding but achievable performance targets that can be assessed in a timely and objective manner, monitoring these performance targets and dealing with possible underperformance.

4.1. Setting performance targets

79. The overall objective of activation strategies is to raise the overall employment rate through connecting people with jobs and fostering more inclusive labour markets (OECD, 2015^[49]). Publicly-financed employment services – whether they are delivered by the PES or contracted providers – contribute to this overall objective through matching “more” jobseekers with sustainable jobs than would occur in the absence of such services (the non-intervention level). Within publicly provided employment services these overall objectives are typically reflected in PES performance management systems (OECD, 2015^[49]). In

labour market information. An overview of profiling models in OECD countries is provided in: http://www.oecd.org/els/emp/Overview-profiling-systems_OECD_countries.xlsx.

contracted-out provision of employment services, this implies setting performance targets, such as

- Supporting more jobseekers (back) into employment;
 - Reducing the time jobseekers are out of work;
 - Reducing the risk of repeated unemployment spells; and
 - Achieving high levels of client satisfaction in employment services.
80. Setting performance targets in contracted out employment services can be an effective tool to address providers' underperformance and gaming. However, another important responsibility of the contracting authority is to facilitate the work of the providers. Despite its considerable power as both the ultimate purchaser of services and the rule-setting authority, the contracting authority should recognise that the success of any contracting model hinges crucially on establishing conditions in which contractors can conduct their business successfully. The contracting authority should thus engage in constructive dialogue with the providers about any concerns they may have about e.g. anticipated client volumes or information exchange, consult with them about possible future changes to the parameters of the programmes, and generally facilitate their work by minimising unnecessary transaction costs.
81. Performance management has both qualitative and quantitative aspects and different methods can be used to measure performance, including:
- Monitoring providers, e.g. through inspections of the providers activities (including site visits), carried out by the contracting authority or external assessors/auditors.
 - Client feedback as measured through client surveys and as observed through client complaints (based on a standard procedure for dealing with client complaints).
 - Quantitative assessment of the performance achieved as measured, e.g. as the proportion of jobseekers referred to the provider who are placed into employment and remain employed for a certain period of time.
82. With respect to quantitative performance targets, the challenge for the contracting authority is to set targets that are demanding, but achievable and allow for an objective assessment. This requires establishing the baseline or “non-intervention” level before the intervention starts. Determining the non-intervention level can be a challenging task for the contracting authority (National Audit Office, 2015^[14]). It requires comprehensive information on the labour market outcomes of the programme participants, but also the ability to forecast these outcomes in the future in case of longer contract periods, which may prove challenging in volatile labour market situations. Once a baseline has been established, performance targets can be set over and above the baseline, contributing to the “additionality” of a scheme.³¹ Contracting authorities may choose to set minimum performance expectations, which should be demanding, but achievable. Instead (or in addition to) of setting minimum targets, tenderers could be requested to make performance offers in their bids. Whatever approach is chosen, full transparency on how the baseline and performance targets were set is required during the tender stage, to enable bidders own risk-assessment of the tender and enable them to demand an appropriate risk premium. Furthermore, different targets may

³¹ At a minimum, a scheme of contracted provision should place enough additional jobseekers into employment to reach a “break even” point with respect to government expenditure: The total payments to providers then equal the government savings due to reduced benefit payments etc. Ideally the contracted provision achieves additional employment outcomes beyond this minimum.

have to be set for different regions and client groups covered by the contracted provision to reflect both local labour market conditions as well as jobseeker characteristics.

83. Establishing a baseline may, however, not be feasible in all types of settings, either for a lack of data or because a “non-intervention” level cannot be defined. Another approach to defining a baseline and setting performance targets is the assessment of the relative performance of providers in comparison to other providers serving the same client group in the same labour market settings. The Australian “Star Ratings” system broadly succeeds in achieving this (see Box 4.1). The Australian Star Ratings are measures of placement performance adjusted for differences in jobseeker characteristics and local labour market conditions. The Australian systems builds on a comprehensive data of jobseeker characteristics (profiling information) and local labour market information, as well as particular set-up of contracted provision in Australia. Typically, multiple providers serve jobseekers from the same client segment within one local area, which enables unbiased comparisons to be made of providers facing the same local labour market conditions.

