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Raising the bar: Designing and implementing innovative contracted-out employment services in OECD countries

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Abstract

Two out of five OECD countries contract out some of the job brokerage and counselling functions of publicly financed employment services using outcome-based payment models. This paper examines several important aspects related to the design and implementation of such outsourcing. First, innovative payment models can improve incentives for external providers to offer training and more effective services for hard-to-place clients. Second, providing forward guidance to providers and accounting for contingencies can mitigate their risks, e.g. of being underpaid relative to expenses incurred, thus lowering service costs. Third, letting individuals choose a provider can result in services that are better tailored and foster ongoing competition between providers. Finally, automating data exchange can, somewhat paradoxically, improve data privacy and data protection while enabling new payment models. These and related findings are discussed with country examples based on desk research and interviews with stakeholders in several OECD countries. The paper builds on work conducted in the project “Reforming the Swedish Public Employment Service”, which was carried out with funding from the European Union via the Technical Support Instrument and was implemented by the OECD in cooperation with the European Commission's Directorate-General for Structural Reform Support.

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1. Introduction

1. OECD countries are increasingly using a blended service delivery model for helping jobseekers reintegrate into the labour market. This combines the traditional in-house provision of public employment services by one or more government agencies with self-service tools for jobseekers and services provided by a network of external partners (OECD, 2021^[1]; OECD, 2022^[2]). The latter can include many different arrangements and modes of cooperation ranging from co-constructed partnerships, where the Public Employment Service (PES) works as a partner to achieve common objectives, to the more traditional contracted model, where the PES designs the service in consultation with contractors and acts as the contracting authority (European Commission, 2021^[3]).¹ Such models are perhaps most commonly used in procuring publicly-funded training for jobseekers, typically within a fee-for-service model where outside providers are paid a fixed fee per jobseeker.

2. The focus of this paper is on programmes with outcome-based payment models where the job brokerage and counselling functions of publicly funded employment services are contracted-out to external providers. In recent years, two out of five OECD countries have engaged in such contracting (Langenbucher and Vodopivec, 2022^[4]). In outcome-based payment models, a portion of the payments made to outside providers is contingent on the realised outcomes of their clients, such as entering employment. While providers are typically still monitored and required to provide a minimum set of services to each client, the main focus of the contracting authorities is on monitoring and rewarding participant outcomes.

3. Contracting out employment services offer the promise of several potential benefits, particularly when implemented using an outcome-based payment model. Outside providers can offer more tailored services through specialised operators, including smaller providers or subcontractors, who have experience in helping specific groups or sector-specific knowledge that can assist in job placement. They can provide additional flexibility to rapidly scale capacity for jobseekers in response to fluctuations in unemployment, provided that either existing programmes or appropriate contractual frameworks are in place. In principle, they offer an option for improving the accountability of public expenditures and scope for improving the cost-effectiveness of service provision. Finally, depending on the contracting model chosen, contracted-out employment services can also introduce consumer choice into the process by allowing individuals to choose their service provider. This can help to empower jobseekers and improve outcomes by, for example, enabling them to choose a provider with a specific approach that suits them or matches their career ambitions.

4. However, realising these potential benefits requires carefully considering a programme's design and implementation. The implementation of contracted-out employment services has not consistently yielded positive results, with numerous countries or regions initiating pilot programmes that were not subsequently scaled up (Langenbucher and Vodopivec, 2022^[4]). Programmes have often been subject to criticisms such as parking (neglecting less profitable, hard-to-place jobseekers), a lack of cost-effectiveness and difficulties in establishing a market with a suitable number of providers in all service

¹ The arrangements can vary considerably in scale and scope, ranging from small pilot programmes to large-scale contracting where essentially all publicly-financed services for jobseekers are contracted out to outside providers, such as in the model adopted in Australia.

delivery areas. At the same time, private providers have often highlighted what they see as poor administration of programmes on the part of contracting authorities, including a lack of sound guidance to help plan their business decisions, excessive administrative burdens associated with reporting requirements and an unwillingness to engage in constructive dialogue (OECD, 2023^[5]; OECD, 2022^[6]).

5. The purpose of this paper is to highlight some of the key considerations in the design and implementation of contracted-out employment services and to provide examples of how OECD countries have found innovative ways of addressing them. As discussed in Chapter 2, many of the newer programmes have attempted to address the inherent challenges in contracted-out employment services through a mix of innovative payment models. This involves balancing trade-offs: providing financial incentives for sustained employment outcomes but also rewarding the efforts of providers for activities which may have a more uncertain short-term effect on a jobseeker's employment prospects. Chapter 2 concludes by discussing the different types of risks inherent in contracted-out employment services, recognising that some risks are unavoidable but examining how unnecessary ones can be mitigated. Chapter 3 discusses the role of competition between providers. It provides some empirical support for an alternative, and increasingly common, voucher-based model: having multiple providers competing for the same clients can offer superior outcomes, particularly when clients make an informed choice of provider. The chapter also questions whether a typical feature of the programmes analysed – not giving providers a right to refuse clients – is always a sensible strategy. Chapter 4 then discusses what may be the “Achille's heel” of contracted-out employment services: enabling data exchange for seamless services. It provides examples of good practices from three country examples relating to automatic administrative data exchange, imposing data security requirements commensurate with risk, and introducing novel programme features that are possible due to automated data exchange. The final chapter concludes.

6. Addressing the questions discussed in this paper, as well as additional ones relevant in the Swedish context, was one of the main objectives of the project “Reforming the Swedish Public Employment Service”, which forms the basis for much of the work in the paper.² That project was carried out with funding from the European Union via the Technical Support Instrument and was implemented by the OECD in cooperation with the European Commission's Directorate-General for Structural Reform Support. The activities and outputs of that project helped inform the design and implementation of Sweden's system of contracted-out employment services.

² More information on the project, including the full reports and presentations, are available on the project webpage: <https://oe.cd/reforming-Swedish-PES>.

2. Designing payment models

7. Designing an appropriate payment model for service delivery is a critical aspect of contracted employment services. The challenge for contracting authorities is to design a payment model that balances several competing objectives – making it attractive to employment services providers, incentivising desired outcomes, and delivering value for money to the contracting authority. Outcome-based contracts require clear, measurable objectives and the ability to attribute outcomes to the provider. Tracking outcomes after participation in contracted-out employment services is thus crucial for both the contracting authority and the provider, as it provides the basis for determining the value, the cost, and the price of services.

8. This chapter examines how various aspects of the payment models compare across programmes in OECD countries based on specific examples. Specifically, it examines the process of setting a price for contracted-out employment services, possible types of fees, and shares of outcome-based pay. It also examines how to provide incentives for outside providers to offer training to their clients and financial incentives for non-employment outcomes. It also looks at the related questions of how to account for different types of risk in the design of the contracts.

2.1. Conceptual issues in designing payment models

9. A natural baseline for setting prices and target outcomes in a contracted-out employment scheme are the costs and outcomes observed in comparable, existing PES-provided services (Langenbacher and Vodopivec, 2022^[4]). However, such detailed costs and benefits per placement in sustainable employment are rarely calculated on a “per-unit” basis. Part of the difficulty in such calculations is that the work of PES counsellors in the government provision of services is typically broader in scope than what is contracted-out to private employment services providers. These may include other services, such as administrative work related to enforcing job-search and other conditionality requirements, determining eligibility for active labour market policies (ALMPs), or administering unemployment benefits. But such information is useful when contracting out such services to independent providers, especially since the goal is usually to achieve government savings compared to in-house delivery. The contracting authority should strive to develop (notional) prices of contracted provision, taking into account minimum performance expectations over and above the non-intervention level – i.e. the outcomes that are 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.

10. An alternative approach to price setting involves conducting a cost-benefit analysis of the proposed scheme, considering the value of improved outcomes (e.g. employment) and the costs of the service provision (Langenbacher and Vodopivec, 2022^[4]). Ideally, this analysis should factor in the full costs and benefits for individuals and society, including impacts on health, social well-being, economic activity, environment, and crime. The analysis of costs should also factor in the additional costs borne by the contracting authority, including in contract design, implementation and monitoring. However, in practice, contracting authorities typically only examine the effect on government net expenditure and then compare this to the direct payment to suppliers of contracted services.

11. Knowing the costs of the service providers is crucial for the contracting authority when evaluating bids. This information helps assess the financial viability and minimise the risk of default due to cash flow

issues. For this reason, contracting authorities in systems with mandated referrals sometimes require transparency in tenderers' costs. One option for better understanding the suitability of a given pricing model is to introduce open-book accounting provisions for providers. Open-book accounting provisions requires providers to share information about their costs, overhead and profits (National Audit Office, 2015^[7]). Commonly used in more typical public procurement contracts where providers are awarded exclusivity, open-book accounting provisions could be sensibly used in a model with client choice to get a better understanding of providers' costs. They have been applied in Ireland's *Jobpath* scheme (Department of Social Protection, 2013^[8]) as well as in several schemes in the United Kingdom.

12. A common strategy in an outcomes-based payment model is to set the parameters such that earning only the fixed (non-outcome-based) payments is not a viable business strategy for providers (National Audit Office, 2015^[9]). However, such a scheme may still not provide adequate incentives for exceeding the baseline number of employment placements that would have been achieved by the PES, as providers are paid outcomes on each placement. A "high-powered" performance-based scheme goes one step further, allowing providers to turn a profit only if they sufficiently exceed a baseline number of employment placements, such as those that would have been achieved by the PES. In doing so, such a payment scheme may attempt to minimise deadweight in terms of paying for outcomes that would have occurred even in the absence of the providers' services. Calculating such "deadweight" may be difficult, as it is strongly dependent on the employability of clients and may vary over the business cycle in line with labour demand. High-powered performance-based schemes have been used in social impact bonds (Box 2.1).

Box 2.1. Paying for results in social services: Social impact bonds

Social impact bonds are examples of programmes where payments are made only if specific outcomes are achieved. First implemented in the United Kingdom in 2010, a social impact bond is a financial instrument that finances programmes and services through a performance-based contract between multiple parties: a commissioner (typically, a public body), a service provider (often a non-profit organisation) and private investors (OECD, 2021^[10]). Private investors provide the upfront capital needed for a service provider to implement a social programme designed to achieve specific, measurable outcomes. If the programme successfully achieves its objectives, the government repays the investors their capital, together with a return on their investment. If the programme does not meet its objectives, investors may lose all or part of their investment.

In practice, the strict payment terms of social impact bonds have led to instances where no payments were made because the outcome targets were not met (Gustafsson-Wright, Massey and Osborne, 2020^[11]). For example, when a programme that aimed to reduce recidivism among adolescents through the use of cognitive behavioural therapy failed to meet its targets, the City of New York did not make any payments to the social bond holders (although a smaller payment was made to the bond holders by another institution that had partially guaranteed the bond). Such cases are rare, however: the 2020 study by the Brookings Institution found that such non-payment occurred in only 2 out of 35 social impact bonds examined (Gustafsson-Wright, Massey and Osborne, 2020^[11]).

Experience with social impact bonds suggests several lessons for their use (VDAB, 2023^[12]). First, a social impact bond should be seen more as a tool for social innovation than a financial instrument: a way for governments to test a novel idea and potentially establish the credibility of a provider in implementing it. It should not be considered a long-term alternative to other funding. Complex challenges require a broader approach than a single project proposal. Second, the criteria for the outcomes to be considered successful should be carefully considered. The objectives of the participating parties may seem similar at first, but it may become apparent that they diverge as the project progresses or as circumstances change.

Sources: Gustafsson-Wright, E., M. Massey and S. Osborne (2020), *Are impact bonds delivering outcomes and paying out returns?*, <https://www.brookings.edu/wp-content/uploads/2020/09/Are-impact-bonds-delivering-outcomes-and-paying-out-returns-FINAL-2.pdf>; OECD (2021), *Social Impact Bonds: Innovative policy design of active labour market policies*, https://www.oecd.org/els/emp/Social_Impact_Bonds.pdf; VDAB (2023), *Social Impact Bond*, <https://extranet.vdab.be/samenwerken-met-vdab/oproepen/centrale-oproepen-dienstverlening/social-impact-bond> (accessed on 8 November 2023).

13. In practice, accurately identifying the correct parameters in such a high-powered payment model may be difficult given the multitude of risks involved (see Section 2.6) and the difficulty in making accurate assumptions about costs and outcomes. This increases the likelihood that such a payment model is unviable for providers, leading them to leave the market – an important risk for the contracting authority to consider. Another often-discussed risk is the parking of more difficult-to-place jobseekers when providers cannot meet the performance expectations and, hence, do not generate enough income from results-based fees. This issue is one of the most common concerns with outcome-based contracting models in OECD countries (OECD, 2014^[13]; National Audit Office, 2015^[9]; Arbetsförmedlingen, 2022^[14]; Arbetsförmedlingen, 2022^[15]). Therefore, given that pricing in itself may be too crude a mechanism to avoid “parking” of hard-to-place clients, minimum service requirements may be a sensible solution.

2.2. What is paid: Fees and outcomes rewarded

14. Well-designed outcome-based payment models improve the likelihood that a programme is cost-efficient, as providers receive the majority or all their fees only after meeting agreed-upon outcomes for participants. Outcomes typically relate to a participant's employment or education/training success. Although outcome-based fees make up a large portion of the potential fees, payment models typically include a mix of service and outcome fees. Examples of service fees include (Langenbucher and Vodopivec, 2022^[4]):

- **Administrative/attachment/registration fees:** paid to providers, possibly for each participant starting the programme, they are not tied to specific services for the participants. These payments may be “front-loaded”, e.g. paid at the beginning of the contract, and may be intended to help cover fixed start-up costs for a provider's initial operations (especially relevant given that the outcome-based payments are often paid later on). However, in some programmes, a daily attachment fee may be implemented in a client-choice based model instead of a referral-based lump sum fee because – in contrast to mandated referral-based schemes – clients may have the option of switching providers.
- **“Fee-for-service” payments:** paid for specific services provided to each participant, usually after the services are provided.
- **Flexible service funds:** payments paid on a per-client basis, they may be pooled across clients and disbursed only to those deemed to need them; also, they must generally be spent on specific services such as training.

