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# **Decentralisation and Co-ordination: The Twin Challenges of Labour Market Policy**

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## **SESSION A - EXPERT PAPER Hugh Mosely**





# DECENTRALISATION AND ACCOUNTABILITY IN LABOUR MARKET POLICY

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## Introduction

This paper examines trends in decentralisation and trade-offs between flexibility and accountability in the recent experience of OECD countries. Section 1 surveys arguments and issues in debates on decentralisation, identifies different types of decentralisation and defines basic elements of decentralisation strategies that increase regional and local flexibility in policy implementation. Section 2 discusses accountability criteria and types of trade-offs between decentralisation and accountability. Sections 3 to 5 discuss patterns of cross-national variation in key elements of local flexibility, the relationship between decentralisation and local policy coordination and the need for complementary capacity building strategies at the regional and local level. Section 6 presents conclusions and recommendations.

## Decentralisation

1. In the most general terms decentralisation is the transfer of decision-making power and responsibility over policies from the national to the regional, sub-regional or local level (see De Vries 2000 for a general discussion). Decentralisation in the sense used here is applicable above all to the different levels of government or administration in public or quasi-public sector (e.g. social insurance institutions in many countries). By contrast ‘deregulation’, another form of flexibility, removes issues from direct public regulation and leaves their determination to the market or actors in civil society, for example, in the case of employment contracts in the labour market. Although labour law and labour market regulation have been liberalised in OECD countries in the past two decades, a common national framework has been maintained.

2. In the past two decades there has been a strong trend toward decentralisation in labour market policies, which has been documented by discussions and conferences at the OECD level (OECD 1999, OECD 2003). The results of the first Venice Conference of 1998 and the Warsaw Conference in 2003 show clearly that decentralisation is a complex and multifaceted process that can improve policy implementation but can also have undesirable negative effects (e.g. duplication and fragmentation of activities, localism, uneven quality of programmes and administration).

3. Decentralisation trends in labour market policy reflect an increased perception of the territorial dimension of labour market policy and the need to facilitate more tailor-made and co-operation with local actors (e.g. Sweden, Denmark, Germany) but also broader national patterns and trends in public administration (‘New Public Management’) and in the division of powers between central and sub-national authorities, of which labour market policy is only one affected area (e.g. regionalisation in Belgium, Italy, Spain).

### *Decentralisation arguments and issues*

4. It is useful to consider typical arguments for and against decentralisation, not forgetting that decentralisation issues in most countries are inevitably intensely political: ‘some actors lose and others gain power’ (Rhodes 1981). The theoretical literature suggests that decentralisation may under certain circumstances enhance policy delivery but may also have unintended negative effects. Moreover, the theoretical benefits may be constrained in practice by other factors. A recent comparative survey of public

policy discussions on this issue concludes paradoxically that ‘neither the theoretical arguments in favor of decentralisation, nor the arguments in favor of centralisation are convincing’ and that there is not a long-term trend toward decentralisation but rather ‘ongoing cycles in which trends and taking sides in the discussion succeed one another continuously’ (De Vries 2000: 194)

5. A number of pros and cons for decentralisation can be identified:

- i. Flexibility vs. equal treatment: A classical argument for decentralisation in labour market policy is that it makes possible more tailor-made policies better adapted to local needs, in contrast to standardised national policies: ‘decentralisation leads to greater variety in the provision of public goods, which are tailored to better suit local populations’ (Tiebout 1956). A key question here is surely in what respects variety in public policy is desirable or acceptable and what policies should be uniform throughout the country. The strength of the argument for variety in the delivery of public goods would seem to depend on the size of the country and the diversity of local needs. The strongest case for decentralisation would seem to be for flexible delivery of tailor-made strategies within a national policy framework. Moreover, insofar as decentralisation entails different policies or differences in the administration of national laws in different parts of a country, it may conflict with strong notions of equal citizenship and equal application of the law, especially in countries with a strong tradition of social rights, for example, as in Germany or the Netherlands (see de Vries 2000: 1990; Sol & Westerveld 2005).

Within the field of labour market policy the movement toward decentralisation has been concentrated in particular in the area of active labour market policies, whereas benefit systems remain centrally regulated and, with some exceptions (e.g. USA and Canada), centrally administered. With regard to decentralisation of active measures it is important to distinguish between policies and implementation. Even in countries with relatively decentralised delivery systems there is usually a strong effort to retain an overall common policy framework and accountability standards (e.g. USA, Spain).

- ii. Variety vs. accountability: Decentralisation is said to promote innovation through competition between different regional and local authorities out of which best practice may emerge. Greater variation in policies and delivery systems can certainly be expected in the absence of central direction. There may be, however, offsetting negative effects in terms of duplication and reinventing the wheel and extreme outliers in performance. There would thus seem to be a strong argument for minimum quality standards and dissemination of information on best practice.