Box 4.1. Star Ratings in Australia's employment services system

Star Ratings are measures of placement performance of contracted providers adjusted for differences in jobseeker characteristics and local labour market conditions. High performance is promoted by basing contract extensions and the threat of contract termination on the providers' Star Ratings.

Based on a rich set of data, Star Ratings compare providers' actual performance with their expected performance for each client. Many separate regressions are conducted using different provider outcomes (e.g. achieving 26-week employment outcomes) as the dependent variable. The Star Ratings methodology also includes an "Indigenous Outcomes Incentive". It is an adjustment to the Star Ratings based on the outcome for Indigenous participants to give extra incentives for providers to achieve better outcomes for jobseekers belonging to Australia's Indigenous population.

The main steps involved obtaining Star Ratings are:

1. Using individual-level data, the outcome variable (e.g. "paid or not paid a 26 week outcome") is regressed on jobseeker characteristics and local labour market conditions. The local labour market conditions taken into account include the employment growth rate, the employment shares of particular industries, the registered vacancy/jobseeker ratio and the survey-based local unemployment rate;
2. The performance measure is then the ratio of actual outcomes to outcomes predicted by the estimated equation. Performance at site level and at contract level is a weighted average across all the different payment groups; and
3. Star Ratings are based on the weighted average ratio of actual to predicted outcomes: five stars are assigned if performance is 30% or more above the national average; four stars are assigned if performance is between 15% and 29% above the national average; three stars for performance in the range of + or -14%; two stars for performance between -15% and -39%; and one star for performance 40% or more below the national average.

The Australian Department of Education, Skills and Employment publishes Star ratings on a quarterly basis and nearly all sites across Australia have an overall Star Rating. While Star Ratings are used to by the Department to assess provider performance, the results are also available to all jobseekers to support their choice of provider. An online tool allows jobseekers to search for providers in their local area and shows the Star Rating of each provider (<https://jobsearch.gov.au/service-providers/search?jsk=1>). Providers may also use the results to manage their different sites. The ratings probably identify good and bad performance of individual sites run by a large provider more accurately and at lower cost than the provider's management could do itself.

Source: Department of Education, Skills and Employment (2015), "Performance Framework Guideline", <https://www.dese.gov.au/jobactive/resources/performance-framework-guideline>.

4.2. Enforcing performance targets and dealing with underperformance

84. As discussed in Section 2.2.2, market entry and exit need to be relatively costless for quasi-markets to function effectively. In practice, this may be achieved by having a contingency procedure to deal with providers who are underperforming. Without such procedures, underperforming providers may not have enough incentives to improve their performance. This requires the transparent setting of performance targets that can be assessed objectively and in a timely manner, to enable the contracting authority to manage providers and identify possible underperformance.
85. Underperformance of providers may result in: i) performance improvement procedures; ii) the reallocation of (some or all) of their market share to better-performing providers; or iii) contract termination procedures. Important considerations for the contracting authority are ensuring the continuity of service for current participants, identifying causes of underperformance and ensuring swift replacement of underperforming providers, if necessary. Performance improvement procedures usually involve the retention of fees (partially or fully) through the contracting authority until performance has improved.³² In addition to guiding jobseekers' choice of providers, *Star Ratings* in Australia (see Box 4.1) are used to reallocate market shares from low-performing to high-performing providers, including the possibility of excluding providers altogether in an employment region (Australian National Audit Office, 2017_[50]). In addition, to monitoring outcomes, it is important for contracting authorities to monitor qualitative aspects of contracted provision, also to counter a possible negative public perception of contracted provision (National Audit Office, 2015_[14]).
86. The development of performance management systems and the continued performance assessment and management of contracted providers, however, have not been applied rigorously in all schemes. Consequently, underperformance of contracted providers may also (amongst other reasons) be explained by deficits in the performance management (Winterhager, 2006_[34]). A lack of performance management has also been given as one possible reason of poor results in a French trial programme of contracted-out employment services (Behaghel, Crépon and Gurgand, 2014_[23]).