15. Although placement into employment is by far the most common metric for outcome-based payments, payment schemes in OECD countries distinguish a variety of outcomes:

- **Employment-based outcomes.** This may include both dependent and self-employment, as well as part-time or full-time employment. It may also include subsidised employment, as is the case in Sweden's *Rusta och matcha* and *Rusta och matcha 2*.
- **Earnings-based outcomes.** Payments triggered based on the level of earnings received by clients, such as that implemented in the United Kingdom's *Restart* programme. Payments in Korea's *National Employment Support Programme* also take into account the level of wages.
- **Education-based outcomes.** Sweden's programmes are notable examples that explicitly target education as an outcome, but other programmes have also included payments for individuals entering or completing education.
- **Outcomes relating to benefit receipt.** This approach ties outcomes based on the reduction of individuals receiving social or unemployment or social benefits. It was notably used in the United States in Wisconsin's *W-2* programme when it was first implemented in the 1990s (Langenbucher and Vodopivec, 2022^[4]). It is also used in both *Rusta och matcha* programmes in Sweden, where providers qualify for the full outcome-based payments for clients who become employed part-time (less than 50%) but are no longer registered with the Swedish PES.
- **Subjective outcomes.** These may include an assessment by a PES counsellor that a jobseeker has successfully completed the goals laid out in an individual action plan, thus possibly qualifying to progress to another labour market programme. The *Reintegration services* offered by the Dutch PES make such payments.

16. Table 2.1 provides an overview of the types of fees paid in employment services contracting, including the proportion of service and outcome fees. The total potential payments vary considerably in terms of absolute amounts. However, taking a country's prevailing minimum and average wages for full-time workers as reference points, most total potential payment amounts are at least as high as the monthly earnings of a minimum wage recipient and few are higher than twice the average monthly earnings. In the

examples shown, outcome fees can range from 30-100% of total potential payments per client, with most programmes having a larger proportion of outcome fees. The United Kingdom *Work Programme* had a declining attachment fee for the first three years which was eventually reduced to zero starting from the fourth year; the United Kingdom's subsequent *Restart* programme also steadily decreased the monthly payment paid to providers. The risk of overserving clients instead of focusing on outcomes is present in programmes that have larger fee-for-service payments. To mitigate this risk, Sweden's *Rusta och matcha* programme offers speed premiums for early client placement, with all unclaimed service fees paid as a "speed premium" (in *Rusta och matcha 2*, this speed premium has been cut in half).

Table 2.1. Most contracted-out 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 ³	Reference values: Average monthly wages and prorated minimum wages, 2021 ⁴
Australia: Workforce Australia (2022 – present)	AUD 1 200 upon referral	Employment outcomes: Paid at 4, 12 and 26 weeks of employment, with two groups of profiled individuals and additional outcome based payments at 12 and 26 weeks of unemployment for individuals who were unemployed for more than two years Non-employment outcomes: AUD 750 (claimable every two years, for demonstrated progress)	n.a.	AUD 5 450 to AUD 16 950 (USD 4 094 to USD 12 733)	Average wage: AUD 7 411; Minimum wage: AUD 3 307
Australia: Jobactive – Stream B ¹ (Fees as of August 2021)	AUD 539 administration fee in year 1 (paid six monthly, i.e. AUD 269.50*2)	Payable after employment of 4 weeks (AUD 808.50), 12 weeks (AUD 1 617) and 26 weeks (AUD 2 048.20)	89%	AUD 5 012.70 (USD 3 765)	Average wage: AUD 7 411; Minimum wage: AUD 3 307
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 (USD 274 to USD 2 576)	Average wage: CAD 6 181; Minimum wage: CAD 2 423
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 (USD 3 548 to USD 4 668)	Average wage: EUR 3 343; Minimum wage: EUR 1 555
Germany – Activation and placement vouchers (Aktivierungs- und Vermittlungsgutschein, 2002-present)	None.	EUR 1 250 paid after 6 weeks of employment; the remaining amount (EUR 1 250 EUR or EUR 1 750) paid after 6 months of employment (the first instalment will only be paid if the employment relationship is entered for a period of at least three months from the outset).	100%	EUR 2 500 to EUR 3 000 (USD 2 957 to USD 3 548)	Average wage: EUR 3 644; Minimum wage: EUR 1 602
Ireland: <i>Jobpath</i> (2015-2023)	Registration fee (amount determined)	Outcome fees payable at 13, 26, 39 and 52 weeks (amount determined through provider bid)	65% or more	Not publicly available	Average wage: EUR 4 306; Minimum wage: EUR 1 768

Country, programme name and duration	Service fees (details)	Outcome-based fees (details)	Outcome-based fees (weight)	Maximum possible per-client payment ³	Reference values: Average monthly wages and prorated minimum wages, 2021 ⁴
	through provider bid)				
Italy: Reintegration vouchers (2017-2022)	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 (USD 296 to USD 5 914)	Average wage: EUR 2 475
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%	n.a.	Average wage: KRW 3 545 832; Minimum wage: KRW 1 822 480
New Zealand: <i>Employment Service</i>	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 (USD 2 096 to USD 6 620)	Average wage: NZD 6 491; Minimum wage: NZD 3 419
Sweden: Steps to work (to be launched in 2023)	Generally SEK 40 000 to SEK 80 000 for first two stages (8 weeks), last two stages are subject to bidding	SEK 8 500 for full-time work (or hours to the satisfaction of the jobseeker) of at least four months or enrolment in education for at least four months	n.a.	n.a.	Average wage: SEK 38 260
Sweden: <i>Rusta och matcha 2</i> (launched April 2023)	SEK 14 520 to SEK 23 760 for 12 months	Paid for employment or education/training programmes, with payments triggered at 3 and 6 months. Half of 12-month attachment fee is converted into a "speed premium" when client becomes employed or exits employment.	70-80%	SEK 34 820 to SEK 61 760 (USD 4 060 to USD 7 201)	Average wage: SEK 38 260
Sweden: <i>Rusta och matcha</i> (2020-2023)	SEK 14 520 to SEK 23 760 for 12 months	Paid for employment or education/training programmes lasting at least 4 months. 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 (USD 4 060 to USD 7 201)	Average wage: SEK 38 260
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 (USD 2 157 to USD 4 221)	Average wage: SEK 38 260
United Kingdom: Work	Attachment fees	Job outcome payments (GBP 1 000-3500) paid after	89-100%	GBP 3 700-13 720	Average wage: GBP 3 265;

Country, programme name and duration	Service fees (details)	Outcome-based fees (details)	Outcome-based fees (weight)	Maximum possible per-client payment ³	Reference values: Average monthly wages and prorated minimum wages, 2021 ⁴
Programme ² (2011-2018)	(GBP 300-600 in Year 1 dropping to GBP 0 in Year 4)	26 weeks (some groups 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)		(USD 5 089 to USD 18 870)	Minimum wage: GBP 1 536
United Kingdom: Restart (2021-present)	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	Average wage: GBP 3 265; Minimum wage: GBP 1 536
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)	Average wage: USD 6 228; Minimum wage: USD 1 257
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	Average wage: USD 6 228; Minimum wage: USD 1 257

Notes:

1. 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.

2. 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.

3. Conversions to USD are based on average exchange rates in 2021.

4. Monthly statistics are calculated by dividing published annual or annualised figures by 12.

Sources: Langenbucher and Vodopivec (2022^[16]), Australian Government (2021^[17]), *Rusta och matcha 2* and *Steg til arbete* tender documentation, OECD (2023^[18]) and OECD (2023^[19]), FEA (2023^[20]).

17. Sweden's *Rusta och matcha* is somewhat unique in that it also rewards providers for certain types of subsidised employment. Programmes in other countries that also make payments to providers for placements into subsidised employment – such as the *Employment Services Contracts* in New Zealand – pay providers lower outcome fees for such placements (Langenbucher and Vodopivec, 2022^[4]).

2.3. Payment amounts and share of outcome-based pay

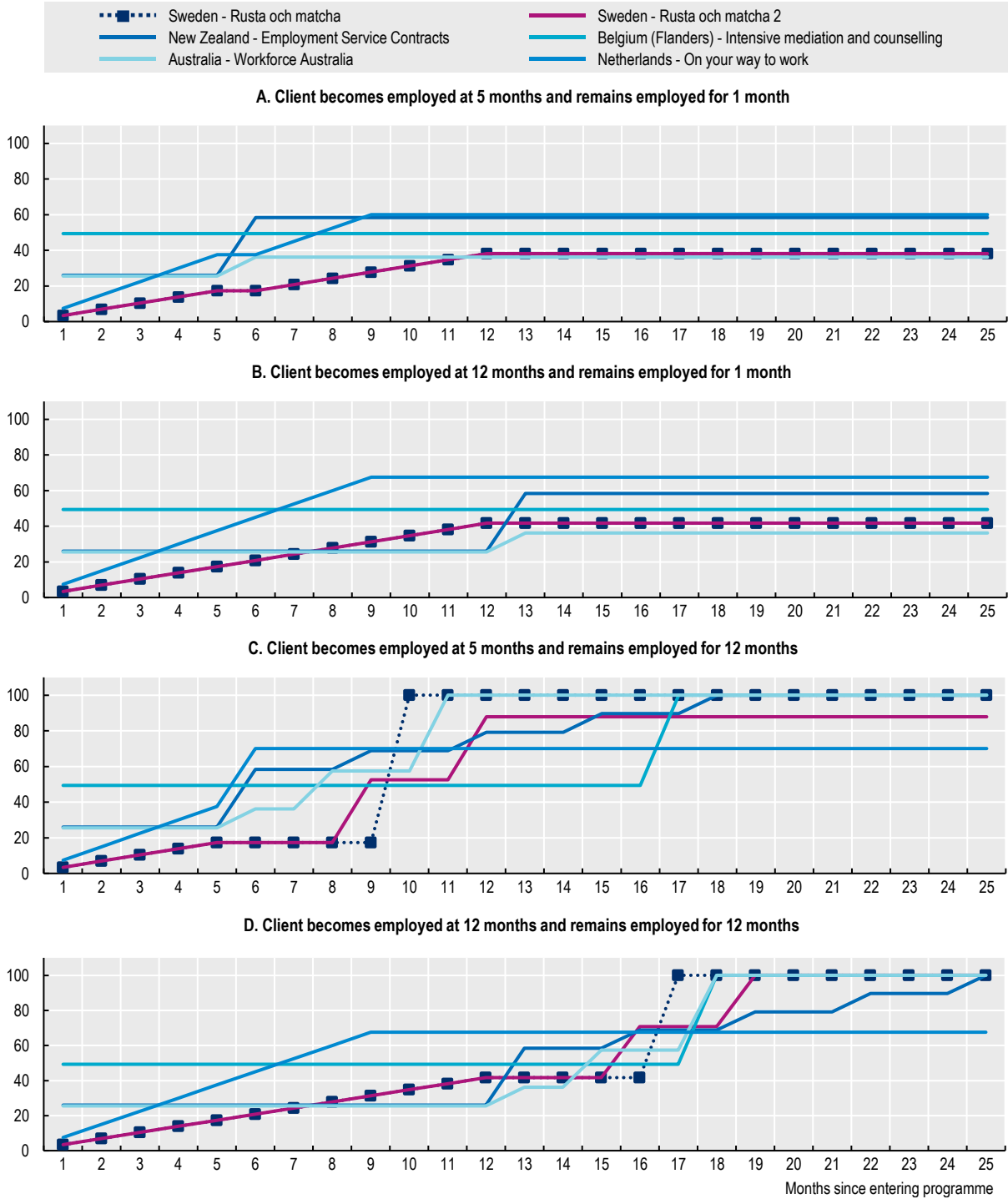
18. Outcome-based fees are typically contingent on participants' employment outcomes that are sustained over a minimum time period. Rewarding solely the conclusion of a job match clearly carries the risk of undesirable outcomes such as very short-term contracts or even fraudulent behaviour (e.g. one-day 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 many countries only pay a single outcome-based fee after a minimum period. For example, the *Rusta och matcha* programme pays a single outcome fee after four months. The optimal length of the outcome measurement and payment of outcome-based fees is a matter of judgement and practicality. OECD (2005^[21]) 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. Several schemes pay results-based fees for different employment durations (see Table 2.1), which may extend to 12 months, as in the Irish *Jobpath* programme, or to two years, as for some payment groups in the United Kingdom's *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 (for a discussion of this aspect, see Chapter 4.). Another challenge relates to ensuring that the model is financially viable for providers, given the lag between when costs of service provision are incurred and when outcome-based payments are received. Finally, stretching out the payments too much may financially reward or penalise providers for factors that are outside their control.

19. Comparing the payments made to providers in several hypothetical scenarios show that outcome-based payment models differ in some important respects. Figure 2.1 depicts scenarios where a client is placed into employment either 5 or 12 months after being referred to services from a contracted provider and remains employed for either 1 or 6 months. In all cases, the payments are expressed relative to the theoretical upper bound for a given category of jobseeker (where relevant).³ Payment models that pay a fixed fee upon referral exhibit flatter payment profiles at the beginning of the referral period compared to those making periodic payments. In Panels A and B, the profiles for Sweden's two *Rusta och matcha* programmes are identical, as neither rewards employment outcomes of less than three months. In Panels C and D, however, they differ slightly, reflecting the fact that payments are more staggered in *Rusta och matcha 2*.

