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The Competitive Market for Employment Services  
in the Netherlands

Ludo Struyven and Geert Steurs

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## THE COMPETITIVE MARKET FOR EMPLOYMENT SERVICES IN THE NETHERLANDS

Ludo Struyven and Geert Steurs

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## SUMMARY

1. OECD countries are increasingly interested in structuring government organisation and the financing of job brokerage and employment reintegration services to use market forces. In the Netherlands, the introduction of market mechanisms has been part of a search for a more coherent benefits and activation system. The former Public Employment Service has been split up into a basic employment service provider (Centre for Work and Income) which remains public, and a privatised reintegration services company, which competes with other commercial entities for contracts to promote return to work. Since a large number of municipalities are looking to buy employment services for their social assistance clients in the Netherlands, a quasi-market for reintegration services has emerged, with many purchasers and providers. However, the purchasers use a variety of tendering methods and parts of the market suffer from a lack of transparency.

2. Following the outcome of a tender round held in 2000, in 2001 the Reintegration arm of the former public service was left with a 17% share in the market for services to unemployment insurance beneficiaries needing intensive employment assistance. On the supply side, partly related to the preconditions for tendering and the complexity of the tendering procedures, there has been increasing market concentration. The four largest providers together had a combined share near 60%, although they subcontracted a significant proportion of their work to smaller providers. The second tender round for this group, held in 2001, encouraged specialisation, with providers bidding to assist 2 500 batches of jobseekers categorised by region, industry of origin, and other criteria. The cost of authorised vocational training for clients is 100% reimbursed to the providers, but about half of the remaining payments to providers depend on their success in placing jobseekers into stable employment.

3. This paper describes these and other aspects of early experiences with the operation of market-type mechanisms for the provision of publicly-financed employment services in the Netherlands. It tackles issues identified in the literature on competition, contracts and New Public Management theories, including the scope and duration of contracts, transaction costs, incentive and payment structures, price and quality competition, quality control and monitoring, and measures to combat creaming of easy-to-place jobseekers.

## RESUMÉ

4. Les pays de l'OCDE s'intéressent de plus en plus à des structures d'organisation gouvernementale et de financement des services de placement et de réintégration faisant appel à des mécanismes concurrentiels. Aux Pays-Bas, l'introduction de mécanismes de marché a fait partie de la recherche d'un système plus cohérent de prestations et d'activation. L'ancien Service public de l'emploi s'est scindé en deux parties constituées d'une part d'un fournisseur de services d'emploi de base (Centre pour le travail et le revenu) qui reste public et d'autre part d'une société privée de services de réintégration, en concurrence avec d'autres organismes commerciaux pour des contrats d'aide au retour à l'emploi. Étant donné qu'un grand nombre de municipalités au Pays-Bas cherchent à acheter des services pour leur bénéficiaires d'aide sociale, un *quasi-marché* de services de réintégration s'est développé, avec de nombreux acheteurs et fournisseurs. Toutefois, les acheteurs utilisent une large gamme de méthodes pour conclure les contrats et une partie du marché souffre d'un manque de transparence.

5. Suite à un appel d'offres en 2000, en 2001 la section Réintégration de l'ancien Service public de l'emploi ne représente plus que 17% du marché des services pour des allocataires d'assurance chômage ayant besoin d'une aide intensive au reclassement. Du côté de l'offre, étant données les conditions préalables à la soumission d'une offre et la complexité des procédures, on constate une concentration croissante du marché. Les quatre plus gros fournisseurs représentaient près de 60 % du marché, même s'ils sous-traitaient en proportion importante à d'autres fournisseurs, plus petits. Le deuxième appel d'offres pour ce groupe, en 2001, a encouragé la spécialisation, les fournisseurs proposant d'aider les demandeurs d'emploi repartis en 2500 lots différenciés selon des critères régionaux, sectoriels et autres. Les frais de formations professionnelles dispensées aux clients sont remboursés aux fournisseurs à 100 %, mais la moitié environ des autres paiements est liée aux taux de placement des clients dans les emplois stables.

6. Ce document décrit ces expériences précoces et d'autres aspects de l'introduction de mécanismes de marché dans le financement public de la fourniture des services pour l'emploi aux Pays-Bas. Il aborde des questions soulevées par la littérature sur la concurrence, la sous-traitance et les théories de nouvelle gestion publique, notamment la portée et la durée des contrats, les coûts de transaction, les structures d'incitation et de paiement, la concurrence sur le prix et sur la qualité, le contrôle et le suivi de la qualité et les mesures pour contrer l'écroulement des chercheurs d'emploi faciles à placer.

## PREFACE

7. The OECD's Employment Analysis and Prospects Division has followed with interest moves among Member countries to introduce contestability and market forces into the provision of publicly-financed employment services. In the Netherlands, market forces have been introduced into the publicly-financed provision of reintegration services – a general term for employment-oriented case management and related services for hard-to-place unemployed or disabled workers – in a different way from that adopted in Australia,<sup>1</sup> but here too the changes have been little short of revolutionary. However, it has until now been relatively difficult for readers abroad to find information on how this new market for employment services in the Netherlands is operating. To fill this gap, the authors of this Occasional Paper have agreed to its general distribution by the OECD. The document is based on a translation of Chapter 3 of *Van aanbieden naar aanbesteden: Marktwerking bij arbeidsbemiddeling en reïntegratie in Australië, Nederland, Verenigd Koninkrijk en Zweden* by Ludo Struyven, Geert Steurs, Anneleen Peeters and Veerle Minne (ACCO, Leuven, 2002). It incorporates some additional literature and information on the outcome of the 2001 tender round (implemented in 2002) that became available after that book went to press. Responsibility for the contents lies with the authors and does not represent the views of the OECD.

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1. Many descriptions and several evaluation studies of Australia's *Job Network* are now easily accessible, including *Innovations in Labour Market Policies: the Australian Way* (OECD, 2001), a review by the Productivity Commission (see [www.pc.gov.au](http://www.pc.gov.au)) and Stage 1, 2 and 3 evaluations by the Department of Employment and Workplace Relations (see [www.workplace.gov.au](http://www.workplace.gov.au)).

## TABLE OF CONTENTS

DIRECTORATE FOR EDUCATION, EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS .....	2
SUMMARY .....	3
RESUMÉ .....	4
PREFACE .....	5
Introduction .....	8
1. Policy context and institutional developments .....	8
1.1 Introduction .....	8
1.2 Trends in the Dutch labour market .....	9
1.3 SUWI and its impact on job brokerage and reintegration .....	10
1.3.1 New public institutions in the area of benefits and placement .....	10
1.3.2 Market competition and the splitting up of Arbeidsvoorziening .....	14
1.4 Three basic trends in the reforms of social security .....	14
1.4.1 Insurance against social risks transferred to the private domain .....	16
1.4.2 Payment and collection of premiums transferred to the public domain .....	16
1.4.3 Transfer of reintegration to the private domain .....	17
1.5 The municipality as purchaser .....	18
1.5.1 Financial involvement .....	18
1.5.2 Changes in the context of SUWI .....	19
1.6 Administrative reforms .....	20
1.7 Evaluation .....	21
1.7.1 Work reintegration governed by social security .....	21
1.7.2 The differentiated purchaser structure may give rise to a quasi-market .....	22
1.7.3 Management of the “enabling state” .....	22
1.7.4 Towards privatised job brokerage .....	22
1.7.5 Social partners forced to step back .....	23
2. The tendering process .....	24
2.1 Introduction .....	24
2.2 UWV tendering .....	25
2.2.1 Starting points .....	25
2.2.2 Procedure .....	25
2.3 Municipal invitations to tender .....	40
2.3.1 Principles of central policy .....	40
2.3.2 The approach in the municipalities .....	41
3. Quality control, monitoring and evaluation .....	42
3.1 Framework conditions for quality .....	42
3.2 Monitoring and evaluation .....	43
4. The playing field .....	44
4.1 Market structure .....	44
4.2 Market shares and admission .....	45

4.3	The former government provider Kliq.....	48
4.3.1	Elimination of guaranteed financing.....	48
4.3.2	Difficult transition to autonomy.....	48
4.3.3	Position in the market and market shares.....	49
4.3.4	Conclusion .....	50
5.	Evaluation.....	51
5.1	Purchasing policy.....	51
5.1.1	Not yet much differentiation between contracts .....	51
5.1.2	Lack of stability and guaranteed inflow.....	51
5.1.3	Purchasing by municipalities still at an early stage .....	51
5.2	Providers and market competition .....	52
5.2.1	Increases in scale and market concentration .....	52
5.2.2	Price plays a subordinate role .....	52
5.2.3	Creaming.....	52
5.2.4	Monitoring not yet developed .....	53
5.2.5	Transaction costs.....	53
5.3	Structuring the process to promote market competition .....	53
5.3.1	Uncertainty due to the transitional process .....	53
5.3.2	Division into stages of the process of setting up autonomous commercial companies .....	53
5.3.3	Transition to a outcome-driven process .....	54

## Boxes

Box 1.	Chance-meter and Kwint .....	13
Box 2.	SUWI Municipalities Support Point and the StimulanSZ service organisation .....	20
Box 3.	Target groups in the Specifications for Reintegration Contracts 2002.....	30
Box 4.	Definition of drop-out and placement percentages.....	37
Box 5.	Calculation of the placement bonus.....	39
Box 6.	Reintegration monitor.....	45

## Tables and Charts

Table 1	Timetable for the 2001 tendering procedure.....	27
Table 2	Forecast of the size of each target group and the number of tranches into which the contract is divided. ....	34
Table 3	Criteria for the use of the 20% budgetary free room .....	40
Table 4	Top 10 reintegration companies in the 2000 and 2001 tendering rounds.....	46
Chart 1	Structure and relationships within SUWI (2002).....	12
Chart 2	Division of tasks between the public and private domains .....	15
Chart 3	Organigram of the 2001 tendering procedure (implementation in 2002) conducted by the LISV (National Institute for Social Insurance) in co-operation with the 5 UVIs (implementation bodies).....	33

## **Introduction**

8. When implementing activation and reintegration measures aimed at jobseekers, increasing numbers of countries are turning to private organisations. In several OECD countries this currently takes the form of introducing market competition, based on the creation of a market for employment services and reintegration. The mechanism used is contracting out through open tendering. Reliance on private employment agencies partially replaces those countries' own government organisation for job brokerage and reintegration. The central topic of this study is the experiences acquired with market competition in the Netherlands.

9. Market-type mechanisms were introduced for employment reintegration on a large scale in 1999. Experiences are therefore very recent. We have based our analysis on written source material and 13 interviews with important players conducted in October 2001, the period during which the second tendering procedure took place. The introduction of competition in the Netherlands must be seen within the context of the institutional reforms that came into force on 1 January 2002. The first section sheds light on that framework. Section 2 deals with the tendering process. This is followed by a third section on quality control, monitoring and evaluation. The employment services market is then analysed in Section 4. In the last section we conclude with our own evaluation of the introduction of market competition in the Netherlands in early 2002.

### **1. Policy context and institutional developments**

#### **1.1 Introduction**

10. The Netherlands broadly has two systems of benefit payments in relation to employee insurance: the Disability Insurance Act (WAO) and the Unemployment Act (WW). In addition to the employee insurance systems, there is also the subsistence benefit system (ABW) which is relatively large in scope. The task of reintegrating jobseekers is divided roughly equally between the subsistence benefit system on the one hand and the unemployment and disability insurance systems on the other. Discussion of the problem of reintegration of jobseekers in the Netherlands refers to these three different groups of people receiving benefits. The introduction of market competition in the area of reintegration of labour must also be seen within the broader context of developments in social security - *i.e.* not only in the area of unemployment insurance but also in the areas of sickness and disability benefits and subsistence benefit.

11. As in all welfare states, the number of people dependent on benefits - and therefore also expenditure on social security - grew to an unprecedented level in the Netherlands during the 1970s and 1980s. These problems were manifested in a particular way in the Netherlands, with an explosive increase in disability benefit claimants and a low level of participation in the labour market, particularly among women and older employees. Although the economy recovered during the second half of the 1980s, the number of disabled people continued to rise. Gradually, the *organisation* of the social security and labour market policy system came to be seen as the main cause of this. There was a growing consensus that the high level of dependency on benefits should be interpreted primarily as an institutional problem. The 1990s were characterised by a major push for change in the structure of social security. This process began with the Buurmeyer Commission, which looked at the problem of the rapidly rising population of disabled people (WAO). Since then there have been a large number of reforms. The central issue here is the integration of "work" and "income", with work placed above income. Social security is therefore increasingly seen as a labour market activity that should prevent periods of dependency on benefits or at least make these as brief as possible through guidance into work. The Dutch government has chosen to carry out a structural change by involving the social security and labour market policy bodies more closely

with each other. From the perspective of labour market policy, the most important steps are as follows: the reforms in *Arbeidsvoorziening* (the Dutch Public Employment Service), the Co-operation Framework for Work and Income (SWI) and the new implementation structure known by the name of Implementation Structure for Work and Income (SUWI). There were two SUWI memoranda prior to the SUWI Act (SUWI version 1 and SUWI version 2). The key issue in the debate on the required implementing structure was the division of tasks between the public and the private domains. In the Netherlands there has been a general tendency during the 1990s towards privatisation in social security. This is no doubt also linked to the advent of “purple” politics. Between 1994 and 2002 the Netherlands has been governed by a “purple” coalition between (blue) liberals and (red) social democrats, putting an end to the Christian Democratic Party’s many years of participation in government.

12. These legal reforms of public unemployment and disability insurance systems have two primary aims: prevention and reintegration. The reforms are intended on the one hand to prevent inflow into benefits (volume limitation) and on the other hand to promote outflow into work (reintegration). To achieve this, responsibility is being shifted more towards individual employees and employers. The reforms culminated in the reform of the implementation structure for social security, job brokerage and labour reintegration through the SUWI Act (Implementation Structure for Work and Income). The new law has been in force since 1 January 2002 (Official Journal 2001, No. 625). SUWI is seen as a milestone in Dutch social reform. In its statement on this subject, the Dutch government called it a “revolutionary operation” (SZW-nieuws, 20 September 2001).

13. The SUWI Act also affects market competition in employment services. Introducing market forces forms part of the institutional restructuring of the wider area of social security. To a certain extent they can be seen as an (unintended?) consequence of it. We will look at this in greater depth in this section. Changes in public institutions and in the municipalities are also discussed here. Some attention will also be paid to administrative changes, but we begin by briefly outlining the most important trends in the Dutch labour market.

## **1.2 Trends in the Dutch labour market**

14. Employment grew by an annual average of more than 3% between 1994 and 1999; in 2000 the growth rate was 2.4%. The number of unfilled vacancies rose to 190 000 in 2000, with a rise to 216 000 in 2001. The total vacancy market is estimated to be more than 900 000 [annual flow of new vacancies].

15. The labour force participation rate in the Netherlands rose from 57% in 1994 to 64% in 1999, which is above the EU average. Due to the large amount of part-time work, the participation rate measured in work-years is 73% among men and 35% among women. One in three older people (55+) are working. According to the calculation method used in the Netherlands, unemployment has fallen sharply from 8.1% in 1995 to 3.8% in 2000 (or 270 000 people recorded as directly available to the labour market) (Centraal Bureau voor de Statistiek). Calculated on this basis, the number of people registered as long-term unemployed has fallen to 82 000. Among ethnic groups, unemployment is four times higher in percentage terms than in the native population, although the net participation rate [the proportion of the working age population in employment and working 12 or more hours per week] rose more sharply in 1994-1998. Due to time-limited unemployment insurance benefits, the majority of unemployed people are on subsistence benefit (198 000 on unemployment insurance benefit as compared with 446 000 on subsistence benefit in 2000).

16. The participation rate of disabled people is an important policy objective for the Dutch government. The number of disabled people is estimated to be 932 000 in 2001 (SZW, 2001b) or 12.2% of the active population. Approximately 200 000 of these people are working. For 2002, the number is

expected to be 956 000 (SZW, 2001*b*). Various factors account for this continuing increase: growth in the number of people insured, ageing of the working population and the increasing participation rate among women. A correlation has also been observed with the economic upswing: due to the tightness in the labour market, employers are recruiting employees with more significant health risks. At the same time the pressure of work is increasing and employees are using sick leave more freely (SZW, 2000).