5. Does it work? Counterfactual impact evaluations of contracted-out employment services

87. The preceding sections have discussed the numerous factors that need to be taken into account in the design and implementation of contracted-out employment services. While the lessons described in this paper can serve as useful reference points, ultimately the success of each implementation is subject to the interplay of a wide array of factors. These include the institutional framework determining the incentives faced by jobseekers to look for and take-up jobs, the prior experience of private providers operating similar types of programmes, and the precise parameters of the programme (payment model, contract design) as well as the macroeconomic context. Conducting formal counterfactual impact evaluations is thus important to assess whether contracted-out employment services are

³² For example, contracts for the Irish *JobPath* programme included provisions to withhold 15% of fees from providers who have not delivered on their service statement, have not achieved their performance bid or have achieved an unsatisfactory rating in client surveys (Department of Social Protection, 2013_[72]).

effective. By examining clients' labour market outcomes, they can also provide guidance for future modifications in the provision of employment services.

88. The fundamental challenge in any type of impact evaluation is to accurately measure the counterfactual: what would have occurred to programme participants if they had not been subject to the policy intervention. In the case of contracted-out employment services, the natural counterfactual in most cases is the status quo, where clients are either served by the PES or (possibly) do not receive any form of publicly-provided job counselling. Measuring the impact thus entails comparing the outcomes of individuals who received services from private providers – those in the treatment group – with an estimate of the outcomes that what would have occurred if they had not.
89. This section first discusses the types of counterfactual impact evaluations and the limitations to the internal and external validity. This is followed by a review of the empirical evidence.

5.1. Types of counterfactual impact evaluations

90. The type of impact evaluation that can be conducted depends largely on the design of the programme and data availability.³³ This section outlines the various possibilities for evaluations as well as their potential benefits and drawbacks. For the purposes of evaluating contracted-out employment services, it makes sense to distinguish three broad types of evaluations:

- **Experimental studies (randomised controlled trials – RCTs).** Conducting experimental studies via RCTs is commonly regarded as the most rigorous evaluation method (OECD, 2020_[51]). In an RCT, individuals are randomly assigned into treatment or control groups before a treatment starts. When the treatment group and control group are assigned at random from the same eligible population, both groups will have the same characteristics before the treatment on average. Estimating impacts is often much easier and intuitive than with non-experimental methods: one can simply take the difference in the average observed outcomes in the randomly assigned groups. Random assignment to contracted providers have been used in a number of countries, including France, Ireland and Sweden (see examples in [Online Annex](#)) and the United Kingdom (Department for Work and Pensions, 2021_[52]), with the examples in France and the United Kingdom conducting multiple treatments to compare in-house and contracted delivery.
- **Observational studies based on individual-level data.** Such studies may be used when the evaluator cannot influence assignment to the intervention but also has data on comparable individuals who are not subject to the intervention (and who can thus potentially be included in a control group). One sub-set of observational studies employ techniques based on selection-on-unobservables: they construct a comparison group by exploiting events that exogenously change the probability to participate in the programme for a quasi-random subset of the target population. Such techniques include the use of instrumental variables, a regression discontinuity design, or a difference-in-differences approach. A regression discontinuity design was used for a recent evaluation of the UK *Work Programme* (Kay and Marlow, 2020_[53]). Another sub-set of observational studies relies

³³ Note that by impact evaluation, we mean evaluating a programme's effectiveness in achieving its ultimate goals, which relate to the effects on outcomes such employment rates. This is distinct from other types of evaluations such as process evaluations, which analyse service delivery processes to gauge whether programme activities have been implemented as originally foreseen.

exclusively on selection-on-observables, under the assumption that all potentially confounding variables are observed in the data. These techniques include propensity score matching or machine learning techniques such as random forests. Propensity score matching has been applied in evaluations in New Zealand (see example in [Online Annex](#)).