³ Payments are depicted in terms of the timing of events that makes a provider eligible for payments; the actual payments may be claimed and received later.

Figure 2.1. Outcome-based payment models differ in how they reward providers based on the timing and duration of clients' employment

Cumulative percent of maximum per-client payment triggered (assuming clients become employed full-time)



Note: Sweden refers to clients in Group A; New Zealand to clients with low SLI rating; Belgium (Flanders) to clients in Intensive mediation track (IBB); Australia to clients classified as JSCI moderate and assumes no progress payments are claimed; and the Netherlands assumes that individuals are assigned the maximum number of counselling hours (38) for the maximum possible attachment period (9 months). Assumptions: Fee-for-service payments are evenly spread across referral period; clients return to providers if become unemployed again during referral period. Source: Langenbucher and Vodopivec (2022^[16]); *Rusta och matcha 2* tender documentation; OECD (2023^[22]); Australian Government (2023^[23]).

20. Outcome-based fees can include additional bonuses based on aggregate outcomes. Such a so-called “accelerator mechanism” is used in the United Kingdom’s *Restart* programme: while outcome-based payments for the first 21% of individuals who are placed into employment are paid at a base rate (with the level being bid upon during the tendering process), subsequent employment outcomes are rewarded at 140% of the base rate.⁴ This may help address concerns of parking, rewarding providers who “dig deeper” into their assigned caseload.

21. If the payment model is not appealing, providers may not apply to offer services or, in a choice-based system, may leave the local market. 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^[9]). 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 any applications received by the PES.

22. Some countries opt for market forces to determine the price, as seen in the Irish *Jobpath* programme and the French Private Placement Operators pilot. The authority’s own price considerations then remain theoretical and are not made public. Another option, used in the United Kingdom’s *Restart* Programme, is to set ranges for some of the assumptions underlying the bids, such as on client placement rates. This helps mitigate the risk of unrealistic bids resulting in unviable business operations for providers. Another option is to tweak the parameters of the contracting model based on observed differences in payments to providers and the services they provide to jobseekers – a strategy adopted by Sweden in its subsequent iteration of its contracting scheme (Box 2.2).

23. The potential for outcome-based fees to improve the performance of employment services providers compared to a fee-for-service model is not merely theoretical but has been shown in practice. Specifically, a randomised controlled trial in Norway compared the performance of two types of contracted-out employment services provision (Proba, 2023^[24]). In one, providers were paid a flat hourly rate for work with clients; in the other, 80% of the total potential payments were contingent on employment outcomes. Although the outcomes were very similar across the two contracted out programmes, the programme using fee-for-service payments was 20-40% more expensive on a per-client basis.

⁴ The accelerator payment is calculated based on placements of cohorts based on the calendar month when they entered the programme.

Box 2.2. Minimum service requirements and pricing: Example from Sweden

Examining the payments made to providers in Sweden’s *Rusta och matcha* programme suggests that providers are under-allocating the amount of time spent on harder-to-place clients in practice. The programme has a differential payment model, with payment differing across the three client segmentation groups based on clients’ employability (Groups A, B and C, which are calculated based on a statistical profiling tool).¹ The progressively higher prices paid for clients in Groups B and C, compared to Group A, are intended to compensate providers for the fact that these clients are expected to attain lower success rates, with success defined as entering employment or education and thus triggering an outcome-based payment. However, after taking into account historical outcomes and the average time spent in the programme across the segmentation groups, it appears providers are spending less time on clients in Groups B and C than would be warranted by the eventual payments. This is evident from the payments per day associated with each client group, which are higher for harder-to-place segmentation groups. Specifically, looking at realised payments, providers are paid 12% more per calendar day for working with clients in Group B than Group A and 36% more per calendar day for working with clients in Group C than Group A. A profit-maximising provider would allocate time across clients so that the marginal benefit (the marginal revenue product) of working with each client equals the marginal cost (mostly, labour costs associated with working with a given client).²

Figure 2.2. Providers in Sweden’s *Rusta och matcha* under-allocate the amount of time spent on harder-to-place clients

Realised payments to *Rusta och matcha* providers by segmentation group, 2020-2021 entrants



Note: Statistics refer to entrants into *Rusta och matcha* during the September 2020 – August 2021 period based on outcomes reported through February 2023. Successful outcomes are defined as those triggering outcome-based payments for suppliers (either entering employment or education). Calculations are based on statistics, calculated separately for segmentation groups A, B and C, on the number of participants by eventual outcome and the average duration in the programme by eventual outcome. Participants in Group A are relatively closer to the labour market than participants assigned to Group B. Participants in Group C are assessed to be furthest from the labour market. For details, see OECD (2023^[5]).

Source: OECD calculations based on statistics provided by Arbetsförmedlingen.

Conceivably, the differences presented in Figure 2.2 could reflect the intensity of counselling efforts across client groups, making the comparison invalid. This would be the case, for example, if providers spent

considerably more time *per day* working with clients in Group C than with clients in Group A. However, this is unlikely to be the case: an analysis of time spent by providers on different activities across client groups in *Rusta och matcha* found virtually no differences (Arbetsförmedlingen, 2022^[14]).

In exchange for these fees, providers are obligated to provide a set of minimum services for their clients, though the provision of any individual service is not tied to a specific payment. Providers must have individual development meetings with each participant at least once every two weeks (in-person meeting once a month, other meetings can be digital). In *Rusta och matcha*, these were specified to be at least 30 minutes in length. The goal of these requirements is to avoid “parking” of participants by providers.

This analysis of relative payments across client groups provides empirical justification for subsequent changes to the minimum service requirements. Starting in April 2023, Sweden rolled out a slightly modified version of its programme, named *Rusta och matcha 2*. It introduced a progressively more intensive set of requirements depending on the referred jobseeker’s profile, with individual meetings of either 30 minutes, 45 minutes or 60 minutes every two weeks. In the new programme, providers will have to devote at least 30 and 60 minutes more per month, respectively, to participants in Groups B and C than in the previous programme.

Notes:

¹Individuals referred to the programme consist of the “middle group” of jobseekers: those who are neither readily employable nor the most difficult to place into employment.

²Another necessary assumption arises due to differences in the expected variance of payments associated with each client group, given that each has a different average employment probability. Thus, the necessary assumption is either that providers are not risk-averse or that the numbers of referred clients are sufficiently large as to make the differences in expected variance of payments negligible.

Sources: Arbetsförmedlingen (2022), Slutrapporten för ESF-projekt rusta och matcha [Final report for ESF project KROM], <https://arbetsformedlingen.se/statistik/analyser-och-prognoser/analys-och-utvardering/slutrapport-esf-projekt-rusta-och-matcha>; OECD (2023), *Reforming the Swedish Public Employment Service, Output 4: Note on the design of the compensation model for contracted service providers*, https://www.oecd.org/els/emp/Note_on_the_design_of_the_compensation_model_for_contracted_service_providers.pdf.

2.4. Rewarding providers for working with jobseekers who remain unemployed: Soft outcomes and distance travelled indicators

24. In addition to paying for employment outcomes, a results-based payment system can also employ alternate metrics to track progress towards becoming employed. This can incentivise providers to offer activities that may not have immediate results but boost the probability of future employment – an important feature given that many programmes focus on harder-to-place groups. Indeed, tying outcome-based payments solely to tangible results, such as employment outcomes, can lead providers to focus excessively on achieving these immediate outcomes. This focus could come at the expense of activities that may not yield immediate tangible results but could potentially enhance future outcomes.⁵ In principle, because payments for some groups can be much higher than for others, tying outcome-based payments only to tangible results could increase the likelihood of “parking” of any category of jobseekers regardless

⁵ For example, the empirical evidence shows that training programmes generally have a positive effect on the employment outcomes for the unemployed, but these only emerge over longer time horizons. In their meta-analysis summarises estimates from over 200 impact evaluations of ALMPs, Card, Kluve and Weber (2018^[81]) find an average employment effect of training amounting to 6.7 percentage points over time horizons longer than two years but only 2 percentage points in the first 12 months after entering training.

of their employability. In practice, however, this has generally led to a lower level of services being offered for those who are least employable (Langenbucher and Vodopivec, 2022^[16]).⁶

25. The challenge of providing financial incentives for providers to help jobseekers with poor employment prospects is particularly relevant given that such jobseekers comprise a large share of providers' clients. In general, clients who are referred to outside providers are often individuals who are not readily employable (see Langenbucher and Vodopivec (2022^[16]) for an overview of client groups referred to contracted-out employment services in OECD countries). Furthermore, several OECD countries, including Australia, Korea, the Netherlands, and Sweden, have adopted a "digital-first" strategy, which means that the most readily employable jobseekers are often not eligible for referral to in-person services (OECD, 2022^[2]). This means that even with relatively effective interventions, a large share of jobseekers referred to outside employment services providers are likely to remain unemployed for the whole duration of their referral period.

26. In many employment programmes in OECD countries, only a minority of outside providers' clients eventually qualify for payments based on "hard" outcomes such as employment. For example, in an evaluation of Australia's new employment services trial, the share of jobseekers who exited unemployment (and remained employed for at least four weeks) amounted to 24.6% of clients during an almost two-year period (Australian Government, 2022^[25]).⁷ Even though the trial programme in Australia was very successful in relative terms – the 26 week employment outcome rates were 15.3%, compared to 10.8% for similar individuals in the existing *jobactive* programme – the large majority of individuals were not placed into employment. In Sweden, only roughly a third of *Rusta och matcha* participants who entered the programme in 2021 exited the programme into employment or education (OECD, 2023^[5]).

27. Several models have explored various options for integrating soft outcomes into an outcome-based payment model. One early approach, piloted in Australia, involved 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^[13]). Australia has subsequently trialled different approaches, with its latest scheme offering payments for providers for a broad array of activities intended to move individuals closer to employment (Box 2.3). Scotland's employment support program, *No One Left Behind*, has also adopted similar measures (Employability in Scotland, 2023^[26]).

⁶In fact, similar "creaming" behaviour has also been observed with services provided PES counsellors in-house – in the case of PES caseworkers in Norway, due to a strong performance management framework (Gjersøe and Strand, 2021^[88]).

⁷The statistic refers to claims made by employment services providers from November 2019 to June 2021 for jobseekers eligible for so-called "Enhanced Services". This refers to individuals who "should receive personalised, tailored support and assistance from providers to improve their employability and address their vocational and non-vocational barriers to work" (Australian Government (2022^[25]), p. 15).

Box 2.3. Progress payments in Workforce Australia

Australia has been contracting out its publicly-financed employment services since 1994, when it privatised employment counselling for the long-term unemployed (Langenbucher and Vodopivec, 2022^[16]). Since 1998, when Australia fully privatised its employment services, the system has evolved over time, with successive programmes introducing refinements to the model.

Australia's New Employment Services Trial (NEST), which ran from July 2019 through June 2021, tested a "Progress in Service Bonus": a one-off fee paid if participants move up an employability tier, i.e. from Tier 2 to Tier 1 (bonus of AUD 500) or from Tier 1 into Digital Services (bonus of AUD 400). Feedback from providers indicated confusion about the tiers and their purpose (Australian Government, 2022^[25]). Most NEST providers felt that tiers detracted from personalised service and added unnecessary complexity and administrative burden.

In *Workforce Australia*, the most recent programme which launched in July 2022, tiers have been removed but several types of "progress payments" are paid for outcomes which improve an individual's labour market prospects. These are paid in addition to payments for employment outcomes.

The progress payments for non-employment outcomes amount to AUD 750 and relate to the following categories (Australian Government, 2023^[23]):

- Education: Participation in a full-time course lasting at least six months with an accredited education provider, vocational training provider or English language course.
- Work placements: Participation in e.g. four weeks of work that is not eligible for an employment outcome or voluntary work of four weeks.
- Vocational interventions: Participation in various ALMPs including e.g. skill based qualification completion (such as barista training, software training or food safety training) or a two-week programme with a non-governmental organisation.
- Non-vocational interventions: Participation in a drug and alcohol programme, treatment for behavioural addictions (e.g. gambling), counselling and mental health programmes, medical/health related interventions, obtaining stable housing, addressing barriers associated with caring responsibilities, or addressing financial instability.

To qualify for a progress payment, individuals must complete one activity related to education or two approved activities/interventions across the other three categories. Providers can be paid a progress payment for each client once every two years. Reporting and documentation requirements are intended to ensure that providers are rewarded only for activities which result in a client's actual progression towards employment.

Sources: Australian Government (2023^[23]), *Workforce Australia Guidelines - Part B Workforce Australia Services*, <https://www.dewr.gov.au/workforce-australia/resources/workforce-australia-guidelines-part-b-workforce-australia-services> (accessed on 2 February 2023); Australian Government (2022), *New Employment Service Trial Evaluation, Phase 1, July 2019 – June 2021*, <https://www.dewr.gov.au/download/14824/new-employment-services-trial-evaluation-phase-1-report/31219/new-employment-services-trial-evaluation-phase-1-report/pdf>; Langenbucher, K. and M. Vodopivec (2022^[4]), "Paying for results: Contracting out employment services through outcome-based payment schemes in OECD countries", OECD Social, Employment and Migration Working Papers, No. 267, OECD Publishing, Paris, <https://doi.org/10.1787/c6392a59-en>.