17. The number of people entitled to receive subsistence benefit in 2001 is estimated to be 418 000 (SZW, 2001*b*). The likelihood that people receiving subsistence benefit will find work is lower than for those in the unemployment insurance system. In the first year on subsistence benefit the likelihood is 25%, less than half that for someone receiving unemployment insurance (SZW, 1999). The main target groups are poorly educated people, ethnic groups and older people. In the poorly qualified jobs segment there is still a large supply to fill the available vacancies, but the supply is more difficult to place in the labour market. Among minorities, the low level of education is an obstacle, as well as insufficient knowledge of the Dutch language. The Dutch government also wants to counteract the tendency towards earlier retirement among older people.

### **1.3 SUWI and its impact on job brokerage and reintegration**

18. SUWI stands for Implementation Structure for Work and Income and covers the whole area of social security, the labour market and reintegration. The aim of SUWI is to transform the various elements of social security into a coherent whole: job brokerage [labour intermediation] policies, unemployment and disability insurance and subsistence benefit payment. Developments in the area of sick leave are also significant for the structure of the area under consideration here. SUWI is therefore about relating and integrating three relatively different social sectors: the labour market, social security and subsistence benefit.

#### *1.3.1 New public institutions in the area of benefits and placement*

19. This reform brings a temporary end to the period of planned reform that began in 1995 as a process-oriented co-operation between the three implementation bodies: public employment offices, business associations (UVIs since 1996: see below) and municipal social services. At that time the aim was “to regroup implementation tasks through positive mutual consultation”; to that end a steering group and a project organisation were set up under the name SWI: Co-operation for Work and Income (SWI, 1996). The original motto was co-operation without infringing the formal responsibility of any of the organisations. In SUWI the aim is integration rather than co-operation. Under the slogan “work above income” the existing implementation bodies for benefits and job brokerage are being replaced by a single merged benefits institution and a single job brokerage institution. The public employment agencies and benefits agencies that previously existed are disappearing. Instead, there will be two new national organisations:

- For benefits, there will be a single Implementing Body for Employee Insurance (UWV) instead of the five existing social insurance implementation bodies (UVIs)<sup>2</sup> and the umbrella National Institute for Social Insurance (LISV).
- In the field of job brokerage, a number of tasks in the area of “basic services” which were previously covered by *Arbeidsvoorziening*, the UVIs and the municipalities, will become the responsibility of the Organisation for Work and Income, which will manage a nation-wide

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2. The best known implementation body is the GAK. The others are: Cadans, GUO, SfB and USZO.

network of 131 Centres for Work and Income in 110 municipalities (approximately one in five municipalities).

20. Both organisations will be fully within the public domain. Chart 1 gives an overview of the new structure. In this paragraph we provide information about the position of the implementation body UWV, the Centres for Work and Income or CWIs and the Work and Income Inspectorate at the Ministry for Social Affairs and Employment. The remaining players will be mentioned when discussing the role of the municipalities (Section 1.5) and the administrative reforms (Section 1.6). The relationships between the various players are indicated by arrows. In accordance with the theoretical organisational hierarchy-market-network models, we distinguish between four types of relationships: hierarchical relationships (control on the basis of rules and standards), market relationships (control via the market mechanism of supply and demand), co-operative relationships and consultation and advisory relationships.

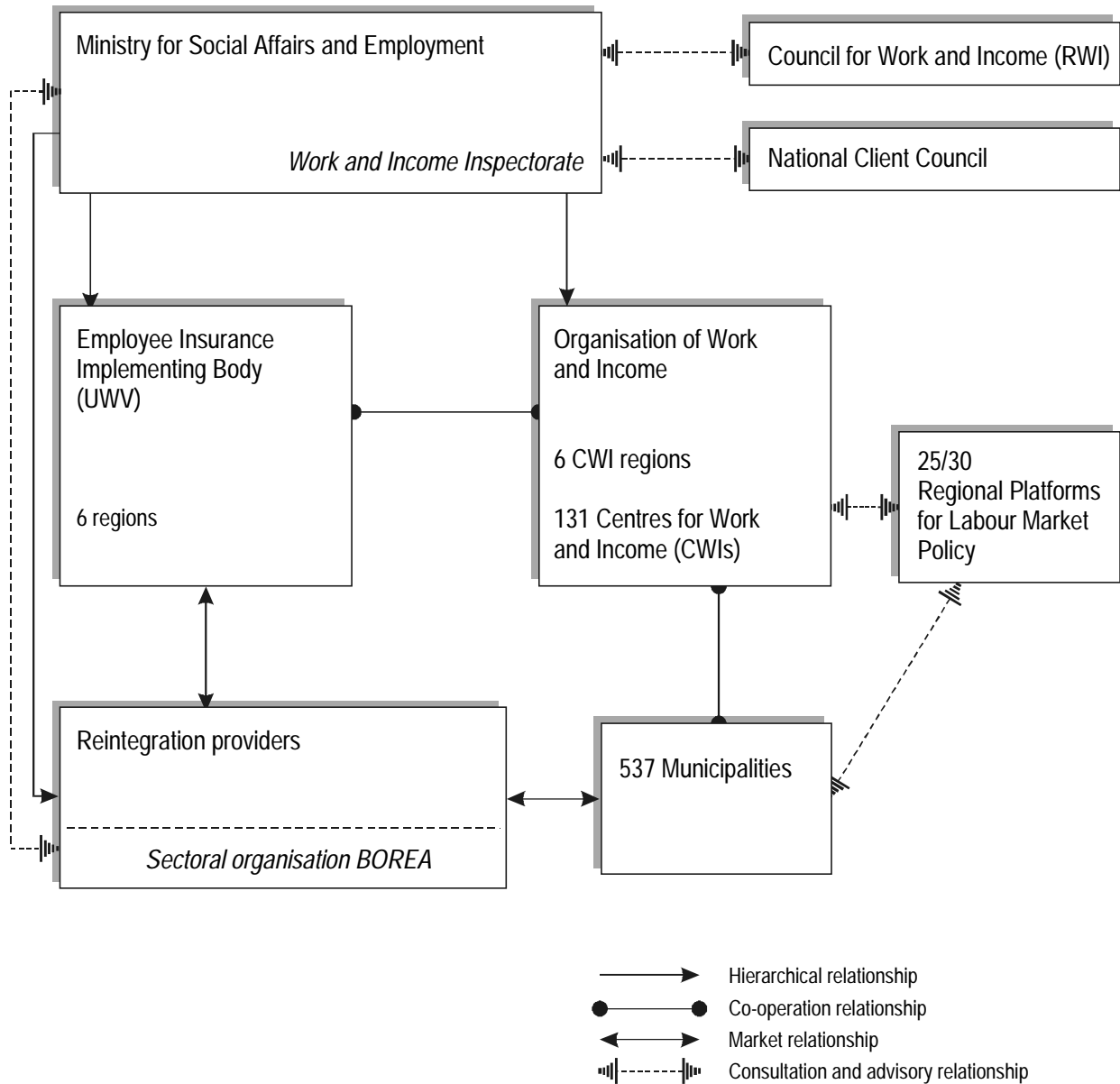
#### UWV

21. The new merged benefits institution UWV is responsible for implementation of premium [social security contribution] collection, claims assessment (disability benefit approval) and benefit payment. It is also responsible for reintegration, but it is not allowed to implement this itself; the UWV therefore takes on the role of purchaser. This definition of the tasks of the new implementing institution has fixed the public-private relationship. Thus, the collection of premiums, the payment of benefits and claims assessment are organised as public tasks, while reintegration activities themselves are set up as private tasks. This also means that there is no longer a public reintegration company.<sup>3</sup>

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3. SUWI 1 aimed at further privatisation. The Social-Economic Council advised transforming the UVIs into private sector companies and thus also privatising the assessment of the entitlement to benefits. In SUWI 2, the privatisation is less drastic than in the original plan. The research institute IOO bv (Institute for Research into Government Spending) has confirmed this decision. Not many UVIs were expected to enter the market (due to uncertain legislation and regulations and the absence of a minimum size) and the limited number of providers would have a negative impact on competition between them.

**Chart 1 Structure and relationships within SUWI (2002)**



## CWI's

22. The CWI's have been given tasks in the area of public job brokerage and they are responsible for collecting data which are necessary to handle a benefits claim (for both unemployment insurance and subsistence benefit). The tasks of the CWI's are based on the connection between supply and demand in the labour market: information and advice to jobseekers and employers; active job brokerage for jobseekers and employers; national vacancies database and national applicants database; administrative intake and data collection for benefit claims with an initial test for completeness; division into streams and qualitative intake process. The target group for the CWI consists of jobseekers: registered jobseekers (claiming unemployment insurance), those not entitled to benefits, most people claiming subsistence benefit and those covered by the ANW (Surviving Dependents Act). For employees who are sick, the reintegration process begins with the employer (see below). The CWI refers people who need further support to the municipality or the UWV with a (non-binding) reintegration recommendation. There are two tools in use for this purpose: the chance-meter and Kwint (Box 1).

**Box 1. Chance-meter and Kwint**

**Chance-meter**

For the "streaming" of jobseekers the CWI uses the "chance-meter". Through an intake interview all jobseekers are allocated to one of the four different streams measuring their estimated distance from the labour market and the expected level of effort required to achieve integration. This takes into account formal grounds for exemption, real prospects in the labour market and mental, physical or financial obstacles. [Jobseekers who are capable of finding a job on their own with a minimum of support are allocated to Stream 1, while those who are temporarily not at all ready for a paid job in the open labour market are allocated to Stream 4. Jobseekers allocated to Streams 2 and 3 are expected to need a "trajectory" (a period of individual case management, perhaps seen as a pathway through distinct phases such as training, work experience and job search) lasting less than one year, or one to two years, respectively]. The chance-meter does not say anything about the content of the trajectory that a person needs.

**Kwint**

Kwint stands for qualified intake process and it is intended for jobseekers who are not allocated to Streams 1 or 4. Kwint makes it possible to comment on the content of the trajectory. On the basis of an interview, three profiles of the client are outlined: the search profile (how is the client searching for work), the qualification profile (training, work experience and qualification deficits) and the placement profile (what support is needed when looking for a job). After a period of time a reassessment interview can take place, and this may result in a new reintegration recommendation.

23. Along with the UWV and the CWI's, the municipalities are still responsible for implementation of the subsistence benefit regulations. They have to work together in the CWI's in relation to the intake of subsistence benefit claimants. Moreover, the municipalities are responsible within the framework of SUWI for buying reintegration trajectories and case management for all subsistence benefit clients.

## IWI

24. UWV, CWI's and municipalities are covered by a single supervisory structure within the department. To supervise the implementation organisations the Work and Income Inspectorate (IWI) has been set up as part of the Ministry for Social Affairs and Employment. This new department replaces the former CTSV (Social Insurance Supervisory College), which had a more independent role. The new Inspectorate is also responsible for monitoring the implementation of the subsistence benefit regulations by the municipalities. Finally, a Social Information and Investigation Service (SIOD) will begin in 2002.

SIOD is a special investigation department with extensive powers intended specifically for complex fraud cases in the area of social security.

### *1.3.2 Market competition and the splitting up of Arbeidsvoorziening*

25. In the new structure the emphasis is on allowing market competition to operate in the area of reintegration. The cabinet [government] has set itself the aim of creating a mature reintegration market with healthy market relationships. Unlike tasks such as the assessment of the right to benefits, continuation and investigation, which must not be influenced by commercial interests, the Dutch government considers that reintegration lends itself well to competition.

26. Both the UWV and the municipalities assume the role of purchasers. The UWV is, as the party responsible for the problem of reintegrating its population of beneficiaries (unemployment and disability insurance benefits), required to invite tenders for the provision and implementation of all reintegration services. The municipalities, which are responsible for the population on subsistence benefit, must comply with a number of procurement provisions when purchasing reintegration services.

27. The Dutch government wants a completely private market, with only private intermediaries. NGOs are seen as part of the public sector in the Netherlands (on this subject see Section 4 on the playing field). The Reintegration division of *Arbeidsvoorziening* has been privatised. The public and private parts are being split up. On the one hand, basic service provision (information and intake) is entrusted to the Centres for Work and Income (CWI's) under independent management, which will involve integrated co-operation with similar departments in the municipalities. On the other hand, the reintegration activities of the existing *Arbeidsvoorziening* were privatised in the form of a reintegration company, bidding on an equal basis with other providers in response to invitations to tender from the benefit institutions, UWV and the municipalities.

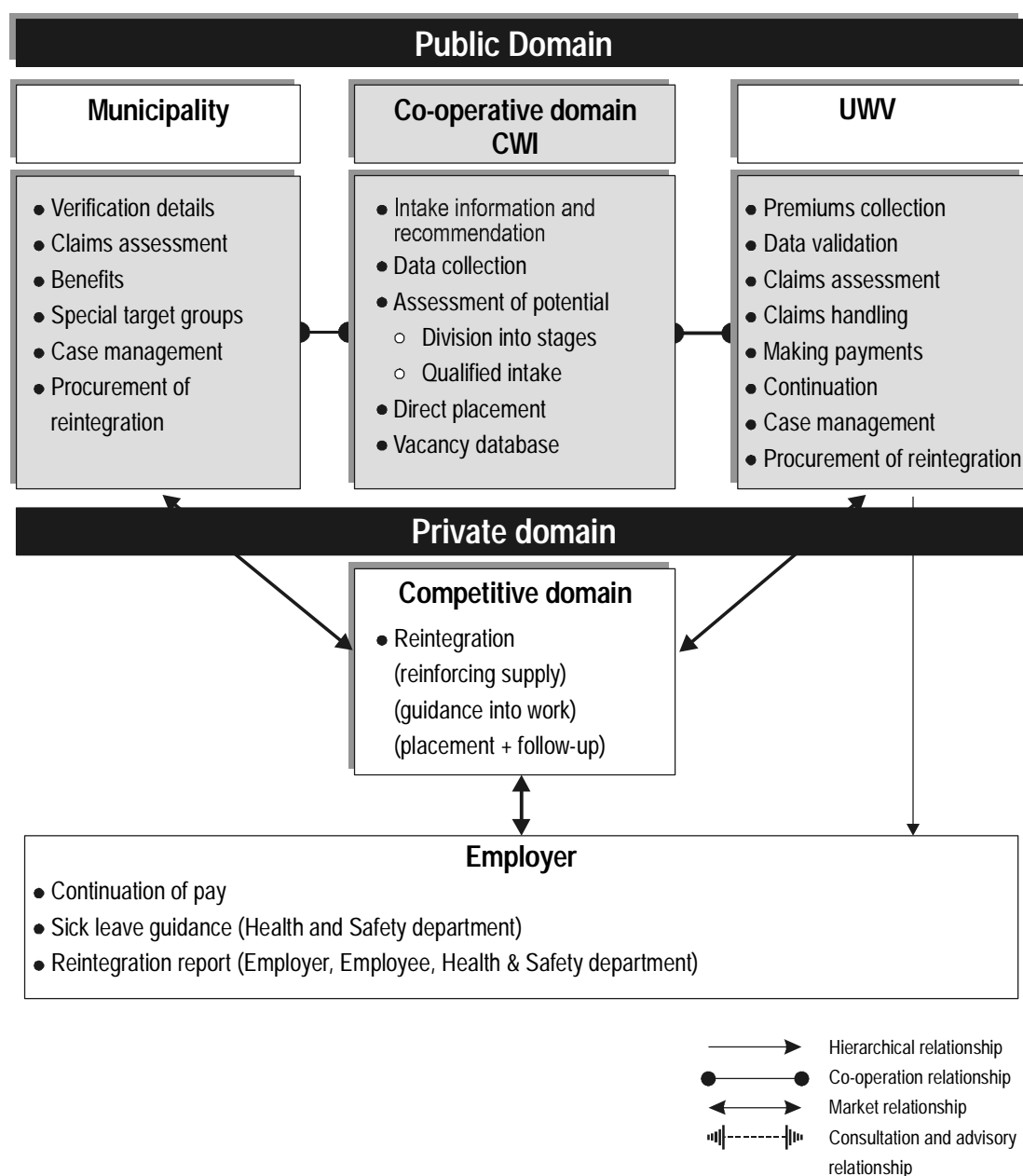
28. It is clear from the above that the creation of a reintegration market and the privatisation of public reintegration activities are not separate developments. The SUWI is based on the effort to achieve a balanced distribution between public and private. It is therefore important to look at the policy choices that have been made across the whole field of social security issues.

### *1.4 Three basic trends in the reforms of social security*

29. Through the reforms stated above, responsibility is increasingly being transferred to the individual employee and employer. The following three principles lie at the basis of this:

1. The provision of insurance against social risks is shifted from the public to the private domain.
2. The implementation of benefit payment and collection of premiums [social security contributions] is transferred to the public domain.
3. The tools to limit the burden of claims - particularly reintegration - are transferred to the private domain.