- **Observational studies based on aggregate data (synthetic controls).** Synthetic controls can be used to estimate the effects of large-scale interventions – interventions implemented at an aggregate level and affecting a small number of large units such as a cities, regions, or countries, on some aggregate outcome of interest (Abadie, 2021^[54]). In this case, amalgams of other large units which were not subject to the intervention are used as controls to estimate counterfactual outcomes.
91. Each of the above approaches has its benefits and drawbacks. In the case of RCTs, they must generally be planned in advance of a programme’s implementation to be feasible, and they cannot be used if the programme is fully rolled-out at once. At the same time, in addition to being relatively simple and intuitive to analyse, RCTs offer several other potential benefits. First, they can be used as a fair and transparent way to assign scarce programme resources in the face of a potentially costly interventions: the size of the treatment group may be limited by the allocated estimated expenditure associated with including them in the intervention. Such an approach was used in Ireland with its *JobPath* programme, where participants were randomly selected among the long-term unemployed for referral to a private provider. Second, they can also be helpful in piloting policies prior to full implementation. A pilot implementation can provide an approximate ex-ante indication of the possible effectiveness of a programme prior to its full implementation, also identifying challenges in the process. Such an approach was used for a 2006-2009 pilot programme in Belgium (Flanders), where providers were operating under the expectation that the smaller-scale pilot would be followed by a larger-scale rollout (Cockx and Baert, 2015^[55]), even though the larger-scale rollout did not subsequently materialise. However, small-scale trials may not capture other effects that occur when the programme is rolled out nationally or on a wider scale, which may magnify the original impact (e.g. because of the boost to overall economic growth of a successful programme) or diminish it (e.g. because of greater competition for a limited number of jobs in the short-term). A study in Denmark found that a large-scale rollout of an activation programme would have negative aggregate effects if rolled-out nationally, despite the programme’s positive estimated effects on programme participants (Gautier et al., 2018^[56]). A study for Sweden, on the other hand, found that a nation-wide rollout of a similar type of programme would still have a positive effect in aggregate, despite the presence of displacement effects (Cheung et al., 2019^[57]).
92. One issue that can affect narrowly-targeted interventions is that the measured outcomes amongst the treated may affect the outcomes of individuals in the control group. Such a violation of the so-called stable unit treatment value assumption leads to the effects of an intervention being overestimated. In the case of services provided to help jobseekers, such spill-over effects can be substantial. Crépon et al. (2013^[58]) find strong evidence of indirect effects based on a randomised controlled trial which subjected differing proportions of jobseekers to more intensive treatment provided by private contractors across districts in France. For example, in some districts, all eligible jobseekers received the more intensive counselling, whereas in others, none did. Comparing these results allowed them to gauge the degree to which spill-over effects were present. Their results show that the more intensive counselling had a positive impact on the treatment group, but also that the effect was achieved entirely on account of more negative outcomes for the control group.

93. An additional problem arises in evaluations of short-term programmes where private contractors are given a relatively short time period during which their performance is evaluated. For example, most of the trials described in the [Online Annex](#) lasted between three and 15 months, implying limited options for performance management and improvement during the contract period.³⁴ Providing employment services is a complex task involving a multitude of operational challenges. Established incumbent providers have the benefit of extensive historical experience, which they can apply to the existing circumstances. They benefit from “policy memory”, a sense of what challenges their clients experienced in the past and what practices could be usefully applied to their existing ones. Evaluating private providers based on their performance over a short period or in a small-scale pilot is thus unlikely to provide a fair assessment of their potential performance.
94. The internal validity of an evaluation can also suffer due to the difficulty of suitably constructing treatment and control groups. If PES caseworkers have any discretion in assigning jobseekers to private providers, they may disproportionately assign more difficult-to-place clients to private providers, even if these are ostensibly similar in terms of characteristics measured in the evaluation data to those who stay with the PES. In the case of voucher schemes, individuals may self-select into the treatment group – a problem that is arguably the case in the evaluation of Italy’s national voucher scheme, through which jobseekers have the option of receiving employment services from private providers and which suffers from a low take-up rate. OECD (2019_[30]) attributes this low take-up rate to the fact that private providers may have been more likely to enforce sanctions for individuals not complying with the active job search requirements that are (theoretically) a precondition for receiving unemployment benefits. Estimates of the effectiveness of the baseline (control group) can also be difficult in practice. In an experiment with the private provision of employment services in France, for example, a parallel experiment with the intensive provision of services via PES counsellors disproportionately enrolled caseworkers who shared the characteristic of being highly motivated (Behaghel, Crépon and Gurgand, 2014_[23]).³⁵ Similarly, in the US state of Wisconsin, providers may have responded to more stringent requirements for placing individuals into high-wage jobs by disproportionately selecting individuals with “high earnings capacity” for placement into certain privately-provided sub-programmes (Choi, 2021_[59]).
95. A final problem concerns the external validity of impact evaluations in general, regardless of their estimation approach. The degree to which the findings of an impact evaluation of contracted-out employment services in a given country or time can be generalised to another is unclear (although, of course, a similar caveat applies to interventions implemented directly by a PES). Several factors can confound comparisons of the effectiveness of the various implementations. First, the implementation of the treatment itself varies immensely across countries, with each implementation involving important own choices on the aspects covered in the paper (barriers to entry, criteria for selection of