28. An alternative approach is to reward progression as measured against pre-set benchmarks. Such an approach has been adopted by the PES in the Netherlands, UWV, which procures employment services for individuals with considerable barriers to employment. In addition to fee-for-service hourly payments for their work with clients, outside providers for some programmes are paid a bonus payment which is contingent on the client progressing up the so-called "participation ladder" (Table 2.2). Whether or not a

client has made suitable progress is determined by a UWV counsellor. Progression from Step 3 into Step 4 is also associated with transitioning from one programme, *Making you fit for work*, into another, called *On my way to work*. These progress-based payments are made in addition to payments which reward providers for employment outcomes.

Table 2.2. Progress-based payments in the Netherlands are based on progression up the “Participation Ladder”

Counsellor-based profiling steps used to measure a client’s progress

Step	Activity	Description	Examples
1.	Isolated	Zero or little physical contact with others outside the family circle.	<ul style="list-style-type: none"> • Only functional contacts out of the home, such as with shop staff or social workers. • Active contacts via internet.
2.	Social contacts out of the home	Occasional social contact out of the home, but not in an organized context.	<ul style="list-style-type: none"> • Unorganized contact with neighbours or parents of children’s friends. Providing occasional informal care. • Irregularly visiting friends, a community centre, gym, hobby club, library, etc.
3.	Participation in organized activities	Participation in structured activities in an organized context.	<ul style="list-style-type: none"> • Volunteer work. • Taking courses or training to become work-ready, such as language or assertiveness training. • Practicing sports in an organized context. • Participation in the reintegration programme “Making you fit for work”. • Participation in daytime activities. • Providing regular informal care.
4.	Ready for work	Fit for work and: <ul style="list-style-type: none"> • able to start doing paid work immediately, or • starting to work in a trial placement, or • enrolled in a short vocational training (of max. 12 months) to get a certificate or diploma. 	<ul style="list-style-type: none"> • Successfully completed the Reintegration Service “Making you fit for work” and/or participating in the reintegration service “On my way to work”. • Being unemployed for economic reasons and being immediately employable. • Working via a trial placement. • Enrolled in “Being fit for work” programme or enrolled in a short vocational training (of max. 12 months).
5.	Paid work with support	Paid work with support from the Employee Insurance Agency in the form of an (internal) job coach and/or “wage dispensation”. Without this support, the jobseeker is not able to earn the Legal Minimum Wage.	<ul style="list-style-type: none"> • Working with an (internal) job coach and/or receiving “wage dispensation”. • Self-employed people who do not earn the Legal Minimum Wage.
6.	Paid work	Paid work and able to earn the Legal Minimum Wage without the support of an (internal) coach and/or wage dispensation.	<ul style="list-style-type: none"> • In paid employment, possibly with accommodations required. • Self-employed people who <u>do</u> earn the Legal Minimum Wage.

Note: Introduced in the Netherlands in 2019, “wage dispensation” (*loondispensatie*) is a financial incentive for hiring people with disabilities (ESPN, 2018_[27]). The employer the employer only pays the worker in proportion to their “assessed earnings capacity” and the worker with disabilities receives a supplementary benefit from the municipality up to social assistance level.

Source: OECD (2023_[22]).

29. Adopting a tailored approach similar to the one in the Netherlands could be sensible particularly for countries considering explicitly accounting for soft outcomes in their contracting model. Measuring progress could involve having a PES counsellor agree with the jobseeker on targets in the individual action plan and then periodically assess progress towards these targets to establish progress. For those with a considerable distance to the labour market, criteria similar to those in UWV’s “Participation ladder” could be used to establish progress. Furthermore, many specialised employment programmes may contain

different modules which could be readily incorporated into such a model. For example, Sweden's new *Steps to Work* programme currently foresees that PES counsellors will evaluate whether individuals should progress into each of the four stages of the programme through an evaluation at each stage. Part of the payments linked with client's progression across the different stages of the programme could be linked to satisfactory progress, with a share of the existing payments at each stage contingent on the work with the client deemed to be successful by the counsellor.

30. While there may be merit in rewarding soft outcomes, there are several arguments against their use. First, under the assumption that an individual's employability is accurately captured in the pricing model and providers are not risk averse, profit-maximising providers will in fact provide more intensive services to clients based on their employability.⁸ Providers are not guaranteed outcome-based payments for any of their clients: even for the most employable clients, whether a given client becomes employed is partly subject to idiosyncratic factors that the employment services provider cannot anticipate. This means that providers are rewarded on aggregate for services provided to clients who did not end up becoming employed while they were their clients. Second, using self-reported, subjective measures may not accurately capture the progress towards becoming employed that the contracting authority is trying to stimulate. For example, improvements in client's self-assessed motivation or self-confidence are to be encouraged, but they are not an end in themselves. Clients could conceivably be engaging in activities with providers that are stimulating but may ultimately not be conducive to finding a job. Finally, there may be considerable costs to obtaining accurate information on soft outcomes, such as conducting client interviews and assessments. By contrast, information on hard outcomes can be relatively easy to obtain. This is particularly the case in countries where hard outcomes can be established through the automatic information exchange, such as in the United Kingdom or Sweden (OECD, 2023^[28]).

2.5. Providing incentives for training and budgeting for other expenses

31. Integrating provisions for training and other expenses into contracted-out employment services schemes can be important given the profiles of jobseekers placed with provider: such clients often could benefit from such additional assistance. Schemes in OECD countries have adopted a variety of strategies to address this issue, including the inclusion of small budgets that can be disbursed at the discretion of providers, offering vouchers for training to jobseekers, and mandating that minimum proportions of jobseekers placed with providers must be offered training.

32. Australia has long implemented a flexible Employment Fund for jobseekers in its contracted-out employment services. 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. Under its most recent programme, *Workforce Australia*, each client is provided with an AUD 1 600 Employment Fund credit (Australian Government, 2023^[23]). Within their allotted funds, providers may exercise discretion in which client receives funds – specific amounts are not tied to given jobseekers. Providers may also use these funds to offer wage subsidies to employers who recruit their clients, up to a maximum of AUD 10 000 per client. They may also use them to help cover

⁸ These are arguably a strong set of assumptions that may not be met in practice: for example, examining the payments made to providers in Sweden's *Rusta och matcha* programme suggests that providers are under-allocating the amount of time spent on harder-to-place clients in practice (see Box 2.2 for details). Nevertheless, innovative pricing systems could help: a past system in place in Italy, for example, paid providers based on the results of a profiling tool, with the exact amount varying directly in (inverse) proportion with an individual's employability (Langenbacher and Vodopivec, 2022^[16]).

clients' relocation expenses associated with taking up a job for jobs located more than 1.5 hours from a client's existing home address.

33. A past scheme in Italy incorporated fee-for-service training programmes within a contracted-out employment services model (Langenbucher and Vodopivec, 2022^[16]). The *Jobseeker's Allowance* scheme in the province of Veneto (Italy) allocated a fixed voucher of EUR 1 770 to individuals participating in the voluntary scheme, with enrolment in training programme being based on the mutual agreement on the appropriateness of the training by the individual and the provider (Table 2.3). Training services included a variety of options, such as language or computer training, courses for obtaining an operator's qualification for work equipment, or training for professional development.

Table 2.3. Example of training voucher within an outcome-based payment scheme – *Jobseeker's Allowance* in Veneto, Italy

	Band A	Band B	Band C
Attachment fee (maximum possible)	EUR 266	EUR 494	EUR 1 026
Training voucher	EUR 1 770	EUR 1 770	EUR 1 770
Variable component	EUR 1 500	EUR 2 000	EUR 3 000
Total	EUR 3 536	EUR 4 264	EUR 5 796

Note: Maximum possible amounts per client for attachment fee are indicated; providers are reimbursed on a fee-for-service basis for this component. Client bands are determined based on estimated barriers to employment.

Source: Langenbucher and Vodopivec (2022^[16]).

34. An alternative way to create incentives for training is to mandate specific proportions of clients that are to undergo training. In the United States, the New York City *Career Advance* programme mandates minimum shares of referred individuals to undergo various types of training (NYC Human Resource Administration, 2016^[29]). Among clients placed to private providers for counselling and job-brokerage services, contracts stipulate that at least 19% are to receive some form of training or upskilling services. Roughly half of this is to involve “bridge training”, which is intended to prepare individuals with low educational attainment and limited skills for entry into higher education, occupational skills training, or career-track jobs. The other two forms of training, both of which also have prescribed minimum participation rates, are (i) vocational training and (ii) internships or volunteering engagements.

35. Many schemes also stipulate that employment services providers cover certain costs that arise to participants. The UK *Restart* scheme, for example, mandates that providers cover participants' costs for travel expenses, background checks required for employment or childcare for activities approved by the provider – in the case of childcare, it needs to have been identified first as a barrier for the client to achieve agreed goals and objectives (Department of Work and Pensions, 2023^[30]). The obligation to pay travel expenses covers activities up until an individual becomes employed (afterwards, providers may still, at their discretion, cover travel expenses, but these are also not reimbursed). In the Netherlands, a portion of fees paid to providers of “reintegration services” for each meeting with their client is intended to cover travel expenses (OECD, 2023^[22]) – either for the client or the provider (as the provider may often visit the client at home).

36. A scheme in Ontario, Canada, also gives providers a discretionary budget which can be used for other expenses in addition to training (Langenbucher and Vodopivec, 2022^[16]). Ontario's *Employment Services Transformation*, which was launched in January 2021, provides an “employment-related financial supports for jobseekers and employers” to be disbursed to jobseekers or employers to help clients move into employment. This support is intended to help overcome temporary barriers to participation in training or to enter into and remain in employment. Examples of employment-related financial support to job seekers include transportation, work clothing or uniforms, tools and special equipment, and emergency or infrequent childcare. Examples of employment-related financial supports to employers include

accommodation support or assistance with onboarding requirements. The amount budgeted corresponds to roughly 15% of the amount providers are expected to receive with the attachment and performance-based fees.

2.6. Accounting for different types of risks

37. Having an outcome-based payment model intrinsically involves some financial risks for providers – a risk which is inextricably linked to the financial incentive for providers' performance. At the same time, however, certain inherent risks for providers are outside of their control. This is particularly true in longer-term contracts spanning several years, such as the ones commonly used in large-scale programmes in OECD countries. In the context of contracted-out employment services, four main types of risks are relevant to both providers and the contracting authority:

- **Referral volume-based risk.** In most contracted-out schemes, the contracting authority does not promise strict numbers of clients to providers (although they may provide guidance on expected volumes based on historical data). The number of actual clients may vary depending on the number of registered unemployed, the budget allocated to individual programmes, as well as changes in the composition of individuals within specific service delivery areas (OECD, 2023^[31]). Depending on the institutional setup (Lauringson and Lüske, 2021^[32]), the latter may include allocations by multiple levels of government agencies (e.g. both a government ministry as well as the contracting authority, such as the PES, which decides how much of this budget to allocate to specific programmes). The volumes may also vary based on how the programmes are implemented by the local offices of the contracting authority.⁹
- **Inflationary risks.** These relate to general increases in price levels that are higher than anticipated when designing the contracts, leading to possibly increased costs to providers for offering services through higher wages, rents and other costs.
- **Risks related to labour market tightness.** The relative ease with which the external providers can place individuals into employment is an important factor in a heavily outcome-based pricing model. This can vary considerably depending on the state of the economy and the skills or job-search preferences of jobseekers relative to what is in demand by employers.
- **Risks arising from changes to labour market institutions.** Institutional changes, such as changes in the generosity of unemployment benefits or job search requirements, can have a significant effect on the incentives for individuals to exit unemployment. The effects of such changes have been widely documented and are may not be so uncommon given that most contracts for employment services last several years.¹⁰ Given that some contracting model may reward other outcomes as well (such as education), broader changes affecting those are relevant as well (in the case of education, changes in enrolment conditions or associated cash transfers).

⁹ For example, experience with the rollout of *Rusta och matcha* in Sweden indicated some local offices were not referring as many participants as anticipated due to a lack of information among counsellors regarding the programme (Arbetsförmedlingen, 2022^[14]).

¹⁰ Van den Berg and Vikström (2014^[83]) report that the imposition of a sanction in Sweden increased the probability of exit to employment by 23%, but at the expense of lower hourly wages. Lombardi (2019^[84]) examines the effects of Swedish reforms in 2013 and 2014 that strengthened activation requirements through increased monitoring and stricter sanctions. Whereas men and the long-term unemployed respond to the tighter monitoring and the threat of sanctions by finding jobs faster, women do not. Bennmarker, Skans and Vikman (2013^[85]) found that a reduction in duration of unemployment benefits from 90 to 60 weeks, combined with the threat of participation a workfare programme, resulted in jobseekers intensifying their job search.

38. Determining an appropriate degree of risk for the counterparts involved in contracting is important to achieve an outcome for both parties that will deliver on key service objectives.¹¹ One argument for introducing some risk contingencies in the pricing model is that, for certain risks, the contracting authority may ultimately bear higher costs – through an increased risk premium related to the expected potential loss – than if the risk were retained by the contracting authority (UK Government Commercial Function, 2022_[33]). In such a setting, having the contracting authority bear certain risks such as those tied to inflation is sensible from an efficiency perspective, as its costs of capital – issuing government debt – are lower than that of the private providers, meaning that assuming the risk ultimately lowers its expenditures. In addition, government revenues generally rise with inflation, providing a natural hedge against such risk.

39. In an employment services market where the prices paid to contractors are fixed and not subject to bidding, not providing guidance on how inflation will affect the contract prices may result in a less competitive market with lower quality services. Potential providers may be more reluctant to enter the market given the increased risks and the sunk costs associated with market entry. In the face of unanticipated cost inflation, providers with less diverse revenue streams – who are disproportionately likely to be smaller – may struggle to absorb and adapt to increased costs. Existing providers may be forced to cut costs that *are* under their control given the minimum client service and physical presence requirements – most notably, by cutting wages. Such wage cuts often result in the departure of the most qualified and productive staff, who have the best outside employment options (Galuscak et al., 2012_[34]). All of these factors could serve to undermine the quality of services offered in the employment services market.