**Chart 2 Division of tasks between the public and private domains**



Source: based on Buurmeyer, the former president of LISV

30. At the heart of the reforms lies the distribution of tasks between the public and private domains (Chart 2). The decisions made in the Netherlands in terms of the public and private domains are shown in the diagram below. The public domain is driven by co-operation, while the private domain is driven by competition. When implementing the range of tasks within the public domain, the aim is to achieve co-operation between municipalities, Centres for Work and Income and the implementation body UWV. Reintegration in the labour market is placed entirely within the market sector. Players in the reintegration market may work for public as well as private purchasers.

*1.4.1 Insurance against social risks transferred to the private domain*

31. One general trend in Dutch social security during the 1990s is that insurance against social risks (sickness, disability, unemployment) has been shifting from the public to the private domain. In the Netherlands the reintegration of sick employees is in the first instance very much a private task: the employer (or the insurer) must make every effort to redeploy the sick employee internally. In connection with this there is a relatively long period of protection from dismissal during sickness: the employer cannot dismiss the sick employee due to sickness for the first 24 months. Thereafter he may do so if there are no opportunities within the organisation to redeploy the sick employee.

32. Financial incentives have been used to make it more and more in the employer's interests to do this. In the case of sick leave the employer is legally obliged to continue paying wages: the Law on the Extension of the Obligation to Continue Sick Pay (Wulbz, 1996) makes sick leave during the first year entirely the employer's responsibility. Legally this amounts to at least 70% of the wages earned, but most collective agreements stipulate an increase in the sick pay to 100% of wages. The majority of employers have insured the risk of sick leave with private insurers. Since the Law on Premium Differentiation and Market Competition in Disability Insurance (Pemba, 1998), the financing of disability benefit is in the private domain and is the responsibility of the individual business. In the WAO [Disability Insurance Act], there is a differentiated premium system whereby as time goes by the individual employer becomes increasingly directly responsible for the cost.<sup>4</sup> The financial incentive is being introduced gradually over a period of five years. Thus, employers are becoming increasingly liable for the risk of claims.

33. In the area of working conditions Dutch employers have a duty of care in relation to their sick employees.<sup>5</sup> This means that the employer is responsible for sick leave monitoring on the basis of a sick leave policy and controls on sick leave. To that end the employer must use a Health and Safety (Arbo) service: a certified commercial service which must, among other things, include access to a doctor. Health and Safety services compete with each other in an open market. The UWV (formerly the UVIs) exercise control over the employer's sick leave monitoring system and judge whether the employer has made enough effort to keep the employee in his own company. It is therefore in the employer's and the insurer's interests to ensure that the sick or disabled employee gets back to work as quickly as possible. The intention here is to limit claims for disability benefit (the so-called gatekeeper model). After seven months of sick leave the employee can submit an application for disability benefit. When submitting a disability benefit claim, a reintegration report must be discussed. The UWV then carries out a disability benefit appraisal and assesses the content of the report. If it becomes clear that the employer has not made enough effort to help the employee to reintegrate, the payment of disability benefit is deferred and the employer must continue to pay wages for a longer period (a maximum of six months). The employee is obliged to co-operate with the reintegration process. Until now the employer was able to claim subsidies (for workplace adaptation, trial placements, training etc.) but the subsidies have been replaced by exemption from unemployment and disability insurance premiums for the employer.

*1.4.2 Payment and collection of premiums transferred to the public domain*

34. The transfer of the burden of costs to the private domain has been linked to the implementation of benefit payment and premium collection in the public domain. This is the second trend in social security.

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4. The total cost of sick leave and disability is more than 11% of the wages bill (€ 18.3bn). Almost half this amount is variable, i.e. it depends on the level of sickness and disability in an individual company.

5. The basis for the employer's duty of care vis-à-vis the employee is established in the Civil Code (Article 1639h, paragraph three and article 1638z) and refers to the duties of a 'good employer'.

The reasoning behind this is that the government's exposure to risk through claims assessment<sup>6</sup> (the process of determining the entitlement to benefits) is too great to be subcontracted. This is why the determination of the right to benefits is anchored in the public domain. The changes on 1 January 2002 in the implementation bodies for social security, the so-called UVIs, are to be understood in this context. Until now these have been semi-public foundations carrying out a similar task for each of their sectors, on the instructions of the National Institute for Social Insurance (LISV). In the new SUWI Act, the five implementation bodies were merged to form a single Benefits Agency for Employee Insurance (UWV), which is directly controlled by the government. The UWV is responsible for implementation of the Sickness Benefits Act, the Unemployment Benefits Act and the Disability Insurance Act. This has been described as the biggest nationalisation since the Second World War.

35. There are two important differences with the UVIs which were responsible for implementation until 2001: the new UWV is now an institution in which all sectors are brought together, and it is not allowed to offer and implement reintegration services itself. The imposition of restrictions on the UVIs is due to dissatisfaction about commercial developments. The UVIs were linking all kinds of non-compulsory commercial services to their statutory provision for the government, including reintegration. The UVIs were also given purchasing budgets for reintegration in the context of the so-called "Veegwet Budget".<sup>7</sup> This then led to a first attempt at corporatisation by dividing off the government role and placing it in a holding company structure (the so-called A division). This holding company was still able to hold a 100% participating interest in the commercial division (B division). The UVIs then had to make their own reintegration companies completely independent. In the first compulsory invitation to tender for reintegration services, an important assessment criterion was the extent to which the "parental bond" between a UVI and its own reintegration company would impede open competition (see below).

#### 1.4.3 *Transfer of reintegration to the private domain*

36. The third trend in the reforms is that reintegration is being shifted entirely into the private domain. The development towards a private reintegration market is in a certain sense the "logical" consequence of the two previous developments: if the burden of claims is shifted to the private domain, so also must be the tools that can help to limit the burden of costs. These tools cover a wide range of diverse activities, which can, for example, also include medical or social monitoring and assistance.<sup>8</sup> The purchaser structure is defined by law in the SUWI. In 2000 the first open invitations to tender were held (for 2001), and the second in 2001 (for 2002).

37. The idea of steering reintegration through incentives from the market dates from 1995 (Sol, 2001). The idea then emerged of dividing *Arbeidsvoorziening* into separate parts. In 1999 this was laid down in the memorandum Implementation Structure for Work and Income (SUWI 1) which was the precursor to the SUWI Act. It was decided in that memorandum to make the reintegration component of *Arbeidsvoorziening* autonomous. The key idea here was that market forces would contribute towards the more effective and cheaper implementation of reintegration activities. Until recently *Arbeidsvoorziening* was responsible for an estimated 75% of all trajectories (Bos, Mevissen *et al.*, 2000). In October 2000, *Arbeidsvoorziening* was divided into five autonomous business units: all the public employment agencies

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6. Claims assessment means: determining the right to receive benefits, the decision whether a person is unemployed due to their own fault, implementation of possible sanctions and investigation of fraud. These tasks are carried out by an employee of the UWV or the municipality at the CWI location.
  7. The Veegwet Budget stood for a purchase scheme for the social security implementation bodies under the responsibility of business associations in 60 sectors.
  8. See the broad description which the reintegration monitor gives to the term reintegration ([www.reintegratiemonitor.nl](http://www.reintegratiemonitor.nl)).

(incorporated in the CWIs), the reintegration business Kliq that was to be privatised, the Vocational Training Centres,<sup>9</sup> the facilities company and the implementation structure for European subsidies (now transferred to the Ministry for Social Affairs and Employment). Making the reintegration services division autonomous,<sup>10</sup> together with the commercial services for employers, resulted in the formation of the public company NV Kliq on 1 April 2002. *Arbeidsvoorziening* has therefore not been privatised in its entirety, but most of it has been. The Dutch government therefore no longer has its own public organisation of reintegration services. The Start temporary agency organisation had already been made autonomous.

38. From the perspective of the wider social security reforms, development of the market for reintegration is not being exclusively driven by the UWV as purchaser. Employers and their insurers are also pushing significant amounts of private funds from the Health and Safety market in the direction of reintegration. In addition to the UWV and employers, there is also a third purchaser in the developing market: the municipality.

### 1.5 *The municipality as purchaser*

39. Since unemployment insurance benefits are limited in duration, many long-term unemployed people end up on subsistence benefit (usually Stream 4 clients). The municipalities are responsible for the implementation of subsistence benefit and also for tools in the area of subsidised work (work experience placements and jobs under the Jobseekers Reintegration Act or WIW; inflow/throughflow jobs [formerly “Melkert 1” jobs]; social workplaces). A number of reintegration resources are grouped together in the Training and Activation budget provided under the Jobseekers Reintegration Act. The SUWI Act also has consequences for the tasks of the municipalities, although these seem to be less radical than for the other types of benefit (UVIs) and job brokerage (*Arbeidsvoorziening*).

#### 1.5.1 *Financial involvement*

40. The municipalities have a direct financial interest in outflow from subsistence benefit. In the past municipalities were able to claim 90% of the funds needed for subsistence benefit from the central government. Since 1 January 2001 this 90/10 distribution has been converted to a 75/25 distribution. From 2002 onwards the 25% budget is distributed partly on the basis of objective and partly on the basis of historical distribution measures. All the funds are brought together in a single Work and Income Fund (FWI) at the municipality level. This fund groups together both the 25% share and the “training and activation budget” consisting of funds for reintegration provided under the Jobseekers Reintegration Act. The municipalities can therefore use 25% of that budget flexibly<sup>11</sup> in the same domain. The budget is made up of the funds which are released and were previously allocated for compulsory purchases from *Arbeidsvoorziening*. It amounts to € 219 million in 2001 and € 260 million in 2002. The municipalities have also been given extra funds for the so-called “comprehensive approach” [*sluitende aanpak*]. Municipalities also have funds available for reintegration through the *Arbeidsvoorziening* performance

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9. The independent position of the Vocational Training Centres had not yet been clarified by 2001. A number of these may come under the Regional Training Centres (ROCs) or another organisation.

10. Also reintegration for handicapped people, which was transferred to *Arbeidsvoorziening* from the UVI in 1998.

11. If municipalities make savings through more efficient implementation, they can use the funds for extra subsidised jobs. A maximum of 50% of the budget can also be carried forward to the next year.

budget and through the LISV/UWV Reintegration Fund. The total amount which is available to the municipalities for the reintegration of subsistence benefit clients is estimated to be € 377 million (2002).<sup>12</sup>

### 1.5.2 Changes in the context of SUWI

41. The most important consequences of the SUWI Act are as follows:

- The intake of subsistence benefit claimants is shifted from the municipality to the CWIs.
- The municipality is given responsibility for reintegration of those not eligible for benefits and those eligible for benefit under the Surviving Dependants Act. In the past this was the responsibility of *Arbeidsvoorziening* and the reintegration trajectory [the period of employment assistance, was implemented by Kliq.
- The central factor for the municipality is case management as a means of guiding all subsistence benefit clients as effectively as possible into work and/or participation.

42. First of all the municipality retains the final responsibility for the implementation of subsistence benefit. The intake does have to take place in the CWIs (which fall outside the authority of the municipalities and are often not even located in the municipality itself). This is linked to a transfer of personnel to the CWIs (10% of the personnel of the municipal social services). The Association of Dutch Municipalities (VNG) doubts whether quality is sufficient to allow the municipality to make a decision on benefits without seeing the client once more. The VNG is therefore aiming at agreements on the verification of data held by the CWI organisations, since the municipality retains final responsibility for implementation of the ABW [the Subsistence Benefits Act].

43. The municipalities will be allocated an extra € 96.655m in 2002 for the reintegration of those not entitled to benefits and those covered by the Surviving Dependants Act.<sup>13</sup> The funds for reintegration trajectories are added to the training and activation budget and earmarked for the new target groups. This budget can only be spent through purchases.

44. Extra funds are also provided for the reintegration of subsistence benefit clients. The administrative agreements made with the VNG have been set down in the “joint agenda for the future”. Agreements have also been made with the four largest municipalities (G4) and the 21 largest municipalities (G21). The aim is to bring about a fall in the number of subsistence benefit claimants by 10% per year. Those municipalities which have made concrete agreements with central government on the activation of people on subsistence benefit receive extra subsidies.<sup>14</sup> Subsistence benefit claimants are given a case manager, a consistent point of contact who helps them to find work or opportunities for social activation.

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12. Funds excl. ESF (European Social Fund).

13. There are currently 130,000 people who are registered as not eligible for benefits (overestimate due to data pollution). The majority of those not eligible for benefits are women (re-entering work). In addition some 40% are from ethnic groups, about 30% are in Stream 1 and one-third are in Stream 4. At the end of 2000 there were 175,000 claimants under the Surviving Dependants Act, 65% of whom were 55 or older. The vast majority of claimants under the Surviving Dependants Act are women (82%). Approximately 1,000 claimants under the Surviving Dependants Act are currently registered as jobseekers with *Arbeidsvoorziening*.

14. There was already a purchase scheme for the 86 largest municipalities, intended for reintegration trajectories for benefit claimants who were difficult to place.

The client has to comply with written agreements, and otherwise becomes liable to a sanction. Efforts are made to achieve a transparent purchasing policy in reintegration activities.

45. Finally, it is the task of municipalities to create regional platforms for labour market policy. In these regional platforms agreements will be made in order to help to resolve imperfections in the regional labour market. The UWV, municipalities, employers and employees are compulsory participants in this consultation process. It is desirable also to allow other participants to participate in this consultation process (particularly the CWIs with regard to the supply of labour market information). A nation-wide system is expected to come into place with 25 or 30 regional labour market policy platforms.

46. To assist the municipalities with their new tasks the central government has invested in a SUWI Municipalities Support Point. The government also supports a practical support agency (StimulanSZ) which operates independently of the VNG (Box 2).

#### **Box 2. SUWI Municipalities Support Point and the StimulanSZ service organisation**

##### **SUWI Municipalities Support Point**

The aim is to support the implementation of SUWI in the municipalities. The main tasks of the SUWI Support Point are to provide public information and support and to offer facilities to municipalities in: implementation of chain processes and ICT, directing the block buying and purchase of reintegration trajectories/case management, the reintegration of new target groups, regional labour market policy platforms, collective industrial buildings, transfer of personnel and client participation. The Ministry for Social Affairs and Employment has a separate online municipal counter.

##### **StimulanSZ**

This independent foundation, set up by the VNG among others, assists municipalities with the development and implementation of a good local policy for social security. The foundation focuses mainly on reinforcing municipal management. StimulanSZ offers advice and practical support to municipalities on every level: policy, management and implementation. The foundation also helps municipalities with the introduction of major innovative projects such as the Social Services Benchmark and their link to SUWI.

### **1.6 Administrative reforms**

47. With SUWI there has also been a change in the administrative structure of social security. First of all the [legal] status of an autonomous public sector administrative body (the so-called ZBO, *Zelfstandig Bestuursorgaan*) has been chosen for both new UWV institutions and Work and Income Organisation (CWIs). This choice is justified as follows:

“Although it is possible to allow a private sector organisation to carry out a public task of this kind, an implementation body structured as a public sector body (such as the UWV) fits in better with the public character of the schemes being implemented. In this way ministerial responsibility for the quality of implementation of public social security can be better expressed.” (*Eerste Kamer, 2001a*)

48. On the other hand it has been decided not to set up a service as a part of the ministry, since the minister’s responsibility would then extend to decisions in individual cases. In a ZBO the minister remains responsible at the level of the whole system, not at individual case level. In practice it has been found that the minister’s control is becoming significant: the minister finally approves the policy framework and appoints and dismisses the general management and the advisory councils. On the Advisory Council, only independent persons sit and there are no employee or employer representatives.

49. The social partners (and also the municipalities) are therefore taking a step back from involvement in the administration of the new implementation bodies. This is replaced by a Council for Work and Income (RWI) which “guarantees the involvement of employer and employee organisations and municipalities in policy in the area of work and income”. The RWI advises the minister each year on the policy framework (*e.g.* distribution models and distribution ratios). The minister can only deviate from this with good reason, and he retains the option of making his own assessment. The RWI is a tripartite advisory body. Its tasks are threefold:

- To offer advice on the practical implementation of labour market policy in the short term (while the Social-Economic Council (SER) focuses on the long term and legislation).
- The council is given authority over a new subsidy scheme aimed at the demand side for sectoral, regional and company initiatives.
- The council is given the task of promoting transparency in relation to the operation of the private reintegration market (*e.g.* through a “reintegration monitor”).