³⁴ Random assignment to contracted provision in larger, multi-year contracts is seldom to be found. A rare exception to random assignment of jobseekers to contracted provision is the nationally implemented *JobPath* programme with a total duration of five years. There the Irish Department of Employment Affairs and Social Protection (DEASP) was able to compare provider’s performance based on the outcomes of jobseekers referred to *JobPath* with those who were not (DEASP, 2017_[71]).

³⁵ An additional potential confounding factor in the French programme was less stringent monitoring of jobseekers placed with private providers, who could not directly sanction participants. Furthermore, private providers did not have a financial incentive to exclude a job seeker from the program, for that would preclude any possibility of an outcome-based payment should the jobseeker happen to find a job.

providers, client-provider matching approach, contract design, payment structure and monitoring). Each implementation also targets a unique set of jobseeker profiles, all of whom are subject to country-specific institutional factors such as unemployment benefit replacement rates and potential benefit durations. Second, the outcomes of the control group – which is typically comprised of individuals who are subject to counselling and other assistance under the status quo – depend critically on the effectiveness of the existing services provided to jobseekers in the country being analysed. PES vary considerably in the degree of resources available to them: for example, among EU countries, the PES client-staff ratio varied from 24:1 in the United Kingdom to 596:1 in Spain (European Commission, 2016_[60]). This means that the baseline outcomes against which the performance of private providers is measured will vary considerably.

5.2. Evidence on the effectiveness of contracted-out employment services

96. Given the multiple factors influencing the effectiveness of a contracted-out employment services scheme, it may not be surprising that the evidence on the effectiveness of these schemes is not clear-cut. The section summarises some of the evidence available on their effectiveness (for more details, see the [Online Annex](#)).
97. Evidence of positive effects has been found in the United States, the United Kingdom, Australia and Ireland. Ireland's *JobPath* programme led to strongly positive employment and earnings outcomes across a variety of hard-to-place client groups and the programme costs were found to compare favourably with PES provision (DEASP, 2019_[61]). An evaluation of the UK *Work Programme*, which placed unemployed workers with private providers of job placement services between 2011 and 2017, found that the programme generated net benefits for the participants, the public finances and society as a whole (Kay and Marlow, 2020_[53]). New Zealand's *Employment Placement or Assistance Initiative* was found to have a net positive effect on individuals exit rates into employment, lower duration of income support, and also shortened periods in incarceration. The evaluation finding, however, also suggested that individuals may have entered into lower paying jobs. In the Australian case, comparisons with alternative systems (e.g. a public system) are difficult because Australia effectively abolished its PES in 1998. Comparisons of the average “cost per employment outcome” before and after the full outsourcing of employment services suggest that the cost had halved (Davidson and Whiteford, 2012_[21]).
98. On the other hand, a number of recent of pilot programmes testing contracted provision in randomised control trials (RCT) in Denmark, France, Germany (Krug and Stephan, 2016_[62]) and Sweden showed at best mixed results for contracted provision (Rehwal, Rosholm and Svarer, 2017_[33]) and are unlikely to have reduced the cost of employment service provision. A cost-benefit analysis of a French RCT of contracted out employment services found that the programme was not cost-effective (Behaghel, Crépon and Gurgand, 2014_[23]). A pilot programme in Switzerland found that although clients who were referred to a private provider were initially placed more quickly into employment, their jobs were less sustainable and lower paying; in fact, the estimated employment effects became negative after two years (Cottier et al., 2015_[63]). An analysis of Italy's nationwide voucher programme found a statistically insignificant, albeit positive, short-term effect (see [Online Annex](#)).