40. The issue of rising costs has gained in prominence with the recent sharp rise in inflation, with many of the programmes arguably not accounting for such large increases. For example,

- In the *Workforce Australia* programme, contract price increases are to occur every three years. Following the implementation of the programme in July 2022, all payment rates thus to be increased by 6.8% in July 2025 (Department of Education, Skills and Employment, 2021_[35]).¹² The currently high level of inflation, with annual Consumer Price Index inflation amounting to 7.0% in March 2023 (Australian Bureau of Statistics, 2023_[36]), increases the risks that the government will either have to adopt a new payment model – which will adversely affect its credibility with suppliers – or risk having an unviable market for suppliers.
- In Sweden, the payments foreseen in the new *Rusta och matcha 2* programme are broadly unchanged relative to the original *Rusta och matcha* programme. During the period from when *Rusta och matcha* was rolled out in March 2020 and the rollout of *Rusta och matcha 2* in April 2023, inflation in Sweden amounted to 17.6% (Eurostat, 2023_[37]). While having higher payments (in real terms) when the market for employment services is first being established may be a sensible strategy to help firms cover the fixed costs associated with entry and uncertainties regarding the costs of service provision, it would be helpful to give providers guidance on how future payments may be (partly) tied to broader increases in the price levels which are outside of the providers' control.

¹¹ Introducing risk contingencies is also important to ensure continuity in the provision of services for clients. This is especially important when, as is often the case, the target groups for such programmes comprise of particularly vulnerable individuals.

¹² A financial viability analysis commissioned by DESE found the following (DESE, 2021, p. 3_[86]) : “The analyses examined the importance of indexation over the 10-year period and identified that relative differences between revenue and cost indexation will amplify the longer the contract period, however adjustments could be required over time depending on cost inflation changes. [The contractor] modelled indexation at 6.8 percent every three years (starting in 2025) with cost inflation rates of 1 percent, 2.5 percent, 1.85 percent and 4 percent. Providers would maintain viability at all inflation rates [except] 4 percent where a loss would be recorded over a 10-year contract period.”

41. Adjusting the pricing model to macroeconomic developments has been adopted in several schemes. 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.¹³ 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. Conversely, increasing the proportion of fixed-payments may be a sensible strategy during recessions. New York City, for example, converted its payments to 100% fixed fees during the COVID-19 pandemic (Langenbacher and Vodopivec, 2022_[16]).

¹³ In addition, to facilitate transparency, the tender documentation for the *Jobpath* programme contained detailed information on past exit rates from unemployment: contained detailed historical statistics on the demographic characteristics of its clients and on their exit rates from unemployment along a number of relevant dimensions (Langenbacher and Vodopivec, 2022_[16])

Box 2.4. The United Kingdom's *Restart* programme highlights the importance of mitigating risks

The recent experience of the United Kingdom with its ongoing *Restart* scheme shows the importance of accounting for various types of risks in designing contracts. The design of the payment model coupled with unexpected macroeconomic developments has exposed the contracting authority, the Department of Work and Pensions (DWP), to significantly higher-than-expected per client payments.

A recent examination of *Restart* by the National Audit Office (2022^[38]) attributed the increased per-client costs to the following factors:

- **Higher than anticipated job-finding rates among programme participants.** DWP estimates that providers will be eligible for 'job outcomes' payment for 36% of clients who had entered *Restart* through September 2022, against anticipated rate of 31% for these clients.
- **The fixed-fee payments made to providers are not tied to participant numbers.** DWP now expects the *Restart* programme to enrol about half the people it had initially expected (692 000 participants rather than 1.43 million) because there are many fewer eligible claimants than DWP expected.
- **Lower eligible claimant numbers and a lower percentage being deemed suitable by work coaches.** DWP had assumed that a large share (82%) of potentially eligible claimants would be deemed suitable for referral to *Restart* by PES counsellors. In practice, PES counsellors have deemed far fewer (43%) claimants as eligible.
- **A lower attendance rate among those referred to the programme.** Around one-fifth of those claimants who have been referred to *Restart* have not yet started on the scheme.

These developments have occurred against a background of historically low unemployment and high vacancies as the economy has opened after the COVID-19 lockdowns, although they also reflect implementation challenges. DWP had based its expectations on projections indicating a steep expected rise in unemployment. However, unemployment subsequently increased far less than projected, with a post-COVID-19 peak of 5.2% compared to a projected peak of 11.9%. In 2022, DWP attempted to renegotiate contracts with providers but was only able to make limited savings. This was partly due to providers having entered into fixed-term (e.g. rental) contracts based on higher expected participant numbers and partly due to difficulties in agreeing on alternative contractual terms.

Source: National Audit Office (2022^[38]), The *Restart* scheme for long-term unemployed people, <https://www.nao.org.uk/wp-content/uploads/2022/12/the-restart-scheme-for-longterm-unemployed-people.pdf>.

3. Creating a competitive market for employment services in a choice-based system

42. This chapter focuses on one of the fundamental elements of creating a market for employment services – fostering competition. Competition serves as a key mechanism that incentivises firms to invest in product quality in both traditional markets where firms freely set prices and in so called *quasi-markets* where a contracting authority is the buyer of services (Grand and Bartlett, 1993^[39]). In such quasi-markets, competition can be either be present *ex ante*, during the process of submitting bids, or *ex post*, in settings where providers offer their services alongside each other and compete for the same clients. While a previous working paper examined *ex ante* competition in greater detail (Langenbucher and Vodopivec, 2022^[4]), this paper focuses on *ex post* competition in settings where clients can choose from two or more providers. It first examines the theoretical and empirical evidence relating to the role of competition and then turns to questions related to how jobseekers and providers are matched to each other in a choice-based system.

3.1. Role of competition on market outcomes

43. In the economics literature, competition is widely associated with the number of competing service providers in a given market. The traditional notion is that the higher the number of competitors, the stronger the competition. Indeed, in a market where jobseekers can freely choose providers and information about service quality is easily accessible (through a website with quality ratings, as in Australia and Sweden), jobseekers are likely to select a provider with higher quality among providers that are identical in all other aspects. Therefore, if the number of providers rises, it becomes harder for each provider to attract jobseekers. As a result, each provider has an incentive to improve quality of its services to increase its customer base.¹⁴

44. In theory, several conditions must be met for competition to improve the quality of services offered in a market. These factors include:

- **Jobseekers' focus on quality:** If jobseekers prioritise factors like location or language accessibility over service quality, competition might not necessarily lead to an increase in quality. In such scenarios, examined in a different theoretical context by Varian (1980^[40]), providers may compete for clientele not focused on quality, potentially offering subpar services. Hence, to ensure competition drives quality improvements, it is essential for jobseekers to prioritise service quality and be equipped with sufficient information to make informed choices.

¹⁴ In the extreme case where jobseekers care only about the service quality – and do not care about e.g. providers' locations – having two providers can be theoretically sufficient for them to offer the highest possible quality (Bertrand, 1983^[77]). Such theoretical predictions have not received empirical support.

- **Clarity on service offerings and quality:** When there is an increase in competition, jobseekers may struggle to discern which providers offer the specific services they require and how good the services offered are (this has been examined in a different theoretical context by Atayev (2022^[41])). This could be particularly problematic for jobseekers with unique needs such as those with disabilities or language barriers. Therefore, a prerequisite for competition to enhance quality is the availability of clear and accessible information about the various services and their respective quality.
- **Differences in jobseeker preferences over what constitutes a good provider:** Here the difference is not due to quality, but due to the so called “match value” (Chen and Riordan, 2008^[42]). In this context, this refers to the subjective preference of a jobseeker for a certain type of provider over another (based on e.g. a provider’s approach to helping jobseekers, their focus on a specific industry, or their past experience with helping individuals overcome a specific barrier to employment). While increased competition can stimulate providers to enhance quality, a larger number of providers could also make jobseekers less sensitive to quality improvements if they have a strong preference for a specific provider’s approach or focus. In such situations, providers may opt to reduce quality and cut costs.

45. This discussion highlights that increasing the number of providers does not automatically unleash competitive forces that improve services and employment outcomes. Conceivably, an employment services market with many providers where clients do not make a conscious choice of provider but are assigned one based on other criteria, such as distance, can lead to a “race to the bottom”, with providers competing only to open as many locations as possible to attract clients. While this discussion of the theoretical background is useful in understanding the possible mechanisms for competition to affect the market, the effectiveness of competition in practice is ultimately an empirical question.

46. Given the relatively small number of such programmes and the difficulties in evaluating their relative merits, there is a paucity of empirical studies directly comparing different contracting models and, by extension, the role of competition.¹⁵ But convincing evidence of the advantages of a choice-based model comes from a well-designed randomised control trial of a recent pilot programme, *Bemiddelingsvouchers* (“Mediation Vouchers”) in Antwerp (Flanders, Belgium). In this programme, jobseekers were either randomly assigned to either a voucher-based system to choose an external provider or referred to the existing system (called *TIBB4*), which is based on mandated referrals to a specific provider (see Box 3.1 for details). Evidence from this pilot suggests that the voucher-based model is considerably more effective than the one based on mandated referrals.

¹⁵ More evidence exists on the related question of whether contracted-out employment services are more effective than their PES-provided alternative, but here the evidence is mixed (Langenbacher and Vodopivec, 2022^[4]). Positive results have been observed in the United States, United Kingdom, Australia, and Ireland, where these schemes have boosted employment and earnings, reduced income support duration, and even shortened incarceration periods. Notably, Ireland’s *JobPath* and the United Kingdom’s *Work Programme* demonstrated net positive effectiveness and cost-effectiveness. However, randomized control trials of similar programmes in Denmark, France, Germany, and Sweden exhibited mixed results, often failing to reduce the cost of employment service provision. Some programmes, such as a pilot in Switzerland, resulted in quicker job placements but the jobs were less sustainable and lower paying. Similarly, an Italian voucher programme showed an insignificant short-term effect.

Box 3.1. The *Bemiddelingsvouchers* pilot programme in Antwerp, Belgium

A recent pilot programme by the PES of Flanders (Belgium) was designed to directly compare a choice-based system of contracted out employment services and one where clients were not given a choice. The piloted choice-based programme, known as *Bemiddelingsvouchers*, was initiated in March 2021 in the region of Antwerp and accepted new clients through February 2023 (with entrants through October 2021 included in the evaluation). Under this system, eligible job seekers were provided with vouchers, allowing them to choose from 11 providers for intensive job guidance. In contrast, the existing "Tender intensive guidance and mediation to work" (TIBB4) programme continued to operate throughout Flanders without offering this choice. While both programmes aimed to provide personalized and intensive job guidance, the key difference lay in the autonomy provided to job seekers in the *Bemiddelingsvouchers* system versus the predetermined guidance in the TIBB4 system.

The target group of jobseekers eligible for referral consisted of job-ready individuals with some barriers to employment. Individuals who were referred had to have basic Flemish language skills (enough to conduct a simple conversation) as well as qualifications for obtaining a job in their chosen profession, but they were also assessed as having challenges relating to motivation, job-finding or interviewing skills, as well as other barriers which could presumably be addressed with some intensive, personalised support. Both the client-choice and referral-based programmes placed jobseekers with providers for up to nine months. Interestingly, the provider with the TIBB4 contract for Antwerp also offered services through the client choice-based system. Providers could in principle reject clients in the client choice-based system, although such instances were rare in practice.

By the end of the programme, the voucher-based programme was found to increase the rate at which jobseekers entered employment by 15 percentage points.¹ This is a particularly significant effect given that the average probability of becoming employed in the sample was 58%: the voucher system thus increased the relative chances of entering employment by roughly 25%. Indeed, given the positive results of the pilot, the existing system of mandated referrals is currently being replaced with the voucher-based system in all of Flanders (Belgium).

Note: Although the experiment was conducted as an RCT, the results presented here account for non-compliance with the randomisation assignment.

Sources: Jans, T. et al. (2022), *Pilootproject: Bemiddelingsvouchers [Pilot project Mediation vouchers]*, https://extranet.vdab.be/system/files/media/bestanden/2022-11/Bijlage%203%20Onderzoeksrapport%20vouchers%20UHASSELT_VF.pdf; and fact-finding interviews with VDAB staff.

47. In addition, in several contexts that are broadly comparable to employment services, such as health and education, empirical studies have generally found a positive link between the number of service providers and outcomes (Box 3.2). But there are also instances where the increase of the number of providers resulted in unintended effects, such as a decrease in the quality of services for those services which were not publicly reported. Furthermore, a choice-based system with many service delivery areas may at once suffer from too many providers in some urban areas and not enough in more remote areas (OECD, 2023_[31]). This highlights the need for allowing a sufficiently diverse set of providers and carefully monitoring the market, focusing on a wide array of outcomes and indicators.

Box 3.2. Increased competition has been found to have positive effects in the education and health care sectors

The empirical findings on the effects of competition on education quality, focusing on public and private schools in the United States, indicate that a more competitive environment can enhance the quality of education in schools, but the level of competition needs to be sufficiently strong to incentivize schools to invest in quality improvements. Millimet and Rangaprasad (2007^[43]) and Millimet and Collier (2008^[44]) find that public schools in Illinois face significant competitive pressure from neighbouring districts, which leads to improvements in important determinants of education quality, such as pupil-teacher ratio and expenditure per pupil. Furthermore, Borland and Howsen (1992^[45]), Hoxby (2000^[46]), and Hanushek and Rivkin (2003^[47]) demonstrate that public schools facing stronger competition from neighbouring schools exhibit higher quality. Hoxby (1994^[48]) and Dee (1998^[49]) also show that public schools perform better when faced with competition from private schools. However, Zimmer and Buddin (2009^[50]) suggest that the impact of competition from charter schools on public school quality in California is less significant, possibly due to the relatively small size of charter schools.