50. At the level of the regions a regional labour market policy platform will be provided, as has been stated, which will be set up at the initiative of the municipalities. This will be an organ of the social partners and municipalities and will have no formal powers but purely an advisory role. There will also no longer be any participation in policy at the regional level similar to that which took place in the former *Arbeidsbureaus* (Regional Public Employment Services).

51. At the sectoral level the social partners have so far retained an influence over the tendering procedure (see below). Their position in the new arrangement is unclear. The Sectoral Councils were set up and financed by the National Institute for Social Insurance (LISV), the umbrella organisation covering the five benefit payment institutions. Their role will be diminishing in future in favour of consultation at collective agreement and Works Council level.

52. Finally, participation by clients has been reinforced with the SUWI. There are client councils for each implementation body (UWV, CWIs, the municipalities, the *Sociale Verzekeringsbank*), each of which is divided into regional bodies. There is also the national clients’ council, which is made up of representatives of these councils. The general clients’ council is the interlocutor for the RWI and must always be consulted in advance.

## **1.7 Evaluation**

### **1.7.1 Work reintegration governed by social security**

53. One characteristic situation in the Netherlands is that the choice to introduce market competition into reintegration activities has been made on the basis of the wider choice on the division of tasks between public and private [sectors] in relation to preventing and dealing with sickness and disability and the payment of benefits. SUWI is so all-encompassing that in the drive to reform the whole implementation organisation it is sometimes forgotten that reintegration in work cannot be seen separately from the demand for labour. It is striking, for example, that the issues of knowledge of the labour market, transparency of the labour market and efficient vacancy matching have hardly been raised in the entire SUWI debate. The system of reintegration into employment is highly supply-driven and supply-oriented. This is immediately a weak starting-point in the present reforms. Whether the private market for reintegration companies will fulfil the function of a labour market intermediary will only become clear

during the coming years. At present there is not enough empirical insight into the way in which private companies structure the services they provide to jobseekers and employers. Controlling the costs of social security is a central factor and the incentives for this (continued payment of wages, premium differentiation) are kept at the lowest possible level. The risk that reintegration activities will take place on a limited basis is not an imaginary one. The UVIs have little insight into what reintegration involves (IBO, 2001). In general it is expected that the new implementation structure will have only a limited effect on the number of people claiming disability benefit.

#### *1.7.2 The differentiated purchaser structure may give rise to a quasi-market*

54. The market competition model in the Netherlands is oriented towards creating a private market. The Ministry for Social Affairs and Employment defines its principal task as being to create the right conditions, to monitor developments in the market closely and to limit any interventions as far as possible. It aims to invest in a professional purchaser structure. Above all it wants to avoid falling into the classic reaction of “wanting to regulate everything”. The purchaser structure with regard to the population of jobseekers is left up to autonomous government institutions and to the municipalities. The differentiated purchaser structure has a greater chance of leading to a quasi-market with a multiplicity of purchasers and suppliers. The trade union movement is initially dismissive about efforts to create a free market. Employers are expecting that in the new structure a lot of attention will be devoted to how the municipalities perform as purchasers.

#### *1.7.3 Management of the “enabling state”*

55. The most difficult problem for the Ministry of Social Affairs and Employment is what attitude to take towards the autonomous institutions UWV and CWIs. The department does not want a competitive structure, but processes must be made more transparent and efficient - the aim of saving costs is never far away. The principle is to create purchaser structures where the benefits are managed (who pays, decides). These purchasers must have an interest in successful outflow, which is the reason for the efforts to create the right incentives for purchasers.

56. The municipalities have a financial interest in allowing their clients to flow into jobs. The UWV does not (yet) have any direct financial interest in the efficient use of reintegration resources, and this is reflected among other things in the fact that sanctions are used sparingly (IBO, 2001). The aim is to work out some kind of performance-oriented steering for the UWV and the CWIs. The Ministry initially wants to be able to hold purchasers accountable for their results. In the current turbulent climate of reforms, however, the primary requirement is for institutions and municipalities to deal with the mergers and splitting-up operations. It is evident from the interviews that there is a risk that during the initial period the ministry will be entirely absorbed in process management in and between the various players and will not be able to respond to problems or provide any content-related controls.

#### *1.7.4 Towards privatised job brokerage*

57. In the Netherlands the SUWI has meant the abandonment of a Public Employment Service controlled by the social partners (on a tripartite basis initially and on a joint basis since 1996). How can we explain this decision? The demonopolisation of *Arbeidsvoorziening* dates from 1991. This went hand-in-hand with the introduction of a tripartite administrative structure (employers, employees and the government) and a decentralisation to Regional Public Employment Agencies. The tasks of *Arbeidsvoorziening* had already been significantly narrowed during the first half of the 1990s to the reintegration of weak target groups. This trend was probably reinforced by the presence of an efficiently-

operating temporary staff market which made it difficult to compete. The general perception was that public job brokerage did not score highly for this task. The Commission for the Evaluation of the Public Employment Service (Van Dijck Commission, 1995) confirmed the perception of a poorly performing organisation. With the advent of the “Purple I” coalition, a tight programme of spending cuts was imposed on *Arbeidsvoorziening*. The resources that were made available were allocated directly to the municipalities for the placement of difficult-to-place jobseekers into so-called Melkert jobs. The Commission mainly found problems with the working of the central organisation and much less with the Regional Employment Agencies. However, there are also critical voices, to the effect that there was no intention of *Arbeidsvoorziening* having a successful future (Sol, 2000).

58. From the interviews it is evident that the organisation was no longer able to succeed during the mid-1990s. First of all a general trend had emerged during that period towards more market competition and privatisation. Secondly, the fate of *Arbeidsvoorziening* fell into political hands. The liberal VVD party was a strong supporter of the privatisation of job brokerage activities: this party was above all counting on temporary staff agencies and unregulated recruitment to make a cumbersome public authority superfluous. During this period the UVIs were also preparing for the introduction of market competition and created their own commercial division, among other things for Health and Safety services and reintegration. During the negotiations on the “Purple II” governmental agreement, *Arbeidsvoorziening* became part of the swap in the major social security dossier, where it was exchanged for the review of privatisation of the implementation bodies (Sol, 2001). As well as the general ideological climate in favour of market competition, political factors thus also played a part. Moreover, the Netherlands continued to struggle with a severely restricted view of the task of “job brokerage” in terms of the problem of difficult-to-place target groups. The value of the public employment offices was severely restricted during the 1990s in terms of their role in dealing with target groups. The CWIs and the private reintegration market did not initially help this problem.

#### 1.7.5 *Social partners forced to step back*

59. The administrative reforms in social security have put an end to “hybrid” governmental organisations and returned once again to purely public institutions. In the Dutch model there is no longer a purchaser structure with any involvement on the part of employees and employers, except on a sectoral basis. This choice seems to be in tension with the famous “polder model”. Various people who were interviewed see the RWI as a compensation for what is actually a rather radical abolition of co-determination by the social partners.

60. The attitude towards the social partners has grown partly from the Buurmeyer Commission (1993), which stated that the social partners for years worked together to spread the bill for the gradual redundancy of surplus, less productive, older employees via disability benefit. There were also fingers pointed at the social partners in relation to *Arbeidsvoorziening*. According to Sol, the considerable influence given to the Buurmeijer investigation by the Cabinet, the Upper House and the press in the decision on reintegration has meant that the task of resolving the impasse in the system has been primarily put into the hands of the government. As the party responsible for *Arbeidsvoorziening*, however, the government was no more successful than the social partners. Due to the social security perspective, however, attention was mainly devoted to the failure of the social partners in the area of reintegration (Sol, 2001). In its current developments the system is suffering all the consequences of this. A one-sided effort is being made to reinforce the responsibility of the government. As a result reintegration policy is strongly oriented towards the supply of jobseekers, and only to a slight extent towards the demand for labour. Sol calls this a feeble basis for effective reintegration.

## 2. The tendering process

### 2.1 Introduction

61. The tendering procedure for reintegration activities is determined by law within the framework of the SUWI Act. As it is clear from the institutional structure of the benefit systems in the Netherlands, the target groups consist of the populations on unemployment insurance and disability benefit on the one hand and the population on subsistence benefit on the other. Each of these is covered by different institutions for reintegration purposes: the UWV on the one hand and the municipalities on the other.<sup>15</sup> Both the UWV and the municipalities have been given the purchaser role through the SUWI Act. In the UWV market there is an open and transparent tendering procedure; as stated above, the UWV is obliged to have all reintegration activities implemented by external market players. Also in the municipal market the SUWI Act provides for purchasing through a transparent procedure. In SUWI the municipalities are encouraged to make efforts to contract out as many reintegration activities as possible to the private market - which has no links with the municipalities.

62. The cabinet's aim is to create a reintegration market with healthy market relationships (Ministry for Social Affairs and Employment, 2001*b*). From the 2000 contract year onwards, the provision of services has been opened up to the free market. For both markets the end of compulsory purchasing of reintegration trajectories from *Arbeidsvoorziening* ("compulsory custom") is in sight.

- For the UVIs, the system of compulsory purchasing from *Arbeidsvoorziening* remained in force until 1 January 2000 (Veegwet Budget).<sup>16</sup> Thereafter they could access the funds for use at their discretion (Reintegration Fund). In the handicapped persons' market, free tendering has consequently been in force for a longer time.
- For the municipalities, compulsory purchasing from *Arbeidsvoorziening* was completely abolished on 1 January 2002.

The total annual cost of reintegration through tendering (2001) is approximately € 182 million. This is 25% to 30% of the total cost of reintegration of disabled people and jobseekers.

63. We will now look in more detail at the tendering process set up by the UWV i.o. [UWV while it was being formed and not yet legally operational] (still LISV and UVIs until the end of 2001) for the 2001 contract year (execution in 2002). Then follows the development of procurement practices among the municipalities.<sup>17</sup> From the purchasers' perspective, these are still largely separate markets. Nevertheless there is a tendency for the two target groups to come closer together. More spending freedom has therefore been provided in the various budgets.

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15. For sick employees, reintegration begins with the employer. For the implementation of reintegration etc. it is compulsory to make use of a Health and Safety service. We do not pay further attention however to the introduction of market competition with regard to the target group of sick employees.

16. From 1 January 2000 the situation was changed as follows: for people becoming unemployed after 1/1/1999, the system of free purchasing applied (resources for Comprehensive Approach and the Jobseekers Reintegration Act); people who became unemployed before 1 January 1999 were still subject to the compulsory purchase system (the *Arbeidsvoorziening* Performance Budget).

17. In addition to the UWV and municipalities there are a number of other purchasers: insurers, companies, employer organisations, training funds in the context of collective agreements. For an overview of the situation at the beginning of 2000, see the survey for the Regional Plan (Dijk *et al.*, 2000).

## 2.2 *UWV tendering*

### 2.2.1 *Starting points*

64. The central starting-point in Dutch reforms is that all reintegration is offered and implemented by market players. The Dutch cabinet considers it very important that the public spending associated with this should take place on a transparent basis. In the Dutch situation transparency means that “all the interested companies are able to bid for the contracts under equal conditions” (*Eerste Kamer, 2001a*). Contracts have to be awarded to the most economically favourable offer. In order to give shape to that process the LISV has developed a uniform tendering procedure in co-operation with the UVIs. So far two tendering procedures have taken place: the first tendering procedure was launched in the 2000 contract year (implementation in 2001) and the second tendering procedure took place in 2001.

65. As well as transparency, budgetary considerations also have a part to play, above all in the sense of greater efficiency; in addition the cabinet is seeking to achieve an improved quality of service through competition.

66. Another factor for the Dutch government was the sectoral fragmentation of the UVIs with their own reintegration companies. In the years prior to 2000 there were also invitations to tender by the UVIs. Each UVI hereby used its own working method. The tendering procedure was mainly based on familiarity and experience with the provider and not so much on the basis of open tendering (*Dijk et al., 2000*). In general this is seen as a rather obscure period [it was not very clear how the tendering and award processes operated]. During the pre-market period the UVIs made extensive use of their own reintegration services (“B divisions”) as well as compulsory purchase from *Arbeidsvoorziening*.

67. The framework for the tendering procedure was worked out by the LISV in both cases. After the first tender, contracts were signed with 33 companies. This is a smaller number of contracted companies than in the period before open tendering (before the first LISV tender)(LISV, 2001a). After the second tender, 41 companies received a contract for a comparable number of trajectories, *i.e.* about 60 500.

68. For the sake of transparency in the selection process the LISV set out guidelines with effect from 2000 and tendering for contracts by the UVIs must take place according to these (LISV, 1999). For the 2000 tenders there were still five separate tenders per UVI. For 2001 there was only one national tendering procedure conducted by the UWV *i.o.* The contracts for 2001 (implementation in 2001) were still concluded with the individual UVIs for formal legal reasons; this was, however, done on behalf of the LISV. For 2002 the contracts have been concluded with the UWV *i.o.* A uniform model agreement is also applicable to all the contracts. Until 2001 the framework was set up by the LISV, which was also ultimately responsible for the tendering procedure implemented jointly with the UVIs. The term for implementation of the contracts is 3 years.

69. The tendering procedure for 2001 was set up partly on the basis of the results of evaluation surveys carried out following the 2000 tendering procedure: the first evaluation was carried out by outside research agencies on the instructions of the LISV, the second evaluation was carried out by the independent supervisory body, the Social Insurance Supervisory College (CTSV), in co-operation with a research agency. This led to major changes as compared with the 2000 framework.

### 2.2.2 *Procedure*

70. We will be discussing below the procedure that was followed in 2001 (2002 implementation year). As we have said, this is the second general procedure. The following aspects are considered: the

stages, the legal framework, differences in comparison with the previous 2000 procedure, formulation of the call for tenders, the inflow of clients, client choice, co-operation networks, selection and award criteria, price and financing method and finally the so-called budgetary “free room” outside the tendering process.

#### 2.2.2.1 Two-stage procedure

71. The process of selecting reintegration companies for contracting is based on a series of selection and award criteria. The selection and award processes took place separately in the 2001 procedure:

- In a first stage companies were able to come forward, after an announcement in the national daily newspapers, as candidates for the stated target groups. Only companies that had come forward could be invited for the second round. In order to be invited to take part in the second round, predetermined, objective selection criteria had to be met.
- In a second stage the purchaser (in 2001 the UVI on behalf of the LISV, and in future the UWV i.o.) invited the selected reintegration companies to submit a tender (a minimum of five per contract). Contracts were awarded on the basis of predetermined award criteria.

72. The aim of the *two-stage tender* is to avoid unnecessary submissions of tenders by companies that do not satisfy the selection criteria. This makes the process easier to control and less burdensome. It also offers advantages to the candidate companies, since they can limit themselves to their own specific expertise and knowledge in relation to the separate target groups. Applications and submission of tenders are done separately for each contract. Due to the large number of separate target groups or contracts (see below), this has nevertheless meant a large number of dossiers for major tenderers to deal with. It is doubtful whether it is possible to tackle the high transaction costs associated with a tendering procedure.

73. In 2001, since the actual invitation to tender only takes place during the second “closed” stage, it was decided to use a non-public procedure. Nevertheless, the LISV, which is the party issuing invitations to tender, considers that the procedure in stages is also a transparent and public procedure. Selection and award criteria are made public prior to the procedure. In the past the UVIs were free to spend either all at once or in more than one round.

74. The timetable for the 2001 tendering procedure has a short throughput time: the time span between the publication of the invitation to tender and the conclusion of contracts is no more than six months. Table 1 shows the timetable for 2001. In accordance with the central principle of transparency a lot of attention is devoted throughout this process to the provision of information. A website has been created specially for the tendering procedure.

**Table 1 Timetable for the 2001 tendering procedure**

Development of policy framework for tendering	
Determining the framework for the 2001 tendering procedure	23 May 2001
LISV administration	
Notification from LISV to the management of the UVIs	11 June 2001
Report by the cabinet to the Upper House	25 June 2001
Selection and award	
Publication	3 September 2001
Applications from reintegration companies	5 October 2001
Report on selection stage + information to companies	24-25 October 2001
Invitation to submit tenders	24-25 October 2001
Tenders sent in	6 December 2001
Report on the award stage + information to companies	14 January-4 February 2002
Contracting	
Contracts sent out for signature	5-19 February 2002
Conclusion of contracts	5-19 February 2002

Source: LISV (2001a); [www.aanbestedingreintegratie.nl](http://www.aanbestedingreintegratie.nl)

#### 2.2.2.2 Legal framework

75. The tendering procedure falls within the “1B regime” of the Services Directive (Directive 92/50/EEC). Tendering is compulsory from a certain threshold value (about € 200,000). Depending on the nature of the service, reintegration is classified under code 872 “Placement of personnel and personnel recruitment” (Appendix 1B). Only a limited regime is applicable to these services. The minimum requirements according to the European tendering directives are firstly that specific service providers cannot be favoured or excluded, and secondly that an award report must subsequently be sent to the Office of Official Publications in Luxembourg. In addition the general articles of the EEC Treaty are applicable in relation to non-discrimination and the free movement of goods and services. The LISV considered that these conditions did not provide a sufficient guarantee that tendering would take place in a transparent way. The LISV has therefore decided to use a more burdensome procedure with predetermined selection and award criteria.