6. Conclusion

99. This paper discusses the key considerations to take into account when designing a contracted-out employment services scheme with an outcome-based payment component.

It focuses on the contracted-out provision of the job brokerage, counselling and case-management employment services typically provided by public agencies.³⁶ A market-based provision of employment services offers the potential of many benefits, including increased flexibility to scale capacity in line with unemployment, the possibility to offer more cost-effective services, the option to better tailor services via a broader array of specialised service providers and the possibility to offer choice in the provision of employment services.

100. However, reaping these potential benefits requires carefully considering several important factors. The contracting authority should foster competition between market participants at various stages of the procurement and client referral process. This includes fostering competition amongst potential providers before the initial contracts are awarded (in a traditional, referral-based procurement scheme), as well as in allocating market shares thereafter, in both referral and voucher-based schemes. Tendering criteria should take into account possible barriers to entry while also striking an appropriate balance between qualitative aspects of the potential providers and their bid prices (if applicable). Applying a payment-by-results framework with due emphasis on sustained employment outcomes – for example, having a large share of payments triggered after a client has been employed for several months – can help align the incentives of the providers with those of the contracting authority. Using differential pricing for employment outcomes that reflects participants’ distance to the labour market can facilitate consistent service delivery and avoid “parking” of disadvantaged clients. Finally, monitoring providers through regular reporting of various indicators – client satisfaction surveys, aggregate placement rates, and counsellor-client meeting frequencies – can help guide service providers and avoid egregious cases of fraud.

101. As the preceding discussion highlights, contracting-out employment services involves making a multitude of important design choices at each stage of the design and implementation phases – and even a well-designed scheme will need to be adjusted based on lessons learned following its implementation. While the considerations discussed here may help guide an implementation, the complex institutional and time-specific factors are difficult to fully capture in advance: the process will invariably involve learning-by-doing. An initial lack of success in a payment-by-results scheme may, for example, reflect the difficulty of striking the right balance in the share of payments that are paid upfront and those that are paid based on outcomes; it could also reflect a payment structure that did not appropriately price payments for specific types of clients.

102. The difficulty in successfully contracting-out employment services has meant that, in practice, quasi-markets of employment services are in constant flux. Several countries have plans to introduce or scale-up such markets. A pilot programme in Ontario (Canada), which began in January 2020 in three small areas in the province, is planned to be rolled out throughout the province over the coming years; Sweden’s government has plans to contract the majority of its employment services to outside providers by the end of 2022 (see [Online Annex](#)). At the same time, however, many countries have instituted pilot programmes that were subsequently not scaled up, even though such an expansion may have been the intention when designing the pilot.³⁷ Even large-scale programmes may be introduced and then subsequently abolished, as the examples of multiple programmes in

³⁶ In drawing this distinction, it omits many related publicly-funded services that may also be contracted out, such as social services for the hardest to reach groups. Contracting out such services is more likely to involve non-profit providers and local government actors.

³⁷ Such a promise was implicit in a trial programme conducted in Flanders (Belgium), attracting larger providers (Cockx and Baert, 2015_[55]).

the United Kingdom demonstrate. These experiences underscore the importance of recognising the sizable transaction costs involved in contracting-out employment services, the need to devote sufficient resources to the contracting authority, and the necessity of revising the parameters of a scheme based on lessons learned in the process.

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Document Annexes

Annexes to this working paper can be found at the following link:

https://www.oecd.org/els/emp/Annex_Outcome_based_contracting.pdf.