Several studies collectively highlight the positive effects of competition on quality of care in the United Kingdom's health care sector. Its system underwent significant reform in the early 2000s, including the encouragement of private hospitals and increased entry for general practitioners. Several studies provide evidence on the positive impact of competition on different aspects of health care services. For example, Cooper, Gibbons, Jones and McGuire (2011^[51]) found that regions with more hospitals (indicating stronger competition) experienced a higher decrease in mortality rates from heart attacks compared to regions with fewer hospitals. Bloom, Propper, Seiler and van Reenen (2015^[52]) demonstrated that the entry of a hospital into an existing market improved management quality and reduced death rates from heart attacks by 9.7%. Cooper, Gibbons and Skellern (2018^[53]) reported that hospital entry reduced patients' waiting times by 16%. Gravelle, Liu, Propper and Santos (2019^[54]) explored the impact of competition on service quality provided by general practitioners and found that stronger competition led to higher service quality, albeit with a relatively small magnitude.

Nevertheless, great care is required in measurement of service quality. All the above studies focus on certain aspects of quality. Although service quality improved due to competition in those dimensions of quality considered by the studies, it may have fallen in other dimensions. A good example of this is a study by Propper, Burgess and Gossage (2008^[55]) who show that competition raised quality of services that were publicly reported and thus observed by patients, but diminished quality of services that were not publicly reported. The authors explain that to attract patients, hospitals transferred resources from services that were not publicly reported to services that were publicly reported. This puts forward a question on transparency of service quality.

Sources: Bloom, N. et al. (2015), "The Impact of Competition on Management Quality: Evidence from Public Hospitals", *Review of Economic Studies*, Vol. 82, pp. 457-489; Borland, M. and R. Howsen (1992), "Student Academic Achievement and the Degree of Market Concentration in Education", *Economics of Education Review*, Vol. 11/4/2, pp. 31-39.; Cooper, Z. et al. (2011), "Does Hospital Competition Save Lives? Evidence from the English NHS Patient Choice Reforms", *The Economic Journal*, Vol. 121, pp. F228-F260; Cooper, Z., S. Gibbons and M. Skellern (2018), "Does Competition from Private Surgical Centers Improve Public Hospitals' Performance? Evidence from the English National Health Service", *Journal of Public Economics*, Vol. 166, pp. 63-80; Dee, T. (1998), "Competition and the Quality of Public Schools", *Economics of Education Review*, Vol. 17/4, pp. 419-427; Gravelle, H. et al. (2019), "Spatial Competition and Quality: Evidence from the English Family Doctor Market", *Journal of Health Economics*, Vol. 68, pp. 102-249; Hanushek, E. and S. Rivkin (2003), "Does Public School Competition Affect Teacher Quality?", *The Economics of School Choice*, pp. 23-47; Hoxby, C. (2000), "Does Competition among Public Schools Benefit Students and Taxpayers?", *American Economic Review*, Vol. 90/5, pp. 1209-1238.

3.2. Role of client choice in market design

48. In a quasi-market where assignment is based on client-choice, part of the responsibility for the ultimate composition of the market lies with jobseekers. Such a client choice-based model of matching jobseekers to providers has been adopted by several contracted-out employment services schemes in OECD countries.¹⁶ The alternative matching method is to use mandated referrals where clients do not have a choice – typically, with a single provider per service area.

49. One argument for introducing client choice is that empirical studies have shown that choice can be a powerful motivator, with positive observed effects on effort, task performance, and perceived competence (Patall, Cooper and Robinson, 2008^[56]). These features are particularly useful in the context of helping jobseekers given the negative effects of unemployment on psychological well-being (Mousteri, Daly and Delaney, 2018^[57]). The positive effects of client choice are corroborated by the results from a pilot programme of contracted-out employment services in Antwerp (Belgium), which randomly assigned jobseekers into either a mandated-referral or choice-based system (for details, see 1). Surveys of PES counsellors who counselled participants reported that jobseekers appreciated the ability to choose their outside provider and that the choice reduced jobseekers' resistance towards participating in the programmes (Jans et al., 2022^[58]). Furthermore, the PES counsellors perceived that the jobseekers were more motivated, perceiving that their needs and preferences were being considered, and that they were in control of their reintegration journey. A survey of the jobseekers themselves indicated that a large majority (77%) were satisfied that they were given the option to choose a provider – including even a majority of those who were ultimately assigned a provider because they did not make a choice.

50. Another argument for introducing client choice is that it can facilitate a more tailored, client-centred approach. Given suitable leeway in the determining their delivery approach, providers can differentiate themselves based on a variety of factors which can serve as the basis for client choice. This differentiation has been observed in some programmes in practice. In the Netherlands, a significant number of small providers specialize in serving specific client groups, such as individuals suffering from long-COVID or clients aiming to start a business (OECD, 2023^[22]). Participants in the recent pilot programme in Belgium also reported that the choice-based model allowed them to choose a provider with a more tailor-made approach (Jans et al., 2022^[58]).

51. However, fully harnessing the benefits of a choice-based model requires that jobseekers make an active, informed choice of providers. To see why, one could consider a scenario where none of the jobseekers in a choice-based model exercise their choice in practice, and are instead all randomly assigned a provider – a situation analogous to a mandated referral-based system without any client choice. When jobseekers can select a provider, the provider is incentivised to improve its service quality to attract clients, reducing their market power compared to random matching. Under random matching, providers do not have incentives to attract jobseekers because each provider is guaranteed to receive a certain share of jobseekers. Therefore, providers have less incentives to invest in service-quality with random matching. In fact, under random matching, theory predicts that providers would all end up supplying the lowest required quality level (Diamond, 1971^[59]).

52. Experience from countries which have implemented choice-based models indicates that a sizable proportion of jobseekers have difficulty choosing a provider, leading them to be allocated one instead. For example, in the recent pilot programme in Belgium, 12% of jobseekers did not choose a provider (Jans et al., 2022^[58]). An evaluation of Sweden's *Rusta och matcha* programme found that 26% of individuals did not make an active choice (Arbetsförmedlingen, 2022^[14]). Indeed, research conducted in different

¹⁶ Examples include Belgium (the *Bemiddelingsvouchers* pilot programme), Australia (*jobactive* and *Workforce Australia*), Korea (*National Employment Support Programme*), the Netherlands (*Open House Contracting*), New Zealand (*Employment Placement*), and Sweden (*STOM*, *Rusta och matcha*, *Rusta och matcha 2*).

settings has documented that individual decision-making may be impeded due to factors such as “choice overload”. For example, several studies demonstrate that workers in the United States invest less in retirement plans when there are more plans available (Sethi-lyengar, Huberman and Jiang (2004_[60]), Sethi-lyengar and Kamenica (2010_[61])).

53. A number of strategies have been made to help individuals make an informed choice of providers. In addition to providers’ self-generated webpage presentations, Sweden and Australia have a system of Star Ratings, a regression-based system of rating providers taking into account the composition of their clients.¹⁷ These are intended to provide a more objective measure of the quality of providers’ services.¹⁸ Furthermore, counsellors can play a helpful role in guiding jobseekers’ choice of providers. The pilot programme in Belgium (Flanders), launched in early 2021, gives counsellors an important role in helping their clients make an informed choice (Langenbucher and Vodopivec, 2022_[16]). Similarly, in a long-running programme for certain benefit recipients in the Netherlands, PES counsellors have a key role in placing clients with private providers (Box 3.3). Over time, the PES counsellors can acquire expert knowledge about the performance of individual private providers, remaining in contact with past clients and following their progress. Nevertheless, any such discretion given to counsellors in recommending specific providers to their clients should be carefully implemented to ensure their objectivity.

¹⁷ While the Star Ratings were phased out of the newly-launched *Workforce Australia* programme, they remain in place for its Disability Employment Services programme (DWP, 2022_[75]). Furthermore, the Australian Department of Health and Aged Care is introducing star ratings for residential aged care (DHAC, 2023_[87]).

¹⁸ A 2020 Swedish Audit Office review of Sweden’s Star rating system for its STOM programme – which is based on similar methodology and data as the one used in the subsequent *Rusta och matcha* programme – found that it provides jobseekers with useful information on the effectiveness of providers, with higher-rated providers attracting more clients (Riksrevisionen, 2020_[78]). Furthermore, a participant who chose a provider with the highest rating (four stars) could expect an average of 30 percentage points higher probability of achieving a successful outcome with that provider compared to if they chose a provider with the lowest rating (one star). The review also showed that an improved rating led to more clients choosing a provider.

Box 3.3. The role of “labour experts” in helping jobseekers choose an outside provider in the Netherlands

In the Netherlands, specialist staff employed by the PES, UWV, have a key role in placing certain segments of jobseekers – most prominently, those who have become eligible for partial disability benefits – with private providers. Called “labour experts” (*arbeidsdeskundigen*), they provide clients with counselling and support but also play a key role in placing clients with outside employment services providers. The Dutch approach to contracting out employment services is decentralized and involves giving clients the right to choose a provider. Each such labour expert is tasked with overseeing individual cases for clients referred to contracted providers for the entire duration of a client’s participation, remaining in contact with their clients and following their progress. Over time, these labour experts can also acquire expert knowledge about the performance of individual employment services providers (including based on first-hand experiences with them and their clients). They may assist clients in deciding which employment services provider to select based on their expertise and past experience (e.g. the provider’s success in placing clients into sustained employment). The labour experts’ primary focus is on their clients’ experiences; by contrast, dedicated UWV account managers are the individuals primarily responsible for monitoring and otherwise liaising with providers.

Within UWV, labour experts also play an important role in assessing whether training for a given occupation would be appropriate for a given jobseeker given their disabilities. They can also play an important role in the job brokerage process by advising clients and employers in methods of workplace adjustment and creating an inclusive work environment, including through so-called “job-carving”.

Labour experts also work outside of UWV, in both the private and public sector, and have a variety of specialist expertise. In the private sector, they provide employment services for individuals who are on extended sick leave (up to two years), during which time every employer is responsible for ensuring individuals get the support and services they need to facilitate their return to employment including, possibly, in a different occupation. In the public sector, they work either in municipalities (who are required to provide support services, particularly for recipients of means-tested social benefits) or in UWV.

The labour expert profession has a long tradition in the Netherlands with its own professional body and certification procedures. Their roots go back to 1967, when the Compensation Law for Disability and Work was first introduced. Today, a national centre for knowledge in labour expertise exists, and five institutions can certify labour experts. The training required to become a certified labour expert involves a one-year specialisation course for individuals with a suitable ISCED 5 (bachelor’s degree) education. In addition, regular professional development activities are mandated for them to retain their accreditation.

Source: Fact-finding interviews with UWV staff during December 2022 study visit.

54. The preceding discussion suggests several aspects to bear in mind in the design and implementation of contracted-out employment services in a choice-based model. These include:

- **Investing resources to ensure that jobseekers are able to make a conscious, informed choice of provider.** For some jobseekers, accessing online information about providers, above all, their relative performance (via Star Ratings or other key performance indicators), may be sufficient to make an informed choice. For many others, the option of having dedicated, specialist PES counsellors could be beneficial. This is based on the experience of programmes in Belgium, the Netherlands and Sweden, where a sizable share of jobseekers have a difficulty making a

choice of provider. Giving jobseekers the option to seek expert, individualised advice could thus be a sensible strategy.

- **Imposing caps on the market share of poorly-performing providers if necessary.** If large numbers of jobseekers do not exercise their right to make a choice of provider but are allocated one based on factors such as distance, poorly-performing providers may not be subject to the disciplining effects of competitive pressures. This could lead to a poor quality of services in the market.
- **Minimising the costs of switching providers.** The competitive forces which lead to improvement of services are stronger if jobseekers can switch providers relatively easily – or even if there is a credible threat that they may do so. Many jobseekers may learn that their chosen provider is not the best fit for them only after several sessions with their providers. Some may be able to resolve issues that may arise, aided by the existence of a credible threat of switching to another provider. Minimising switching costs may entail making the procedures for switching straightforward and accessible for the jobseeker, as well as by facilitating a seamless transition process, such as by ensuring the portability of information – with the jobseeker’s consent – from one provider to another.

3.3. Role of provider choice in market design: should providers be obligated to accept all clients?

55. A final important question relating to competition in a choice-based model is whether providers should be allowed to refuse clients. This question has significant implications for the payment model's design and the possibility of strategic behaviour by providers. However, in contrast to the topics covered in the previous sections, it has not been examined in the theoretical or empirical research. This section thus discusses the potential benefits of allowing providers to refuse clients and suggests how this could be implemented and further examined.

56. In most contracted-out employment schemes – especially in those where clients do not have the option of choosing their providers – providers do not have the option of refusing a new client, subject to (possible) capacity constraints. This is primarily done so that providers do not engage in what is referred to as “creaming” or “cherry picking”, where providers pick jobseekers who are perceived as more job ready and easy to help, rather than participants who might not find employment or only find it after long period of intensive support. One option to attempt to address creaming is through price differentiation. For example, the United Kingdom’s *Work Programme* had participants with similar employment obstacles but for some participation was voluntary, while for others it was mandatory (Langenbucher and Vodopivec, 2022^[4]). Consequently, the maximum possible fees per client in the mandatory group were much higher than in the voluntary group.