#### 2.2.2.3 Adjustments in the framework in 2001

76. For 2001 the procedure has been adjusted in terms of the role of the UVIs, the transparency and scope of the tendering regime and the formulation of contracts, outcome-based financing and options for clients. The most important adjustments in comparison with the 2000 tendering procedure framework are as follows (LISV, 2001a; *Eerste Kamer*, 2001a):

- With regard to tendering procedures:
  - The UVIs must produce invitations to tender in a uniform way as far as possible: in the past there have been differences in tendering procedures between UVIs.
  - The procedure for reintegration companies must be made more transparent by including the selection and award criteria in the specifications beforehand.

- A separate framework will be introduced for the use of the 20% budgetary “free room”: these are possible contracts to which the tendering regime is not applicable (meant for example to stimulate innovation).
- With regard to the contractors:
  - The contractors can use subcontractors more extensively: in the past there was an obligation for the intake, drafting of the reintegration plan and client placement to be carried out by the contractor itself.
  - A form of outcome-based financing is used whereby the amount of financing depends [in terms of target group parameters as described below, rather than individual scores as determined by the chance-meter] on the distance from the labour market.
- In terms of the formulation of contracts:
  - More differentiation between target groups has been introduced in the contracts.
  - There are regional tendering procedures.
- With regard to the client:
  - Clients are given more options to make their own choice between different reintegration companies.

Each of these adjustments is explained below.

#### 2.2.2.4 Contract formulation

77. The unit of services to be provided is formulated in terms of “trajectories” [periods of individual case management]. It is only possible to tender for complete trajectories; sub-trajectories can be offered on a subcontracting basis. In the 2000 procedure all sub-trajectories had to be administered by the contractor itself, although some contractors did not keep to this. The following steps are distinguished within a trajectory:

- Intake interview and drafting reintegration plan;<sup>18</sup>
- Diagnostic stage;
- Reinforcing supply (including training);
- Placement;
- Placement support and follow-up.

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18. Except for young (work-) handicapped people: for this target group the UWV itself carries out the case management and the employment expert determines the content of the trajectory.

The content of the trajectories is determined entirely by the tenderer. There is no standard whatsoever to which the operations of a reintegration company must conform. There is only a minimal description of the reintegration plan.<sup>19</sup>

78. The formulation of the contract is structured firstly by target group, secondly by sector and thirdly by region. For the 2001 tendering procedure, there are 22 target groups within the UWV-wide population, subdivided into categories of people unemployed due to dismissal and handicapped people (Box 3). Most target groups are detailed in a sector-specific way; the tendering procedure takes place for each sector-specific target group. The following target groups are specified among people unemployed due to dismissal: unemployed people with a socio-economic problem (*i.e.* problems with debts or addictions; this is a reference to Stream 4 clients), ethnic groups, over 50s, unemployed people requiring long-term training (lasting more than three months) and unemployed people requiring a short training course (less than three months).

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19. As a minimum the employment reintegration plan consists of a single personal interview with the client and a description, stating reasons, of the products (tools) to be used to reintegrate the client. The UWV must give its formal approval before the plan can begin.

**Box 3. Target groups in the Specifications for Reintegration Contracts 2002**

Target group - unemployed due to dismissal

People unemployed due to dismissal with a socio-economic problem

People unemployed due to dismissal, from ethnic groups

People unemployed due to dismissal aged over 50

**Ca** Women unemployed due to dismissal aged over 50 from the Retail and Crafts and Large Retail sectors

**Cb** People unemployed due to dismissal aged over 50 from the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

**Cc** People unemployed due to dismissal aged over 50 from the Healthcare sector

**Cd** People unemployed due to dismissal aged over 50 from the Welfare sector

**Ce** People unemployed due to dismissal aged over 50 from the Goods Transportation sector

**Cf** People unemployed due to dismissal aged over 50 from the Graphical sector

**Cg** People unemployed due to dismissal aged over 50 from the Government and Welfare sector

People unemployed due to dismissal for whom more than three months' training is recommended

**Da** People unemployed due to dismissal for whom more than three months' training is recommended from the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

**Db** People unemployed due to dismissal for whom more than three months' training is recommended from the Healthcare sector

**Dc** People unemployed due to dismissal for whom more than three months' training is recommended from the Welfare sector

**Dd** People unemployed due to dismissal for whom more than three months' training is recommended from the Goods Transportation sector

**De** People unemployed due to dismissal for whom more than three months' training is recommended from the Graphical sector

**Df** People unemployed due to dismissal for whom more than three months' training is recommended from the Government and Education sectors

People unemployed due to dismissal for whom less than three months' training is recommended

**Ea** People unemployed due to dismissal for whom less than three months' training is recommended from the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

**Eb** People unemployed due to dismissal for whom less than three months' training is recommended from the Healthcare sector

**Ec** People unemployed due to dismissal for whom less than three months' training is recommended from the Welfare sector

**Ed** People unemployed due to dismissal for whom less than three months' training is recommended from the Goods Transportation sector

**Ee** People unemployed due to dismissal for whom less than three months' training is recommended from the Graphical sector

**Ef** People unemployed due to dismissal for whom less than three months' training is recommended from the Government and Education sectors

Handicapped target group

People with a visual handicap

People with an auditory handicap

Kidney patients

Handicapped people with serious functional limitations

Handicapped people with a socio-economic problem  
 Handicapped people with psychological illnesses

**Ka** Handicapped people with psychological illnesses from the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

**Kb** Handicapped people with psychological illnesses from the Healthcare sector

**Kc** Handicapped people with psychological illnesses from the Welfare sector

**Kd** Handicapped people with psychological illnesses from the Goods Transportation sector

**Ke** Handicapped people with psychological illnesses from the Graphical sector

**Kf** Handicapped people with psychological illnesses from the Government and Education sectors

Handicapped people with physical illnesses

**La** Handicapped people with physical illnesses from the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

**Lb** Handicapped people with physical illnesses from the Healthcare sector

**Lc** Handicapped people with physical illnesses from the Welfare sector

**Ld** Handicapped people with physical illnesses from the Goods Transportation sector

**Le** Handicapped people with physical illnesses from the Graphical sector

**Lf** Handicapped people with physical illnesses from the Government and Education sectors

Handicapped people wanting to be reintegrated into self-employed work

Handicapped people from ethnic groups

People entitled to WAZ benefit excluding the Goods Transportation sectors and the Dredging, Inland Navigation, Merchant Navy and Fisheries sectors

Handicapped women as a result of problems in pregnancy or childbirth, excluding the Government and Education sectors

People covered by the WSW, excluding WSW civil service posts

School leavers from SVO, MLK and “praktijkschool” schools

School leavers from SVO/ZMLK and Mytyl or Tytyl schools

ROC apprentices

Young (work-) handicapped clients from care institutions, excluding mental illnesses

Handicapped people with small part-time contracts of employment in the Cleaning and Window Cleaning and Contract Catering sectors

*Source:* Bestek reïntegratiecontracten 2002, UWV i.o.

## Sector and region

79. The descriptions of sectoral target groups are produced by the UVIs, who are advised in this by the Sectoral Councils composed of employee and employer organisations. These also include forecasts concerning the size of the target groups. As Chart 3 shows, the UVIs still played a very significant part in the tendering process in 2001. When formulating the contracts, the level of economic sectors of activity was initially used as a basis. To that end the UVIs draft general specifications of the populations of handicapped people and people unemployed due to dismissal at the sectoral level.<sup>20</sup> On the basis of these large groups an estimate is made concerning the allocation of the total number of trajectories covered by tendering procedures for all sectors. The sectoral councils then make recommendations on possible sector-specific target groups; this forms the basis for defining the contract. The sectoral councils also advise the UVIs on the operationalisation of selection and award criteria for each contract and the relative weightings of the award criteria (see below). In this way more differentiation between the contracts is made possible.

80. Another adjustment in the 2001 framework, as compared with the 2000 framework, concerns the regional tendering procedures. To that end the structure of the 6 CWI regions is used.<sup>21</sup> The six regions are the new purchasing locations from which the contracts are implemented, in particular the referral or “transfer” of clients.<sup>22</sup> For those target groups that cannot be specified at the sectoral level, contracts are defined at the regional level. For both sector-specific and general target groups, no more than one tranche [batch] of clients is awarded.

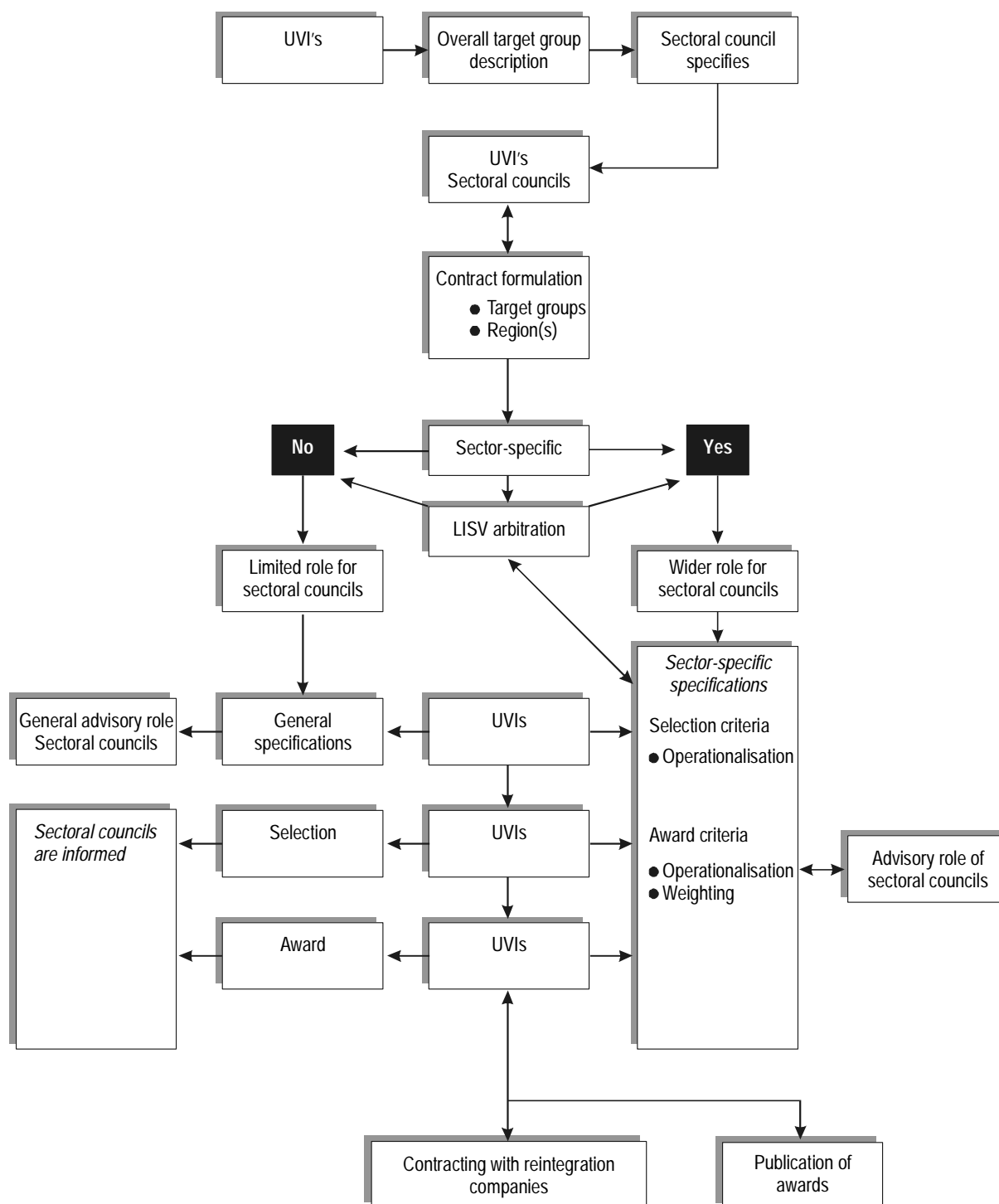
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20. There are 67 sectors in all, defined in the Social Insurance Organisation Act. The sectoral councils have an advisory capacity vis-à-vis the UVI and the LISV in the areas of continuation, reintegration and client participation. The role of the sectoral councils in the 2000 procedure was limited due to lack of time (Dijk *et al.*, 2000).

21. The 6 CWI regions are: North Netherlands (Groningen, Friesland, Drenthe), East Netherlands (Gelderland, Overijssel), Northwest Netherlands (North Holland North, Haarlem, Amsterdam and surrounding area), West Central Netherlands (Central Netherlands, Haaglanden, Rhine area, Flevoland), Southwest Netherlands (Rhine estuary, Zeeland, Western Brabant), Southeast Netherlands (Central, Northeast and Southeast Brabant, Limburg).

22. For 2002, however, the operational structure of the UVIs with their own regional structures and purchasing locations remains unchanged.

**Chart 3 Organigram of the 2001 tendering procedure (implementation in 2002) conducted by the LISV (National Institute for Social Insurance) in co-operation with the 5 UVIs (implementation bodies)**



Source: LISV

81. By defining the target groups as specifically as possible and also by region, the aim is to deliver more tailored services to clients. This can also be seen as a way of preventing creaming within wider populations. According to the LISV the sectoral aspect becomes less important because tendering procedures are linked to regions.

#### Sizes of tranches

82. The providers apply for a specific tranche: this is a combination of target group, either specified by sector or not, and region. Estimates are used when determining the size. The estimate for 2002 covers 70 000 clients, including 40 000 handicapped people, 3 000 young (work-) handicapped people and 13 000 people unemployed due to dismissal. The remaining 20% fall outside the tendering procedure (see below). The numbers are stated for each contract and within a particular band. The reason for this is as follows. The aim for 2002 is to give the client more of a say in the choice of a reintegration company. The contracts, if they are sufficiently large, are therefore divided into a number of tranches. In this procedure the LISV has assumed that enough companies would come forward to be able to award the contracts by tranche.

83. A total of 162 companies have now applied. Of these, 84 are allowed to submit tenders for groups of jobseekers. No more than one tranche can be awarded to a reintegration company. This can be clarified through a few examples (Table 2).

**Table 2 Forecast of the size of each target group and the number of tranches into which the contract is divided.**

Target group	Forecast size of contract	Number of tranches
People unemployed due to dismissal aged over 50 from the Goods Transportation sector	20-50	1
People unemployed due to dismissal aged over 50 from the Government and Education sectors	175-225	2
Handicapped people with physical illnesses from the Healthcare sector	Region 1 250-300	3
	Region 2 250-300	3
	Region 3 250-300	3
	Region 4 250-300	3
	Region 5 250-300	3
	Region 6 250-300	3

Source: *Bestek reïntegratiecontracten 2002* UWV i.o., [www.aanbestedingreintegratie.nl](http://www.aanbestedingreintegratie.nl)

In some cases - that of people unemployed due to dismissal aged over 50 from the Goods Transportation sector, in this example - the sectors are so small that they cannot be subdivided by region. In these cases the provider must be able to serve the whole country.

#### 2.2.2.5 No guaranteed inflow

84. The contracted reintegration companies cannot count on a guaranteed inflow of candidates. As a reason for this, the terms of reference refer to the choice which jobseekers have, which makes it impossible

to determine the exact number of clients that will register. A framework agreement is concluded with the providers, in which the purchaser only makes an undertaking to make an effort to achieve the forecast numbers of candidates. Only in the case of a very small contract for which only one provider can be contracted does the purchaser undertake to provide a minimum number of candidates.<sup>23</sup> The absence of an inflow guarantee is determined by the difficulty which UVIs have in presenting candidates due to the “drying up of the unemployment insurance stock”.

85. Applicants cannot tender for part of a tranche. They can, however, apply for multiple tranches per contract, even though only one tranche will be awarded.

86. The maximum duration of the contracts is three years, and candidates can only be placed into the contracted slots through to the end of the first year (for 2002 contracts, up to 31 December 2002).