57. 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, to achieve a high rating. Such an effect was in fact observed in the Netherlands during certain periods of the COVID-19 crisis, where providers of so-called “reintegration services” were reluctant to accept clients (OECD, 2023^[22]). According to staff from the Dutch PES, this reluctance was attributable to a lack of available job opportunities in the labour market, which would have adversely affected their job placement rates – one of the key performance indicators used to determine whether they can continue to be eligible for client referrals for reintegration services.

58. However, given a sufficiently accurate customer profiling and pricing model combined with additional restrictions, it could be a reasonable option for PES to allow providers to refuse to accept clients. Offering providers this option would serve several purposes:

- First, it could ensure that a client's specific needs or barriers to employment can be adequately addressed by the provider, and that the provider is well-placed to offer support in line with the client's job search or career goals. For example, in the Netherlands, its large number of small providers often specialise in providing services to a niche group of clients (e.g. individuals suffering from long-COVID, clients wishing to start a business).
- Second, it could offer valuable insights into the suitability of the profiling and payment model: if there are systematic differences in individuals who are being rejected by providers, the profiling and payment model could be modified to provide better incentives for serving such individuals. Such information could help uncover subtle differences that may not be immediately apparent.
- Finally, to the extent that the contracted-out services involve very high per-client expenditures, some creaming might be efficient - albeit not equitable – ensuring that such services are only delivered to participants who can benefit from services. In fact, such “parking” of hard-to-place clients may well occur in many employment services provided by PES, but they are not subject to the same scrutiny as when employment services are provided by external providers.

59. If a contracting authority were to allow providers to decide for themselves whether or not to accept clients, this factor would have to be carefully taken into account in the performance ratings used to assess providers and would need to be combined with additional restrictions. For example, in Sweden, the Star ratings – which take into account observed characteristics of clients and their employment/educational outcomes – play an important role in guiding jobseekers' choice of providers and would give providers an incentive to reject clients that they deem could adversely affect their star rating. Such rejections could be explicitly taken into account as a factor in calculating the star ratings. In the Netherlands, where providers of Reintegration Services do not have an obligation to accept clients, providers are hesitant to reject large numbers of clients because they fear the reputational risk (OECD, 2023^[22]). Referrals to providers are strongly influenced by the opinions of PES staff called “labour market experts” (see Box 3.3 above), who may be less likely to recommend a specific provider if they have a track record of rejecting large numbers of clients. Furthermore, additional safeguards could be imposed to restrict the risk of creaming, such as limits on client rejection rates. Giving providers the right to refuse clients could also be trialled in a pilot programme to assess its merits.

4. Enabling data exchange for seamless services: Case studies from OECD countries

60. An often neglected but crucial aspect of contracted-out employment services is the data exchange that serves as an informational foundation for the entire system. Contracting employment services requires that information which previously would have been retained within the PES – such as that relating to jobseeker characteristics or counsellor-client meetings – needs to be exchanged and processed by multiple actors. In addition, outcome-based payment models require additional information that is not strictly necessary if such services are provided in-house, such as information on educational and employment outcomes. This increases the importance of having timely access to administrative data from other government sources, which can be used to automatically verify such outcomes.

61. Examining how other OECD countries have addressed the challenges relating to data exchange can help inform the design of future programmes. While there are considerable differences in how the design of contracted-out employment services across OECD countries, they all face related challenges pertaining to the exchange of information between the contracting authority, the employment-services providers, other stakeholders and the clients. As will be discussed in this chapter, streamlining data exchange has the potential to:

- improve data privacy,
- enable new payment models,
- engage in real-time monitoring and benchmarking of provider performance, and
- support providers with their own monitoring/performance management.

62. The case study country examples in this chapter – from Australia, Estonia, and the United Kingdom – offer intriguing solutions to challenges related to data exchange. The chapter incorporates information gathered during interviews with multiple stakeholders in the case study countries, countries' own public documentation and other OECD resources.

4.1. Automated data exchange: Estonia's X-road data exchange technology

63. In Estonia, an extensive range of government services are delivered online, with digital tools being integral to governmental operations, including those of the Estonian public employment service, the Estonian Unemployment Insurance Fund (EUIF). Although the EUIF does engage external providers for employment services, the focus of the Estonian case study in this paper is the automated data exchange across various government databases. Given that the national digital infrastructure in Estonia substantially differs from many other OECD countries, the Estonian PES's example might not be directly applicable. However, it does illustrate how a high level of integration can enhance many facets of employment

services. These insights and practices can also be usefully applied in the context of contracted-out employment services.

64. The Estonian government's digitalisation efforts rest on several principles:

- **Decentralisation**, which means that no central databases exist, and public institutions and business alike can develop their digital systems independently.
- **Interoperability between system elements to ensure secure data exchange**. Integrity is guaranteed by using the KSI blockchain technology (a blockchain technology designed in Estonia) for data and information exchange. The KSI blockchain technology is an open platform, thus enabling any institutions to use the infrastructure as an open-source solution.
- **A no-legacy policy**, supported by continuous investments in technology and amendments to regulation that adjusts the legal framework to accommodate the use of data while protecting data privacy.
- **A “once only” principle in data collection** whereby any data that needs to be provided to a government institution by an individual needs to be provided only once.¹⁹ Data are then shared across public institutions (and exchanged securely with those needing these for their service provision, supported by legislation), preventing any duplicated data and minimising bureaucracy.²⁰
- **Transparency** enables all citizens to see their personal information collected by administrative registers, as well as how these data are used by the public organisations (Ilves, 2021^[62]).
- **Unique national individual ID numbers** used by all public registers for identification of citizens (even though additional client numbers can also be used) to facilitate linking data across registers.

65. The *X-road* data exchange technology is the cornerstone of the Estonian national level digital infrastructure.²¹ Comprising of a distributed information exchange platform, it enables interoperability and makes it relatively easy for stakeholders to access data from other registers (Figure 4.1). *X-road* has a versatile security solution, including authentication, multi-level authorisation, a high-level system for processing logs, and data traffic that is encrypted and signed (Republic of Estonia Information System Authority, 2022^[63]). This prevents data from being corrupted and inhibits access to data for unauthorised individuals or third parties. There are currently 3 100 data services set up using the *X-road* technology between 694 public and private institutions in Estonia.

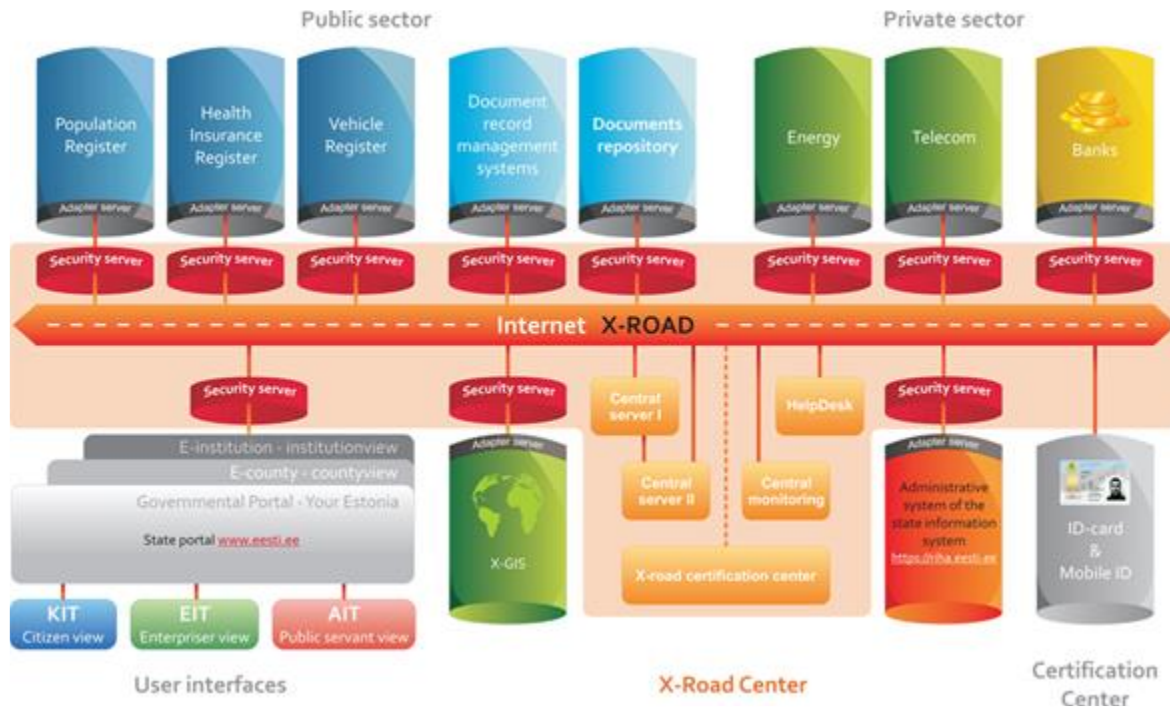
¹⁹ This principle does not apply to outside contractors providing government-funded services.

²⁰ Note that different implementations of such a principle may be possible. The United Kingdom, for example, has implemented a similar process for reporting a death to with its “Tell us Once” service, which allows an individual to report a death to most government organisations in one go (UK Government Commercial Function, 2022^[33]). In the United Kingdom's implementation differs from Estonia in that data may then be duplicated: although though data can be collected only once, each data record can then appear in multiple database repositories across government entities (Rashid and Eaves, 2020^[79]).

²¹ *X-Road* refers to the technology developed together by Estonia, Finland and Iceland through MTÜ Nordic Institute for Interoperability Solutions (Republic of Estonia Information System Authority, 2022^[60]). The data exchange layer used in Estonia is now called *X-tee*. Until 2018, it was called *X-Road* in English.

Figure 4.1. Estonia's X-road provides a platform for information exchange between numerous public and private entities

Estonian data and information flow diagram



Source: European Commission and Pieterston (2020^[64]).

66. The large amount of trusted data available and a high level of integration of digital systems have enabled the Estonian institutions to implement advanced technologies to support decision making and services. It is estimated that more than 50 AI-based tools are used in the Estonian public sector. For example, the EUIF has developed a tool called OTT to support its employment counsellors. The tool is designed to improve the understanding of jobseeker needs and estimate probabilities of different employment scenarios (entering employment, returning to unemployment). The tool also systematises jobseeker needs to better target support and re-allocate counsellor caseloads (Enterprise Estonia, 2021^[65]). The EUIF has adopted AI technologies also for its other business needs, such as matching jobseekers and vacancies.

67. *X-road* is the main data exchange technology used in the EUIF. Data are received from 30 different registers and used across the services and processes. The EUIF shares data using the *X-road* technology with many other institutions as well, such as with the Social Insurance Board, which uses the information as the basis for pension calculations (Mõttus, 2022^[66]). In addition to developing tools using AI technology to provide better services, the automatic data exchanges with other registers have enabled the EUIF to automatise many of its services and processes (e.g. processing benefit applications is fully automatic).

68. The use of *X-road* enables the EUIF to collect a large share of jobseeker data from different registers, rather than requiring them to collect them directly from jobseekers. If the jobseeker data exist in another register, the data are to be shared with the EUIF in case these are needed for the service provision (i.e. based on the tasks and data needs of the EUIF defined in legislation). For example, the EUIF can verify employment status using the data in the employment register, entrepreneurship status in the business register, and enrolment in the education system in the education register.

69. Although it has considerable potential for use by outside PES service providers, only one public-private integration had been implemented in the EUIF as of mid-2022. The main reason for the small number of public-private integrations is the complexity and cost of meeting information protection risks. Private organizations have to meet both legal requirements for data access and a uniform set of information security requirements to access *X-road*. In this regard, the next section – Australia’s approach to addressing information protection risks, which imposes requirements commensurate with risks – provides an interesting case study.

4.2. Addressing information protection risks: Australia’s Right Fit For Risk

70. Australia’s extensive experience with contracted-out employment services has led to a well-developed system of cooperation between the contracting authority, the Department of Employment and Workplace Relations (DEWR), and individual providers. DEWR manages risks associated with sharing information and purchasing services from providers through an auditing and information technology (IT) requirement system named Right Fit For Risk (RFFR). While DEWR ultimately bears the responsibility for information protection concerning employment services, RFFR serves as a tool to share this responsibility with providers and ensure risks are effectively addressed. RFFR accreditation prerequisites are based on a modified version of the internationally-used Information Security Management certification (ISO 27001).

71. The RFFR approach is a somewhat pragmatic one that takes into account external service providers’ size, the type of data processed, and the type of programme delivered. This recognises the fact that smaller providers have a lower risk profile due to the quantity and nature of the data they process and the systems they use. They also do not have the same resources as larger ones. Most smaller providers process data on government systems, which reduces data flows and the amount of data exchanged. The Australian Government chose this strategy to prevent inequity among external providers and avoid a situation where jobseekers in remote areas would be unable to access services.

72. While the rules for accessing sensitive information are the same across all providers, the level of scrutiny and confirmation of the capabilities vary based on the risk potential. Providers with an annual caseload of at least two thousand jobseekers must undergo ISO 27001 certification from an accredited independent assessor (DEWR, 2022^[67]). For providers with caseloads below this threshold, DEWR categorises them as either medium or low risk, based on a RFFR questionnaire and additional information obtained through an interview with the provider (DEWR, 2022^[68]). For small providers categorised as medium risk, this official audit is replaced with a self-assessment of the ISO 27001 requirements. For small providers classified as low risk, RFFR requires only management-level assertion that sufficient security practices are in place.