87. In most cases this is therefore a framework contract. In practice the UVIs have been working with national framework contracts for a long time. The UVIs also had regional contracts with other, usually specialised providers (Dijk *et al.*, 2000).

#### 2.2.2.6 Client choice

88. For the 2001 contract year the client has been given more options. For target groups with a specific minimum size, contracts are signed with multiple reintegration companies. In many cases a client can then, together with his contact person from the UWV, choose from a number of different companies. In the case of the UVI for the government and education (USZO) this possibility was already in place. However, not everyone thinks it is a good idea to give clients the possibility of choosing among a number of providers. According to van Wijnbergen (in van Geuns, 2002), clients and disabled may even have an incentive to go to the worst performing provider because the benefits they receive are quite high compared to what they can earn if they find a job.

89. The idea of eventually introducing a personalised reintegration budget (voucher) is also being considered. If the client does not find what he wants within the available supply, he or she would be able to make use of that budget (*Eerste Kamer*, 2001a).

#### 2.2.2.7 Consortia

90. In 2001, applicants were able to take part in the procedure as a consortium. There is, however, only one main contractor who remains responsible for case management<sup>24</sup> for all contracted clients. When applying it is necessary to identify the companies with which a co-operation agreement exists or is being drawn up, the parts of the trajectory for which subcontractors are used and how case management is guaranteed. In the first round companies were required to conduct the intake procedure, draft of the reintegration plan and carry out client placement themselves. This was an impediment to existing consortia, however, and this criterion was particularly disadvantageous to smaller providers.

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23. Even contracts for minimum numbers have not, however, turned out to be really enforceable in practice.

24. Case management means that the main contractor monitors and guides the client from intake up to and including the placement and follow-up stage.

#### 2.2.2.8 Selection and award criteria

91. Selection and award criteria are uniform for all sectors (UVIs) and are announced beforehand in the notification of the invitation to tender.

#### Selection criteria

92. The selection criteria are applicable to applications from tenderers, taking the target group and the region into account. In the 2001 round there were 7 criteria in force. The provider is required to:

- Be registered with the Chamber of Commerce.
- Participate as a main contractor, either in a consortium or otherwise.
- Have privacy regulations in place concerning confidential information about the client, which can be presented on request.
- Have complaints-handling regulations in connection with the way the client is treated.
- Have qualified personnel, in particular employment experts with knowledge relevant to the population of handicapped people.
- Have experience.
- Be capable of supplying the information for which it is responsible to the UWV in good time (within four weeks after the end of the quarter).

93. One important requirement at the application stage is that the provider should be able to demonstrate experience with the target group for which the application is being submitted and also that results have been achieved. Here the purchaser wants to be able to establish the clearest possible link between results achieved in the past and the work for which a tender is now submitted. The provider must have executed at least one similar contract during the past three years in which experience has been gained of a similar target group, in the region covered by the invitation to tender and of at least the same size as the one in the invitation to tender. With regard to results the provider must state the drop-out percentage and the percentage of placements achieved (see Box 4 for the definition). This placement percentage must be at least equal to the minimum placement percentage stated in the specifications for each target group. The percentage achieved previously, as stated by the provider, also becomes the percentage tendered for the new contract, regardless of changing economic conditions. Minimum percentages vary between target groups. The aim is to link the percentage to specific groups. In this way it is hoped that creaming from target groups can be prevented. Drop-out and placement percentages therefore play a significant role at both the selection and the award stage.

94. The placement percentage not only gives a view of the success rate, but also of the drop-out rate during the trajectory. Another way in which the purchaser aims to prevent creaming is by asking providers to state not only the placement percentage but also the drop-out percentage. This provides a picture of the total drop-out group both before commencement (before the plan is drawn up) and during the trajectory.

95. The experience requirement immediately means that new applicants have no chance in the regular procedure except as subcontractors. A place has, however, explicitly been left for them in the context of the 20% free room.

**Box 4. Definition of drop-out and placement percentages**

**Drop-out percentage**

Drop-out is the term used for the number of clients supplied by the UWV for whom either at the initiative of the provider or at the initiative of the client, no labour reintegration plan is drawn up by the provider. It is calculated on the basis of the number of clients referred to the reintegration company by the UVI.

**Placement percentage**

Placement refers to the number of clients who accept a contract of employment for a regular job on a permanent basis or for a fixed period with a duration of at least six months (including Employment under the Jobseekers Reintegration Act (or WIW), inflow/throughflow jobs); the placement is only counted once the client has been working for at least two months (plus periods of interruptions due to sickness).

**Attribution**

A placement is only attributed to the reintegration company once an intake interview has taken place, the UVI has stated its agreement with the reintegration plan and the trajectory has actually begun. The period of placement is a maximum of one year (not counting the previous stage of assessment, professional orientation, training etc.). The percentage is calculated by dividing the number of placements by the number of trajectories initiated.

**Standard**

The overall percentage used is 35% for every 10 trajectories. In the 2001 round the percentage was differentiated by target group, with a variation from 25% (as the lowest percentage for the most difficult to place target group) to 80% as the highest percentage.

*Source: LISV (2001b); Bestek reïntegratiecontracten 2002, UWV i.o.*

**Award criteria**

96. Contracts are awarded to the most economically favourable offer. The following five criteria apply:

- price;
- placement and drop-out percentage;
- throughput times;
- target-group-oriented tendering;
- region-specific tendering.

97. For each contract there are different weightings for the various criteria. The sequence of criteria is published but without stating the actual number of points.<sup>25</sup> Price is not the most important award criterion in any contract. This was also the case in the first tendering round in 2000. The criteria of target-group-oriented tendering and region-specific tendering are new to the 2001 procedure. The aim is to reward adequately providers who have a good knowledge of the target group and the region.

#### 2.2.2.9 Trajectory price and partial outcome financing

98. For each contract the provider offers an average price per trajectory. The main principle here is “no cure, less pay”: the costs of the trajectory are only fully remunerated if a trajectory leads to a placement (Box 5). For some target groups there is only a placement payment on the basis of the “no cure, no pay” principle.<sup>26</sup> Outcome-based financing is worked out in two ways:

- The payment consists of a fixed payment and a placement fee. The fixed payment therefore by no means covers the full amount. A percentage of outcome-based financing is determined for each target group. For most contracts the ratio is 50/50 or 60/40. The more difficult the target group, the higher is the fixed payment.
- In addition a bonus is determined for each contract. The bonus has a double impact: the bonus provides a reward not only if companies perform as stipulated in the contract, but also if companies perform better than contractually stipulated.

99. There is an exception for training: these costs are fully remunerated.<sup>27</sup> This must be training in the sense of the systematic acquisition of work-relevant qualifications under the guidance of teachers appointed for the purpose. Job-search training - on the basis of application training and work acclimatisation - does not fall within the definition of training. Outcome financing therefore does not apply to the training component, but training forms part of a full trajectory aimed at making a placement. The provider itself decides on the usefulness of training in a trajectory.

100. The provider is paid on the basis of invoices for services after the service has been delivered, detailed by client. Invoicing is only possible after a report has been submitted to the UWV.

101. The combined financing method was the usual practice for most UVIs at the beginning of 2000: the financing system was based on a price per jobseeker plus a bonus on the basis of a predetermined placement percentage.

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25. The specifications do not state the points to prevent tenders being awarded according to the number of points earned ‘which would be detrimental to the reality content of the tenders submitted’ (LISV, 2001).

26. ‘No cure, no pay’ only applies to the target group of people unemployed due to dismissal who are expected to need less than three months’ training. These are clients with a short distance from the labour market, usually classified as Stream 2 by the CWI.

27. In addition to training there are three other services which are covered by a full payment system: back training courses [for people with back problems], burnout training courses [following job or perhaps personal stress] and trauma guidance (on the basis of Article 22 of the REA Act). The costs of the intake stage and the diagnostic stage are also fully remunerated.

### Box 5. Calculation of the placement bonus

The purpose of the bonus is to stimulate the reintegration company to place as many clients as possible. If less clients are placed than has been guaranteed in the tender by the reintegration company, the company's costs are not fully remunerated. If the number of clients are placed as stated in the tender, the costs are fully remunerated. If more clients are placed than stated in the tender, even more is paid.

#### Example

A reintegration company submits a tender to mediate for 100 clients in a specific target group (price € 500 per client) with a placement percentage of 55%. The fixed payment for this target group is 40% [*i.e.* € 200]. On a placement the full amount is paid plus a bonus. The bonus is calculated as follows:

- $(100\% - \text{placement percentage}) \times (100\% - \text{fixed payment percentage})$  divided by the placement percentage or  $(100-55) \times (100-40) : 55 = 49\%$ .

If the reintegration company ultimately achieves 55 placements, the payment will be:

- $100 \times \text{€ } 200 + 55 \times \text{€ } 300 = \text{€ } 36\,500$
- plus a bonus of  $55 \times \text{€ } 245 = \text{€ } 13\,475$

[If the total number finally placed is higher or lower than 55, this affects both the "full amount" and the "bonus".] The higher the fixed payment, the lower is the bonus. The higher the placement percentage, the lower is the bonus, to avoid "unrealistic" placement figures. Also, the reasoning is that a higher placement percentage means an easier target group, hence the reasoning; this is why the bonus is lower.

Source: LISV (2001b); <http://www.aanbestedingreintegratie.nl>.

#### 2.2.2.10 Budgetary "free room"

102. For the year 2002 the available budgetary free spending room has been defined as 20% of the total number of estimated trajectories (14 000 trajectories). The aim of the "free room" [budgetary freedom] is to allow into play certain small initiatives which are well adapted to local situations. The Dutch government wishes to make payments to these without making them go through a tendering procedure. For the contracts concluded on the basis of the budgetary free room, the overall standard is a maximum of 100 trajectories (or a minimum of 140 contracts). The free room is intended for neighbourhood-oriented projects, target groups, new arrivals in the reintegration market or innovative projects (Table 3).

103. To be eligible for the budgetary free room, apart from stating the grounds for exclusion from the regular tendering procedure the provider only needs to be willing to supply the information for which it is responsible and other information according to the standard conditions which apply to the contracts concluded by the regular tendering procedure.

**Table 3 Criteria for the use of the 20% budgetary free room**

1. Neighbourhood-oriented projects	These are mostly projects in which municipalities and the UWV develop activities for their joint clients (disability benefit claimants with a supplementary subsistence benefit).
2. Target groups	These are target groups which the UWV knows to exist in specific regions, but which are difficult or impossible to identify (and thus to tender for). Example: ethnic groups.
3. New arrivals	In the tendering procedure it has been decided to require that reintegration companies should be able to demonstrate that they have gained experience in the past with the target group for which they want to submit a tender. Therefore, newly-formed companies cannot be awarded contracts through the tendering procedure. To give these companies a chance, the possibility of awarding them a contract from the free room has been created
4. Innovation	Experimental reintegration methods; these might include the ability to contract with companies which have developed a new method (on paper) for reintegrating clients. Also, the overlap between care on the one hand and reintegration on the other is an area where initiatives can be developed that may be structured in more detail through experiments.

Source: LISV (2001a); [www.aanbestedingreintegratie.nl](http://www.aanbestedingreintegratie.nl)

### 2.3 *Municipal invitations to tender*

#### 2.3.1 *Principles of central policy*

104. It has been agreed with the municipalities on the basis of administrative agreements for the 2001-2004 period (the so-called “Agenda for the Future”) that in principle the municipalities make purchases on the basis of an open procedure. The agreements have been made between the Ministry for Social Affairs and Employment and the Association of Dutch Municipalities. The two parties strive to ensure “that municipalities contract out as many aspects of reintegration as possible to private parties - not associated with municipalities - including the implementation of trajectory plans. If and insofar as companies associated with the municipality (in this case social workplaces and work-experience companies and reintegration services set up by the municipality itself) are eligible to be awarded contracts for reintegration activities, this must take place under the same conditions as for private companies and subject to the same quality requirements. A transparent tendering procedure with predetermined and objective criteria is a requirement here’ (SZW, 2001). The general purchase conditions as stipulated by the SUWI Act are applicable to municipal tendering procedures.

105. The amount available to the municipalities for reintegration is considerable, as we saw above. To what extent were these resources allocated via the tendering mechanism in 2001?

## 2.3.2 *The approach in the municipalities*

### 2.3.2.1 Overview of purchasing at the beginning of 2000

106. Regioplan carried out a survey in April 2000 in 204 municipalities into practices in the organisation and implementation of reintegration. This showed that municipalities buy from third parties on a massive scale. The larger municipalities (the group of 86 largest municipalities or G86) combine this with trajectories implemented themselves, while smaller municipalities more often co-operate with other municipalities. According to the municipalities the main reason for purchasing from outside sources is a lack of in-house expertise.

107. The Dutch municipalities focus their efforts not only on those entitled to receive benefits but also on the wider target group of jobseekers or handicapped people. In addition the reintegration efforts made by municipalities are aimed at special target groups (ethnic groups, newcomers, women returning to work etc.). According to Regioplan this points to a broad perception of target groups which seems to be gaining ground among municipalities, i.e. wider than the target group of subsistence benefit clients who are the responsibility of the municipalities from a legal point of view. The existence of a large number of financing flows may well have something to do with this. In 2000 the resources for reintegration mainly came from REA funds (Reintegration of Handicapped Persons Act) and the training and activation budget of WIW (Jobseekers Reintegration Act), followed in descending order by *Arbeidsvoorziening* Performance Budget, resources from Special Subsistence benefit, Civic Integration funds, Comprehensive Approach funds and ESF funds. There is also a separate G86 budget for the major cities.

108. Most activities are bought from outside parties. The most important ones are: vocationally oriented training and education, job application training, assessment/career selection tests, social skills training and labour market orientation. There are also a number of activities which are mainly carried out by the municipalities themselves: trajectory monitoring, debt assistance, quality monitoring and volunteer work. In terms of organisation the Regioplan survey revealed three basic models:

- The municipality keeps control of case management (monitoring and guiding clients) and only buys in parts of the trajectory: this model occurs most frequently.
- The municipality contracts out the case management to a company which acts as the main contractor and may or may not buy parts of the trajectory from subcontractors.
- The municipality contracts out the case management to a company which acts as “organiser”: it only concerns itself with the organisation of reintegration, and the process consists entirely of services purchased from subcontractors.

109. The picture in terms of the allocation of contracts is quite diverse. The G86 municipalities use different procedures and do not initially apply the principle of “competitive tendering”. It was found in early 2000 that strict public tendering was not yet taking place among the municipalities that were questioned. The smaller municipalities usually only offer the trajectory to one party. Where a choice has to be made between different providers, it is mainly familiarity with the provider that is significant. Price is the least important factor when it comes to awarding contracts. In most cases an obligation to make an effort is involved on the basis of a price per trajectory component implemented or a fixed price per completed trajectory. Of the G86 municipalities in the survey, only one in four municipalities uses partial outcome-based financing. Municipalities are therefore inclined to aim at “trusted” providers on the basis of effort-based financing.

110. In early 2000 the system of compulsory purchasing from *Arbeidsvoorziening* (the so-called performance budget) was still in force. Nevertheless, it turned out that most municipalities already saw this budget for *Arbeidsvoorziening* as one on which they could impose their own conditions. The municipalities' experiences with *Arbeidsvoorziening* were variable (see below).

111. Virtually all the municipalities indicated that they are making efforts to enter into a more businesslike purchaser-contractor relationship with their providers. Due to the residual special position enjoyed by (semi-) municipal organisations there is not yet a comparable competitive position. Another impediment to municipalities' purchasing policies is the lack of knowledge about the providers and the quality of their products.

### 2.3.2.2 New developments

112. The interviews that we have conducted (October 2001) confirm the view that the development of a more transparent purchasing policy in the municipalities is still relatively limited. A number of municipalities are experimenting with a purchasing policy. Particularly in smaller municipalities the expertise is not available; for this reason attempts are already being made to structure the purchasing function on a regional basis. Efforts are made to ensure that the basic principles match the UWV invitations to tender as far as possible. This means that municipalities are phasing out their subsidy relationships in favour of purchasing relationships. A number of well-known examples of this process are Rotterdam, Eindhoven, Enschede and Leeuwarden.

113. In terms of content there are differences from one municipality to another. Some municipalities purchase the whole trajectory, others limit themselves to parts of a trajectory (*e.g.* Den Bosch). In Rotterdam a procedure has been taking place in which case management was also contracted out and the municipality's own consultants were able to "run alongside". There are also differences in terms of the payment structure. Rotterdam, for example, applies a 40/60 ratio: 40% is financed when a client begins a trajectory, the remaining 60% follows a minimum of six months after the client's outflow. Enschede uses a system of financing for each step in the trajectory.

114. Price does not play a significant part in the awarding of contracts. In the municipalities, quality and results play a larger part than volume or price. The contracts for which tendering takes place mainly involve small groups with a very specific client profile. The crucial factor is the extent to which work can be done on a tailored basis. There is a trend towards longer trajectories because due to the "drying up of the stock" it is only possible to draw from the "hard core" of Stream 4 clients; trajectories are increasingly having to offer solutions to social, debt or addiction problems.

## 3. Quality control, monitoring and evaluation

### 3.1 Framework conditions for quality

115. The Dutch government takes the view that quality is difficult to regulate from above, because when this is done the scope for innovative businesses and working methods quickly becomes limited (*Eerste Kamer, 2001a*). Imposing quality requirements from above has the effect of impeding the action of market competition. It is initially assumed that purchasers will demand quality: the legally defined contractual requirements support purchasers in this. In the contractual requirements a number of conditions are imposed upon reintegration companies in terms of the working process and the professionalism and qualifications of their personnel. The content of the trajectories is a matter for the reintegration company itself. This is a logical consequence of choosing a more results-guided approach. The tender does have to

include a product description according to a predefined model. No quality requirements are imposed that refer specifically to individual target groups.

116. The Ministry formulates its role primarily in terms of creating the conditions for market competition to operate effectively: purchasers must be well equipped to fulfil their task and the market must be completely transparent. To encourage purchaser attitudes among municipalities a SUWI support point for municipalities has been set up and also a service organisation called Stimulansz (see above). The SUWI Support Point has the aim of bringing about a well-automated data exchange between municipalities and other SUWI parties. As regards transparency the Council for Work and Income has been given the task of carrying out a reintegration monitor (recording information on the providers of reintegration services). Other initiatives include an experience database and a benchmark.

117. The initiative is also being placed with the sector itself. Borea, the sectoral organisation for reintegration companies, has taken the initiative to develop a quality label. The sectoral organisation is receiving financial support with this from the Ministry for Social Affairs and Employment. The Borea project is aimed at the development of a “benchmark” according to which the performance of reintegration companies can be scored. This gives purchasers insight into the indicators that can be important and a basis for comparison between different providers. While the reintegration monitor records the supply, a benchmark can indicate how a provider scores on each quality criterion, in comparison with the reference value (a measure of quality).

118. There is no question of certification requirements. The Government’s reasoning is that quality in reintegration services can be determined relatively well in terms of results by comparison with, for example, Health and Safety services.<sup>28</sup> For purchasers buying reintegration services this implies that the results have to be monitored and controlled more effectively. In particular, the information on placement and drop-out percentages still raises many questions. The Netherlands does not have an integrated jobseekers’ database in which all activities involving jobseekers are recorded and monitored. In their supporting information, purchasers must state the identification number (SOFI number) of the client involved in the trajectory.

### **3.2 *Monitoring and evaluation***

119. At the end of 2001 the control and supporting information for the new SUWI practice had not yet been worked out in detail. For the UWV i.o. and the CWI Organisation the control information was still under development at the time of our study. There were not yet any aggregated details available on the outputs of the contracts concluded on the basis of the 2000 tendering round, although the information was available per main contractor. The Netherlands does have an online reintegration monitor covering 650 providers ([www.reintegratiemonitor.nl](http://www.reintegratiemonitor.nl)). This is composed on the basis of an initial scan of 1 200 companies which have been approached with an extensive questionnaire containing, among others, questions on the characteristics of the company, the range of services, specialisations and prices. Ultimately, more than 580 companies responded to this. The monitor is updated annually.

120. In terms of the computerisation of client registration and client monitoring the system has not yet been completed. One of the problems that was underestimated in the reforms was automated data exchange

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28. The effectiveness of Health and Safety services is not easily measurable since the ultimate result (e.g. a fall in the amount of sick leave) depends on many factors other than the provision of Health and Safety services. This is not so much the case for the effectiveness of reintegration services, at least in the view of the Dutch government.

between UVIs, CWIs and municipalities. On the demand side it should be pointed out that the Netherlands does not have a large database of public vacancies. This could become one of the tasks of the CWIs.

121. Due to the institutional changes there were not yet any performance agreements or forms of performance measurement in existence in 2001 between the Ministry and the independent government institutions. Twenty-one indicators have, however, been determined together with the municipalities in the context of the administrative agreements with municipalities in 2001-2004, covering the various areas of policy (activation, guaranteed income, abuse, implementation), including nine activation indicators (SZW, 2001a):

- New inflow of subsistence benefit claimants during the past 12 months.
- Number of formal exemptions from the obligation to work.
- Outflow from subsistence benefit into work.
- Outflow of single parents into work.
- Outflow of ethnic groups into work.
- Number of activation trajectories and percentage leading to outflow into work.
- Number of social activation trajectories and percentage leading to transfer to another trajectory or outflow into work.
- Number of trajectories aimed at care or assistance and percentage leading to transfer to another trajectory or outflow into work.
- Number of revolving-door clients (repeaters).

122. With regard to the evaluation of developments in the reintegration market, the minister has undertaken to monitor developments closely through an annual evaluation of SUWI (*Eerste Kamer*, 2001a). Evaluation plays a prominent part in the Dutch process. As is true for policy in general, the Dutch government devotes a lot of resources to various types of internal and external evaluation research.

## **4. The playing field**

### **4.1 Market structure**

123. It follows from the institutional structure of benefit systems and purchaser structures that it is difficult to speak of a single reintegration market in the Netherlands. Instead there are sub-markets, the most important of which are the UWV market, the municipal market and the employers' market. Two sub-markets can be identified in the wider jobseeker population according to the study of market developments in the spring of 2000 (Dijk *et al.*, 2000):

- The sub-market in medically-oriented reintegration: medical guidance and assistance activities, combined with social activation and guidance where applicable. More than half of all providers belong to this market.

- The sub-market in work-oriented reintegration: job brokerage and/or training activities, combined with social activation and guidance where applicable. About 25% of all providers belong to this market.

124. Major providers (>50 employees) are, according to the survey, best represented in the work-oriented sub-market (44%) and to a rather lesser extent in the medically-oriented sub-market (34%). Small providers are mainly found in the medically-oriented sub-market (65%). In many cases the medically-oriented companies have existed for longer than the work-oriented companies and they are often more focused on individual tailored work.

#### **Box 6. Reintegration monitor**

More than 650 companies are included in the monitor. More than 20% of these companies are medium-sized (11-100 employees) and more than 15% have more than 100 employees. These include a number of very large companies with more than 1 000 employees (6% of all providers). The remaining companies have 10 employees or less working for them. Most companies (57%) offer their services at the regional level, but there are also a significant number of national providers (27%). A minority (16%) provide a supply at the local level.

The companies are working for a number of different target groups, and the emphasis is usually on multiple target groups. Most of the providers, in fact 74% of the companies, provide services for sick employees and handicapped people. More than one-third of the companies focus on people entitled to benefit. Between 25% and 30% offer services aimed at the reintegration of unemployment insurance claimants and at continuing participation among people at risk of unemployment. Finally, one in five companies are aimed (among other things) at jobseekers not receiving benefits.

The classification criteria in the reintegration monitor for the services provided are: medical guidance and assistance, activation/motivation/orientation, employment mediation/(re-)placement, retraining/cross-training/continuing training, guidance and finally a “miscellaneous” category.

*Source:* [www.reintegratiemonitor.nl](http://www.reintegratiemonitor.nl).

125. On the basis of the reintegration monitor (Box 6) it appears that the companies are offering a wide range of services. The “medical guidance and assistance” category applies to two-thirds of all companies. Activities in the area of “social activation/motivation and orientation” are also offered by a large proportion of the companies. Almost one-quarter of the companies are involved in guiding the reintegration process, possibly alongside the other reintegration services that have been mentioned. These are activities such as case management and trajectory monitoring. Virtually all the companies offer trajectories or treatments at the individual level and just over half the providers also offer group-oriented activities. Before clients are admitted an intake process takes place in almost 90% of the companies. This is an administrative intake process which is usually combined with an interview and sometimes with a psychological or skills test.

126. In early 2000 half of the providers were “preferred suppliers” for one or more purchasers. Almost half of the contracts are concluded without any competition. Approximately half the providers have formal co-operation agreements with other organisations, usually Health and Safety services and insurers.

## **4.2 Market shares and admission**

127. Table 4 shows the top 10 reintegration companies for the two tendering rounds, 2000 and 2001, together with the number of trajectories awarded and the corresponding market shares. A comparison between the results for the two tendering rounds allows us to draw some interesting conclusions.

**Table 4 Top 10 reintegration companies in the 2000 and 2001 tendering rounds**

2000 tender			2001 tender		
Provider	Trajectories	%	Provider	Trajectories	%
1. Kliq	10 500	17.0	1. Kliq	10 062	16.6
2. Argonaut	9 355	15.2	2. A. Calder	7 090	11,7
3. Agens	8 535	13.8	3. Argonaut	6 003	9.9
4. A. Calder	7 708	12.5	4. Relan	5 565	9.2
5. Start	4 075	6.6	5. Randstad	5 270	8.7
6. Kuijper/Van Dreumel	2 925	4.7	6. Kuijper/Van Dreumel	4 330	7.2
7. Randstad	2 764	4.5	7. Agens	3 270	5.4
8. Serin	2 400	3.9	8. IWA Wurkyplus	2 492	4.1
9. ABP Reïntegratie	1 717	2.8	9. BMG	2 020	3.3
10. Fourstar	1 405	2.3	10. De Haan Groep	1 515	2.5
Other	10 225	16.6	Others	12 872	21.3
<b>Total</b>	<b>61 609</b>	<b>100</b>	<b>Total</b>	<b>60 489</b>	

Source: LISV, October 2001 and Revenboer and Latinga, June 2002

128. The number of firms which applied for qualification decreased from more than 300 for the first tender to about 160 for the second tender. About half of the 160 firms indeed qualified and were allowed to submit a bid for the 2 500 lots. In the first round, 33 companies were awarded a contract for a total number of about 61 600 trajectories. In the second round, the number of companies increased up to 41 for a total number of trajectories which decreased slightly. Ten of the original providers were no longer awarded a contract, 23 firms were able to get a new contract and 18 new companies entered the market. These new firms were awarded from 9 up to 1 250 trajectories and together obtained a market share of nearly 10%. Thirteen of the new firms were each awarded less than 250 lots. Some of the new firms were especially founded so as to be able to tender. Others existed for years as consultancy organisations and now set up a separate division focused on the reintegration market. Most of them are not specialised but focus on a wide target group of both disabled persons and jobseekers (Schouten, 2002).

129. So more firms were awarded a contract in the second tender round. This resulted in a decrease in the level of market concentration. After the first round the four largest companies represented almost 60% of the UWV market, after the second round this percentage decreased below 50%. The largest player after both rounds is still Kliq with about 17% of the market.

130. A comparison of the top ten reintegration companies shows that some of them disappeared from the top after the second tender. Others lost a huge number of contracts. Agens for instance lost more than 5 200 trajectories, a decrease of about 60%. Start was awarded 86% less trajectories and ABP Reïntegratie lost 57% of its contracted volume. So after only one year, a number of large providers lost more than half

of their business. And as we said before, 10 providers got no new contracts at all. On the other hand, other providers were awarded a much larger number of trajectories compared to the first round. De Haan Groep had 150 trajectories in the first round which increased up to about 1 500. Relan has become the fourth largest provider with 5 565 trajectories compared to 700 after the first tender. It is clear that this instability in the market implies important organisational problems for the providers. It is estimated that a shift of about 1 000 trajectories concerns 10 to 15 employees within the companies.

131. The market is very much dominated by the companies set up by or associated with the former UVIs, large insurance companies or Health and Safety services (*e.g.* Argonaut, Agens, ABP Reintegratie). Among the companies there are hardly any niche players. One example of a niche player is Fourstar, which has grown from a secondment company and served a large network of employers. Bureau Maatwerk (in Helmond) which is known as an innovative company, has been awarded 545 trajectories as a result of the first tender, but got no new contract after the second tender. Tailor-made work is found more in the municipal market. The large temporary staff agencies have a relatively small presence, except for Randstad which was able to double the size of its contract after the second tender. The weak presence in general is surprising because of the strong economy in 1999-2000 and the strong presence of temporary agency work in the Netherlands. According to one of those interviewed, there is a gap between reintegration for everyone in the target group, as the UWV expects, and reintegration that fits into the regular services provided by a temporary staff agency. A temporary staff agency gives precedence to those clients who can return to work in the short term. Another explanation is that, due to the Dutch regulations, the average disability benefit claimant loses too many rights if he starts work on a flexible basis.<sup>29</sup>

132. The present UWV market is mainly a market of organisers who are together deploying hundreds of small players. Larger players such as Argonaut or A. Calder mainly operate on the basis of purchased services. Kliq, for example, was brought in as a subcontractor for A. Calder. From the second round onwards this possibility became explicit. In the first round it took place regularly and it was tolerated, although it was strictly not allowed. It is unclear at this stage to what extent companies which lost their contract now act as a subcontractor for other providers. One new trend is for alliances to be formed between reintegration companies and insurers. This can be primarily accounted for by the supporting influence of insurers who had originally set the premiums for sick leave at levels that were too low.

133. There is no information available yet on the nature of the service offered by the companies that were contracted. As indicated above, only complete trajectories are awarded. It is assumed that the UWV market is focused mainly on Stream 2 and Stream 3 clients. The municipalities market consists mainly of Stream 4 clients (subsistence benefit consists 80% of Stream 4 clients). One question is what place remains for training in reintegration trajectories. In any case there are no pure training providers involved in the UVI market as main contractors. In the Netherlands, however, it has been customary for some time for training to be purchased; this was also the case with *Arbeidsvoorziening*. No clear policy on this question can be identified from the interviews. It is true, however, that the training component as a whole does not have to disappear from the trajectories. It is more probable that the training packages have become shorter because training is usually the most important component in a trajectory.

134. In general, it is considered that large companies were favoured in the first round: they could benefit from synergies, they could offer lower prices because they are well-capitalised players, they could

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29. It is noticeable that Randstad Rentree, in addition to the reintegration contract in the second tender, has concluded a contract with the benefits institute (LISV and GAK) for the reintegration and placement of 3,500 disability benefit claimants who have been declared 80 to 100% unfit for work. This contract is financed from experimental funds and was awarded 'without competition'. The principle for Randstad is only to recruit participants on a voluntary basis. Their approach is based on intervention at an early stage, personal coaches and guidance at the workplace.

use their own administration for the tendering process, they had an information advantage via the UVI, they found it easier to satisfy the admissibility requirements (business plan, privacy and complaints regulations) and the experience requirements (Cordia *et al.*, 2001). For smaller companies (start-ups and niche providers) it was very difficult to participate in the first round because a nation-wide offer was needed. Clearly there was therefore an obstacle to admission for smaller providers. Some UVIs also apparently imposed supplementary requirements during the first round which worked to the advantage of the larger companies.

135. As noted above, the LISV took into account the experiences from the first round of tendering. Measures were therefore introduced to give smaller players a fair chance of being awarded a contract by awarding small contracts (tranches). The problem of the impediment to admission for new players was not completely eliminated in the second round, however, in view of the requirements concerning experience as a selection criterion. Nevertheless, among the 18 new entrants in the market, there were 13 companies with less than 250 trajectories awarded, the so-called “small lots”.

### **4.3 The former government provider Kliq**

#### *4.3.1 Elimination of guaranteed financing*

136. The Reintegration division of *Arbeidsvoorziening*, the largest division of the former public intermediary, was transferred to Kliq on 1 October 2000. This autonomy became legally effective on 1 April 2002, at a time when the market structure had already become completely competitive. During the two tendering rounds involving the LISV and the UVIs Kliq was still in a transitional phase. Kliq has the status of a public company, with the State as a shareholder and with the associated powers. All the reintegration activities of *Arbeidsvoorziening* have been transferred to it. As a public company, Kliq is a purely commercial business which no longer has any privileged relationship with the government. This means that all forms of guaranteed financing - the performance budget and the compulsory custom system operated by the municipalities and the UVIs - are eliminated. The subsidy links to the government have been completely abolished since 1 January 2002. Initially the minister was hoping to guarantee Kliq a turnover in 2002 (€ 56.82m) and 2003 (€ 29.54m). This turnover guarantee was, however, dependent on actual performance (and thus on the inflow of jobseekers; see below). The minister had to withdraw this, however, after criticism in Parliament when discussing the SUWI Act. In the market there is also the demand for a *level playing field*. There is an aversion to giving Kliq any priority.