73. RFFR is not a complete copy of the very extensive ISO 27001 standard but rather focuses on several main areas of information security (see OECD (2023^[28]) for details). These have been defined by the Australian Cyber Security Centre to create three different maturity levels. Larger providers are expected to aim for Maturity Level 3, while smaller providers handling less sensitive data and having less complex IT environments may opt for Maturity Level 2 or 1 (DEWR, 2022^[69]). An organisation’s job is to pick their target maturity level and then ensure all that all eight areas meet that level of criteria. This is to ensure that the most important information protection areas are addressed in a similar fashion and that there are no essential weak points (ACSC, 2022^[70]). Before undergoing certification, providers are instructed to examine their security risks and assess the applicability of the individual security controls to their specific circumstances. They are to then propose which controls are applicable to them.

74. Before the launch of its newest iteration of contracted-out employment services, *Workforce Australia*, several steps were taken to facilitate providers’ adoption of the security management certification. DEWR instituted a special capacity-building fund to reimburse eligible providers for some of the costs associated with obtaining IT security accreditation. Furthermore, in the initial tender process for

Workforce Australia, providers had an option to build their capabilities around information protection within the process. High risk providers had nine months after a successful bid to be certified by an auditor capable of ISO 27001 certification. Failing to pass the certification can lead to termination from the programmes (DESE, 2021^[71]).

75. DEWR also has a system for accrediting the software that the private providers can use in their operations and which process client data. Called *Third Party Employment and Skills* systems, these are software solutions that are developed by private companies. As of October 2022, nine systems were accredited by DEWR (DEWR, 2022^[72]). Accreditation signifies that a system has met the requirements for protecting sensitive information but does not imply that DEWR endorses a specific system.

76. While Australia’s approach to addressing information protection risks provides an example of best practice, the Australian system could benefit from increasing the scope of data exchanged between administrative sources. This is currently rather limited, imposing additional administrative costs on e.g. verifying employment outcomes. Such increased data exchange could also enable novel programme features such as the ones discussed in the next case study, the United Kingdom’s *Provider Referral and Payments* system.

4.3. Using data exchange to introduce novel features: the United Kingdom’s Provider Referral and Payments system

77. The United Kingdom has a long history of contracting out employment services for jobseekers to independent providers for a range of different client groups. Since the first performance-based contracts were introduced in the late 1980s, the country has adopted several programmes contracting out employment services and adopting different commissioning strategies (Langenbucher and Vodopivec, 2022^[4]). A notable shift in the United Kingdom’s commission strategy began in 2008, with the aim to overhaul the system of contracted-out employment services to develop more strategic relationships with providers. The central elements were the so-called “prime provider” model, with large and long contracts, mainly outcome-based funding with a focus on sustained outcomes, and minimal service prescription through a “black box” delivery model. Subsequent programmes, such as the Work Programme, followed this model, rewarding providers for placing clients into employment for up to two years after they initially became employed. Although the programmes can be judged to be successful according to several metrics, the lack of automated data exchange did result in considerable administrative burden of providing evidence for sustainment payments and issues with the validation process (Foster, S. et al., 2014^[73]).

78. To address the data exchange challenges inherent in contracted-out employment service, the United Kingdom employed automated data exchange when it introduced a new programme of contracted provision of employment services called *Restart* in mid-2021.²² The *Restart* programme will run for three years, targeting recipients of means-tested unemployment benefits (Universal Credit) who have been unemployed for 9 months or more.²³ In total, the contracting authority administering the scheme – the

²² The automated data exchange was first introduced in 2017, when DWP rolled out the *Work and Health Programme*, a programme designed for individuals with disabilities and as well as the long-term unemployed. It uses information collected from employers via the Real Time Information (RTI) Programme, which began to be implemented in 2013, and which introduced more frequent filing of employers’ payroll information (HMRC, 2017^[82]): employers are required to submit details of payments to their employees “on or before” the date that they pay their employees. Information gathered through the RTI programme was initially used to facilitate the administration of the United Kingdom’s means-tested benefits.

²³ At its rollout, the Restart was initially targeted towards long-term unemployed who had been unemployed for 12 to 18 months, but its target group was then expanded.

Department for Work and Pensions (DWP) – expects to refer roughly 700 thousand jobseekers to Restart over the three-year period (UK Parliament, 2023^[74]).

79. The case study of the United Kingdom is based on the *Restart* programme and focuses on the automated data exchange system, *Provider Referral and Payments* (PRaP), used in that scheme. The PRaP system links data from the tax agency, HMRC, to verify employment outcomes (DWP, 2022^[75]). DWP providers have access to an online job search portal, and the same platform can be used by business to advertise vacancies (GOV.UK, 2022^[76]). Within *Restart*, other systems are used to facilitate the cooperation. For example, in *Restart*, a system called *Jaggaer* is used for sharing deliverables, documents and reports from providers to the Department for Work and Pension (DWP, 2022^[75]). Systems like PRaP required that DWP established integration, data management and reporting capabilities.

80. The PRaP system is used in a few key ways to facilitate the goals of the *Restart* programme. One important use of PRaP is to give providers detailed client information upon their referral from DWP so that the provider can contact the client and commence working with them as soon as possible (DWP, 2022^[75]). Another important use is to link and set an interest with HMRC systems for the automatic employment milestone reporting based on the participants' tax records. In contrast to previous programmes administered by DWP such as the *Work Programme*, providers do not need to provide any evidence of earnings or submit a claim for payment (unless this is for self-employed claims which do not fall within scope of this monitoring). PRaP is also used as part of both provider and jobseeker performance and compliance monitoring (DWP, 2022^[75]).

81. Similar to most outcome-based contracted-out employment programmes in OECD countries, the payment scheme in *Restart* is heavily contingent on outcomes achieved (Langenbucher and Vodopivec, 2022^[4]). Provider compensation is based on delivery fee and job outcome payment. Fees directly tied to client referrals equate to roughly 30% of the total contract value and job outcome payments account for the remaining share (DWP, 2022^[75]). With the integration between the DWP and United Kingdom's tax authority, data for employment are received in near real time.

82. The *Restart* programme has adopted a novel payment scheme that is made possible by the automated data exchange infrastructure. *Restart* has five milestones that “trigger” a notification to the provider and DWP: one when participant has started a job; one each when earnings thresholds of GBP 1 000, GBP 2 000 and roughly GBP 3 900 have been attained;²⁴ and one if a participant's employment has ended. Providers qualify for an outcome-based payment for each client reaching the highest earnings threshold. Providers do not get direct access to the tax information – PRaP generalizes the data to the milestones that provide just enough information required for monitoring the progress (DWP, 2022^[75]). The parameters of the payment model are made possible due to DWP's link with a participant's HMRC data. Without this integration follow up and confirmation of the outcomes could be too time consuming to monitor and to confirm. These thresholds are also a valuable tool to follow up the participant progress in the programme with minimal work from all parties. Providers can use PRaP to monitor participants' progress and possibly proactively contact participants, such as when they are notified that an individual's employment has ended, and then provide follow-up support.

83. In addition to helping track the sustained employment of clients, PRaP is used for monitoring providers. Provider audits are based random participant progress audit selection in the PRaP systems. These participant cases are reviewed by Department for Work and Pension performance compliance officers in detail in the providers' systems (DWP, 2022^[75]). PRaP information is also useful for a more general performance reviews of the scheme and its outcomes, enabling a factual comparison to other programmes and facilitating the overall success of the scheme.

²⁴ The precise amount for the final earnings threshold is tied to the *National Living Wage* (which is expressed in hourly terms); it is calculated as what an individual earning the *National Living Wage* would earn for 416 hours of work (DWP, 2022^[75]).

84. Despite its considerable benefits, the PRaP system has some shortcomings. The main one relates to the inability to distinguish between several different types of reported income from participants. For example, the tax information on income pertains only to employed earnings; for self-employment, other means of validation are still required. In addition, DWP has difficulty distinguishing other types of income which do not count towards the earnings thresholds, such as tax refunds or payments made while individuals are receiving employment subsidies. In such cases, providers are required to notify DWP separately to clarify that such payments have been made.

5. Conclusion

85. Designing, implementing and managing publicly-funded contracted-out employment models is a complex task. Some aspects are difficult to fully appreciate in advance, so getting things right invariably involves learning-by-doing. It takes time to acquire the necessary knowledge to manage the system, minimise any perverse incentives, and reap the potential benefits of private providers. Moreover, as experiences from OECD countries show, many of the benefits from contracting may only emerge over time when the private providers have had enough time to overcome their own implementation challenges and the contracting authority has been able to harness competitive pressures to exclude poorer performers.

86. This paper highlights some promising features relating to the design and implementation of contracted-out employment services schemes in OECD countries. While a country's specific implementation will invariably have to take into account institutional factors, the challenges facing jobseekers and the labour market, as well as the chosen target group, this paper offers the following recommendations for the design of future programmes:

- **Outcome-based payment models can stimulate providers to offer better services compared to fully fee-for-service payment models.** Payments should vary based on the employability of the client or – for very hard-to-place clients – include payments for soft outcomes, such as when a PES counsellor measures a client's progress towards a set of pre-determined goals. To reap the full benefits of contracting models that incorporate outcome-based payments, the focus of monitoring should be on providers' outcomes. Ideally, this entails embedding into the contracts an escalating ladder of consequences for poor performance, ranging from a letter of warning for poor performance to contract termination. Outcome-based payments can also be tailored to an individual's specific employability, such as that measured by a statistical profiling tool (an approach adopted by the Reintegration voucher scheme in Italy). Experience has also shown that outcome-based payment models should include safeguards such as minimum service requirements that depend on the employability of the client. Such features can be particularly helpful to help support vulnerable jobseekers and mitigate the potential moral hazards associated with the system of contracting out.
- **Ongoing competition between providers in a service area is better than having competition only during the procurement stage.** The empirical evidence on the effectiveness of different contracting models in employment services is not conclusive, given the small number of such programmes and the difficulties in evaluating their relative merits. However, in several contexts that are broadly comparable to employment services, such as health and education, empirical studies have generally found a positive link between increased, ongoing competition between service providers and outcomes (although conceivably, it is also possible to have too many providers as well). Furthermore, from the perspective of the contracting authority, the presence of several different providers competing to offer their services to clients has several advantages, including a more credible threat of sanctioning underperforming providers and a lower level of systemic risk – competing providers can relatively quickly absorb clients in case a provider exits the market.
- **In a market which allows client choice in principle, the system should support jobseekers to make an informed and deliberate choice in practice.** This serves two purposes. *First*, it can

directly improve the employment outcomes of the jobseeker making the choice. Such an arrangement can provide jobseekers with more tailored support that better reflects their specific needs, thus improving the quality of the match between the provider and the jobseeker. Moreover, the act of making a choice, in itself, has been shown to improve motivation and effort in other contexts – effects that can be extremely important for individuals experiencing unemployment. *Second*, having jobseekers make an informed choice strengthens the competitive pressures between providers even with a given number of providers. This has indirect positive effects on the effectiveness of the employment services market, thereby improving outcomes for all clients in the private employment services market. Jobseeker choice is thus a key mechanism for unleashing the potential benefits of contracted employment services.

- **Automating data exchange can, somewhat paradoxically, improve data privacy while enabling new payment models.** In addition to improving the efficiency of the system by lowering administrative burdens and increasing transparency, streamlined data exchange can limit information received by providers to what is strictly necessary, such as when a client stops working, signalling to the provider that additional support may be necessary. With access to up-to-date employment and earnings data, outcome-based payments can incorporate a measure of jobseeker earnings to give employment services providers a financial incentive to place their clients into high-paying jobs. Such features have been adopted by the United Kingdom's *Restart* programme, where payments to providers are triggered after their clients reach a certain earnings threshold and providers are notified of employment changes. A streamlined data exchange can also facilitate real-time monitoring and benchmarking of provider performance. In addition to facilitating monitoring, giving providers up-to-date information on their performance relative to their peers could help improve their service delivery and ensure a more consistent minimum quality of services across providers.

87. Despite the fact that two out of five OECD countries contract out some of their employment services instead of providing them in-house by PES, the empirical evidence does not offer a conclusive verdict on which is the better approach. This lack of clear evidence is due partly to the small number of studies that measure the effectiveness of contracted service provision after the initial implementation challenges have been worked out (although the evidence for more established, large-scale programmes suggests a more positive view of contracting). But it also reflects a broader lack of systematic and detailed evidence on the direct costs and relative effectiveness of public employment services, which are necessary for having a suitable baseline for comparison. This points to the need for extensive monitoring and evaluation of all publicly-financed employment services with the same scrutiny that is commonly applied to external providers. Such information can also be useful to strengthen the accountability of PES and facilitate informed policymaking – for example, to justify the hiring of more PES counsellors.

88. A similar caveat relates to the optimal payment levels and the structure of payments over time. These are best determined taking into account the profiles of the target groups of clients and the relative ease of placing them into employment. Rewarding providers for job placements of up to one year may be a sensible strategy: this provides incentives for good job matches that lead to sustained employment while recognising that continued employment becomes increasingly subject to external, idiosyncratic factors which are difficult to foresee in advance. Another sensible strategy is to provide a greater share of fixed payments at the beginning of a contracting period, to allow contractors to cover their start-up costs and help bridge the gap with subsequent outcome-based payments, and to include contingencies for shocks relating to inflation and aggregate job-finding rates. The precise payment amounts may be initially set taking into account anticipated costs of service provision, but the parameters should be updated based on empirical evidence. In an ongoing programme in Sweden, for example, researchers introduced random variation in the assignment of some individuals into the three client segmentation groups, each of which have different payment amounts. Such analyses help to precisely determine the effectiveness of different payment amounts.

89. Although the focus of the paper is on contracting out job-brokerage and counselling activities, many of the lessons discussed could be fruitfully applied also to other publicly-financed ALMPs. In particular, the training programmes typically contracted out by PES could place a greater emphasis on monitoring and rewarding participants' outcomes instead of focusing on training providers' inputs (e.g. staff qualifications), activities (e.g. training curriculum) and outputs.

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