137. In 2001 Kliq has a national network of about 50 offices, distributed across the six regions (comparable to the CWI and UWV regions). It was chosen to make Kliq a single centrally run organisation, without separate administrations for each region (as in the case of the former Regional Public Employment Agencies).

#### *4.3.2 Difficult transition to autonomy*

138. The transition to completely open tendering during the 1999-2001 period gave rise to major internal reorganisations in *Arbeidsvoorziening*: when it was made independent in five parts, including Kliq, in October 2000 (see above), approximately 3 000 of the original 9 000 employees were transferred to Kliq. In addition some 2 600 employees ended up with the CWIs and 1 200 at the Vocational Training Centres. The first collective redundancies also took place at this time. The above cuts - amounting to 400 million guilders per year since 1996 - were absorbed (“camouflaged”) by the ESF funds. The actual staffing level at the end of June 2001 amounted to 2 780 FTEs. This number has to be reduced to 2 250 FTEs.

139. A social plan was drawn up for the transition from *Arbeidsvoorziening* to the various functional components of which Kliq is one. The allocation of personnel to new jobs was done simply by matching their previous jobs to possible new comparable jobs. The allocation of personnel to new jobs was monitored closely by the Works Council. The redundancies in 2001 mainly involved personnel in departments with excess numbers who wanted to leave the company voluntarily. As a result the company did not have enough control over who actually left and more good employees left than was desirable. The social plan does not allow much opportunity to select employees on the basis of their suitability for the new business. There is a legacy from the past, and this also has financial consequences. The reduction in staffing gave rise to a lot of commotion and high levels of sick leave among the personnel (15%).

140. In addition to the personnel situation Kliq is struggling with a difficult financial transitional situation. Making Kliq independent of course required the use of public funds. Nevertheless, it is not possible in 2001 to speak of a dowry for the NV Kliq i.o. [NV Kliq while it was being formed and not yet legally operational]. Questions were raised in the political arena concerning the financial and accounting aspects of the formation of the NV Kliq. This gave rise to an investigation into the composition of the opening balance sheet of the NV Kliq i.o. (KPMG, 2001). The investigation considered the extent to which the business was viable and how far it was possible to speak of a dowry for the NV Kliq. At the time of the investigation by the accountants (on 1 July 2001) there was not yet a final opening balance for the NV Kliq i.o.. The proportion of public funds in the NV Kliq amounted to €127 million plus an estimated €135.9 million for the transformation of *Arbeidsvoorziening* into a commercial reintegration company.<sup>30</sup> The KPMG accountants did, however, state that “the funds and guarantees provided do not, in themselves, offer any certainty of success. Kliq will not yet be able to cope with another adverse market in 2002 in which significant personnel reductions are needed.”

#### 4.3.3 *Position in the market and market shares*

141. The activities of Kliq comprise five types of services: inflow services, careers advice, mobility and outflow, HRM and recovery coaching (in the case of sick leave). Training is not included: the organisation only offers training purchased from outside. In the past training made up the largest proportion of its turnover. There was a compulsory custom system for the Reintegration division of *Arbeidsvoorziening* via the Vocational Training Centres. For purchasers, training has always been the most expensive part of a trajectory. Kliq makes a distinction between programmes (*e.g.* Stream 4 clients), projects (*e.g.* those not entitled to benefits), individual reintegration trajectories (from intake to placement and follow-up) and miscellaneous products (*e.g.* help with job applications). Kliq does not have any privileged relationship with the CWIs. Kliq is, however, sometimes brought in for the intake classification process, where the CWIs are understaffed.

142. The organisation consists of two departments: a Reintegration department and an Employability department. In the area of reintegration Kliq is completely dependent on government contracts. Kliq is active in both the UWV market and the municipalities market. After the first round of open tendering in 2000 Kliq was still the biggest player in the UWV market with 17% of the market, but it had aimed at a much larger share (50%). Kliq attributed the lower-than-expected result to an overestimation of its own

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30. Of the €127m, the Ministry for Social Affairs and Employment has invested €81.8m of its own capital in Kliq as a shareholder, and €45.5 of borrowed funds as a financier. As a financier the Ministry is also able to offer a credit facility of €22.7m for possible operational cash shortfalls. In addition there is €135.9m for transformation costs/formation expenses over the 2000-2002 period, of which €31.8m is for personnel costs (costs for deviations from the salary structure). The costs associated with the redundancy of 700 FTEs in 2001 are paid by the Public Employment Service (costs cannot yet be estimated). Finally, Kliq receives a guarantee of its pension costs if Kliq is not able to remain a member of the ABP (Algemeen Burgerlijk Pensioenfonds). According to the KPMG investigation, the delivery process was carefully executed.

abilities: the bid offered by Kliq was based in a one-sided way on the staffing and costs of the organisation at the time. Kliq did end up being brought in as a subcontractor for other players (e.g. A. Calder). While it expected another fall, Kliq lost (only) 4% of its contract in the second tender and remained by far the largest provider with a market share of 16.6%. In the municipal market Kliq has a reasonably good position among small and medium-sized municipalities. Kliq did not do well in the two largest cities. Kliq hoped that with the elimination of the compulsory custom system on 1 January 2002 it would be able to retain half the municipalities. It is not possible to gain an overall view because each municipality follows its own method when structuring its purchasing policy. In early 2000, at a time when the compulsory custom system was still in force, there were some municipalities with positive experiences of it and others with negative experiences (Dijk *et al.*, 2000). A number of municipalities considered that *Arbeidsvoorziening* was positioning itself as a real contractor with better service definition and clearer pricing. A number of other municipalities had the opposite experience: according to this group *Arbeidsvoorziening* was still suffering from “*Zoetermeer* [big city] centralisation” and high overheads that would make its services expensive. According to this group of municipalities, service descriptions and prices were still inflexible and far from transparent.

143. In order to compensate for the shrinkage in reintegration turnover in the long term, Kliq is working on building a second pillar with its Employability department. The company wants to play a more significant role in the employers’ market. Its estimated turnover for 2002 is € 13.6 million. Kliq aims to achieve a high level of differentiation (psychological services, chronic patients, candidates for self-employment etc.). The health and safety at work market (e.g. total sick leave management) is still largely untapped (30% of new disability benefit claimants suffer from psychological complaints). In order to achieve this Kliq is choosing the route of mergers or alliances with outside companies.<sup>31</sup> This fits in with Kliq’s efforts to structure itself in a similar way to its competitors, which are able to rely on sister companies or holding companies (insurers, Health and Safety services). Kliq is therefore looking for a structure together with other partners.

#### 4.3.4 Conclusion

144. Future prospects as a competitive company are not optimistic. The market is very uncertain and there are also limitations in the extent to which Kliq is able to “breathe with the market” through cost-cutting. Thus, the expected turnover has been adjusted downwards twice in 2001. The decline in the inflow of clients is seen as the principal cause of the disappointing turnover figures in 2001. The turnover realised through subcontracting is also below expectations.

145. Kliq has not yet finished its reorganisation. Further staff cuts cannot be excluded if turnover continues to fall short. What is more, Kliq needs to achieve the right mix of personnel. The personnel were not selected primarily on the basis of business-related considerations. The interview revealed that Kliq’s greatest disadvantage is that it is having to undergo a radical process of reorganisation at a time when a market has already taken shape and competitors are already operating in it. From the point of view of appropriate market relationships, a rapid transition is desirable. This is because Kliq does have a certain competitive advantage due to its past: among other things the relationship with existing purchasers and the idea of starting with a clean sheet. Its advantages over its competitors do not, however, weigh up against the disadvantages affecting the company as a former monopoly enterprise.

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31. These include Manpower in the area of mobility services, with labour market information specialist Matchcare for the Kliq-Match system (vacancy database) and pay specialist FlexPay in the area of temporary agency work.

## 5. Evaluation

### 5.1 *Purchasing policy*

#### 5.1.1 *Not yet much differentiation between contracts*

146. One characteristic of the Dutch system of market competition is variation between purchasers. Nevertheless the most important purchaser - the LISV and the UVIs, or UWV i.o. - still very much has the character of a monolithic regional body inviting tenders. In 2001, in the opinion of a number of those interviewed, not much differentiation between contracts is possible. Differentiation between target groups and sectors is still too abstract to make it possible to deliver real tailor-made work. Ultimately, this is a very wide-ranging population (more than 900 000 handicapped people and 200 000 people unemployed due to dismissal). The UVIs are seen as large bureaucracies which cannot state in detail what they need because they do not know anything about the labour market. The municipalities are more aware of the need to award contracts for small, well-defined target groups. One of the main problems for purchasers is that they do not have the knowledge about the backgrounds and needs of their jobseekers that is required in order to be able to define adequate specifications for an invitation to tender.

#### 5.1.2 *Lack of stability and guaranteed inflow*

147. One general criticism from providers is that the annual tendering periods used by the LISVs and UVIs do not allow any stability. As we indicated before, a number of providers lost their contracts after the second tender, others were awarded far fewer trajectories while a third category of firms entered into the market or were awarded a much larger number of trajectories. Moreover, the volume of trajectories actually awarded is not guaranteed. As a contractor the provider to the UWV has no control whatsoever over the inflow, although he does have to offer a placement guarantee. Due to these factors reintegration companies are working on an unsound basis from a purely economic point of view. The large players are better able than the smaller ones to cope with this by spreading their risk. Larger players can also use cross-subsidisation because they are also active in the employers' market, which may become more important. The nature of the tendering procedures also gives rise to risk-averse behaviour among providers. Companies prefer certainty to uncertainty when it comes to accepting clients and carrying out trajectories. Investments in human resources and infrastructure will probably also be suboptimal because the companies may lose this money after only one year. Therefore, many critics suggest contracts should be awarded for a longer period while at the same time the start of new trajectories should be streamlined to give the companies a more balanced work load.

#### 5.1.3 *Purchasing by municipalities still at an early stage*

148. In general the municipalities have not yet built up enough expertise for their own purchasing policy. The municipalities are used to operating as "benefit factories" and now they have to transform themselves into "reintegration directors". Often, there is a lack of knowledge of both the client and the labour market. One important difficulty is that it is not yet fully in the interests of the municipalities to have an open market. They are playing a double role because they have public companies themselves providing jobs under the Jobseekers Reintegration Act and the Social Employment Act. In principle, these municipal companies have to compete in a way that is fully in accordance with the market, which means that they are also registered for VAT. It seems that a purchasing policy is only a possibility for the larger municipalities.

## 5.2 *Providers and market competition*

### 5.2.1 *Increases in scale and market concentration*

149. Due to the nature of the 2000 procedure for the first LISV tender (implementation year 2001) conducted by the LISV and the UVIs, start-ups and smaller providers were left out. In 2001 contracts were concluded with 33 companies in the UWV tendering procedure. After the 2001 procedure for the second tender, 41 companies were contracted. The UVIs previously had a much larger number of contracts. A number of the parties now contracting can be classified as “organisers” who in turn bring in other companies to execute trajectories or trajectory components. The trend in favour of “organisers” imposes extra demands on monitoring by purchasers. It is also questionable whether this has a detrimental influence on the continuity of service for clients moving from one stage of a trajectory to the next. Evidently, there is concentration in the market (due to shake-outs and mergers) and increases in scale. The aim of the 2001 tendering procedure was to counteract this trend towards increases in scale by structuring invitations to tender in tranches; in addition there is also 20% budgetary room for manoeuvre (“free room”). This indeed resulted in a somewhat less concentrated market. The sector organisation Borea does not expect the reintegration market to become very concentrated because of the large diversity in services offered and the increasing number of purchasers (van Geuns and Cremer, 2002).

### 5.2.2 *Price plays a subordinate role*

150. In the weighting of award criteria for the 2001 tendering round, price did not play a decisive role in any contracts at all. For the municipalities price is also not the most important criterion. The UVIs were afraid that price would become too important as a criterion; they consider that the price mechanism does not offer sufficient guarantees of a long-term placement. The question is how price competition will develop now, since it can be assumed that the price-quality relationship is a vital factor in the creation of a free market.

151. On the other hand, everyone wants to avoid a situation like the one seen in the market for Health and Safety services. There prices were forced so low by the influence of concentration in the market and the shake-out of smaller players that the market was no longer functioning. There is not yet any downward trend in the reintegration market. In 2001 prices were at approximately the same level as in 2000. On the providers’ side there are comments that the UVIs are well aware of cost prices, unlike the municipalities, which are sometimes less aware of prices. It is quite uncertain to what extent this mechanism promotes segmentation between more and less profitable target groups.

### 5.2.3 *Creaming*

152. The Dutch government is fully aware of the danger of creaming. This is evident from the large number of stipulations and refinements that have been made in the UWV tendering procedure: creating differentiation between target groups, tendering at the regional level, providing 20% budgetary freedom, through combined financing on the basis of input financing and outcome-based financing, by allowing the performance component of outcome-based financing (the placement fee and bonus) to depend on the degree of difficulty of the target group, by stipulating not only placement percentages but also drop-out percentages and by linking the placement percentage to specific trajectories. On the other hand the target groups are still defined in very broad terms and awarded in relatively large tranches. No price differentiation is provided for the very difficult target groups, despite the trend towards complex trajectories among those groups which are furthest removed from the labour market.

#### 5.2.4 *Monitoring not yet developed*

153. In quite sharp contrast with this relatively large amount of attention paid to creaming, not much attention is yet being paid to getting a grip on the problem through data collection. In general, the computerisation process is lagging behind. The provision of information and facilities to monitor reintegration efforts have not been able to keep up with the rapidity of the changes. One crucial question is whether the UWV tendering procedures are not focusing in a one-sided way on the new inflow of unemployment and disability insurance benefit claimants. Placement and drop-out figures have an important part to play in the payment of fees; it might therefore be expected that there would be much more transparency in the validity and reliability of the placement figures which are used.

#### 5.2.5 *Transaction costs*

154. One complaint which is often heard is that the annual LISV procedures entail huge transaction costs, not only for the purchaser but also for the contractors. Tendering still involves a huge amount of paperwork. In the second tender, there were 2 500 lots companies could bid for but they had to submit a separate bid for each lot they wanted to tender for.

### 5.3 *Structuring the process to promote market competition*

#### 5.3.1 *Uncertainty due to the transitional process*

155. Market competition had already begun to operate before the SUWI Act came into force. This creates significant uncertainty for Kliq and the municipal companies, among others. One question, for example, is whether these municipal companies already have to pay VAT. From 2001 onwards all reintegration activities are carried out by private mediators contracted to public implementation bodies. Moreover from 2002 onwards, the Dutch government is making the individual employer responsible for purchasing and implementing reintegration activities for their own disabled employees with a testing role for the implementation bodies. No-one dares to predict what impact this will have on the reintegration market.

#### 5.3.2 *Division into stages of the process of setting up autonomous commercial companies*

156. For Kliq, the advent of market competition primarily means a complicated internal process of reorganisation from a budget-driven civil service organisation to a market-driven organisation. What is more, all Kliq's protection as a government provider is being withdrawn. The transition to a commercial market environment is taking place very quickly. The movement towards completely open tendering procedures - first for the UVIs and then gradually also in the municipalities - will accelerate these internal changes. This internal process of reform is not moving quickly enough, since Kliq is already having to operate in a competitive market as it takes place. At present its advantages as a former large government provider do not weigh up against its disadvantages. There is great uncertainty about the market. A lot of internal investment is still needed to achieve the right mix of personnel. Kliq is trying to achieve a structure which its large competitors already have in place. The biggest problem with the tendering process is the lack of an inflow of candidates. This is forcing the organisation to lower its turnover expectations. Kliq's position in 2001 is not looking very hopeful. The crucial factor is personnel. Kliq's future in the reintegration market is therefore very uncertain. A clearer division into stages of the process of setting up autonomous commercial companies could help this situation.

5.3.3 *Transition to a outcome-driven process*

157. Creating the 2001 framework was the responsibility of the LISV. From 1 January 2002 the LISV ceased to exist and was transformed into the UWV. It is expected that under the new SUWI Act responsibility for the framework will be transferred to the Ministry for Social Affairs and Employment. When creating the 2001 framework the LISV had to work together with the ministry. The ministry was therefore able to assert its influence beforehand. When creating the framework for the 2001 procedure the LISV was under a great deal of pressure to make the transition to a fully outcome-financed structure. This was initially due to budget restrictions, and it was done under pressure from the Ministry of Finance. As results come under greater pressure, this will no doubt increase the need for better control over the quality and durability of the placement outcomes achieved.

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