Where there is economic competition or a common market (e.g. in the USA or the EU) and unregulated competition between regions (or states) lack of central regulation may lead to an undesirable negative downward spiral and ‘beggar thy neighbor policies’, for example, in welfare and environmental policies, due to competitive pressures. Again there seems to be a strong argument for minimum standards in decentralised and competitive regimes

- iii. Capabilities: Advocates of decentralisation argue that local actors and local decision-makers know local circumstances and needs best, whereas critics argue that familiarity with local circumstances is an asset but not a sufficient basis for analyzing local needs and developing appropriate local strategies. Local political leaders and administrators may be less able and experienced. Decentralised regimes may be less likely to attract high quality personnel since the financial rewards and prestige are as a rule lower than at the central level (Prud’homme 1995; Tanzi 1996). Because regional and local authorities may, at least initially, lack the experience and organisational capabilities required for assuming a larger role, decentralisation needs to go hand in hand with capacity building (see paras 49-54).
- iv. Political accountability: Finally, it is frequently claimed that dispersion of decision-making power increases accountability of local (elected) policy makers in contrast to more centralised

and bureaucratic administrative systems: ‘Locally elected authorities are more likely to reflect local preferences than are the localised centres of central government’ (de Vries 198, citing Ranson & Stuart 1994). Intuitively appealing, the strength of this argument in practice may be weaker since more prestigious and powerful national officeholders may be subjected to more intensive press and public scrutiny than are regional and local officials. In many countries turnout in local elections is significantly lower than in national elections. (de Vries 2000; Prud’homme 1995; Fisman & Gatti 2002). Moreover, decentralisation of responsibility for policies to regional and local authorities may have the effect of removing important issues from the national political agenda since by definition it curtails or eliminates the possibility of national political action.

### *Types of decentralisation*

6. We can observe two major types of decentralisation in OECD countries: administrative and political decentralisation (Mosley 2003). The former represents a form of organisational flexibility within a national PES that is basically managerial rather than political. Bureaucratic managers in regional and local offices are delegated increased operative responsibilities by the headquarters in implementing national policy objectives (e.g. MBO in France, the United Kingdom or in most Scandinavian countries). Here the major influence has been the public service reform movement and ‘new public management’ ideas, which advocate greater flexibility for the regional and local or public employment services in the context of a shift toward management by objectives.

7. Political decentralisation, or devolution, entails not only managerial discretion but a more far-reaching delegation of responsibility for labour market policies from the national to the sub-national (regional, state, or municipal) levels of government (e.g. Belgium, Canada, Denmark, Italy, Mexico, Spain, the United States). In this case the implementing organisations are not merely subordinate units of a national administration but relatively independent political entities with their own elected leadership. In such complex and multilevel governance structures the relationship between central and regional or local authorities is less hierarchical and more negotiated.

8. Another major trend in the provision of labour market services and a special case is privatisation through contracting out, or even the creation of entire ‘quasi-markets’ (e.g. the Netherlands and Australia). In contrast to decentralisation within the public sector service provision in this case is shifted to external providers. We focus in this paper on the first two forms of decentralisation and accompanying problems of reconciling decentralisation with accountability.

### *Administrative decentralisation*

9. Management by objectives (or management by results) is the common denominator of diverse administrative reforms in the traditions of ‘new public management’ that aim to enhance the efficiency and effectiveness of labour market policy. Typically it entails the following elements (Mosley 2003, Mosley, Schütz, Breyer 2001):

- i. The definition of a limited number of organisational goals and corresponding performance indicators;
- ii. Delegation of these performance targets to subordinate levels of the organisation;
- iii. Flexibility in the sense of a low density of generally binding bureaucratic rules and procedures. Managers and operating units at regional and local levels are relatively free in their choice of strategies and programmes to achieve the agreed performance targets for their units.
- iv. Monitoring and controlling of performance against targets. In contrast to traditional bureaucratic administration, the emphasis is on outputs or outcomes against targets rather than on controlling inputs and adherence to detailed regulations.

10. Sweden and Norway have the longest experience with MBO-systems in Europe, which were first introduced in the mid 1980s. Use of management by objectives in some form is now widespread in EU public employment service organisations. This is a consequence, in the first instance, of the dissemination of performance management in the public sector in the 1980s and 1990s and within Europe by the influence of EU employment policy. Most PES organisations in EU countries now use some form of MBO in the management of their PES organisations. Outside of Europe this approach to public sector management appears to be strongest in the USA, Canada, Australia and New Zealand.

11. Whether MBO management systems actually lead to decentralisation and enhanced flexibility in the regional or local implementation of labour market policies is disputed. In principle MBO within a national PES organisation represents not an abandonment of central direction of the PES organisation but rather a refinement. The central PES organisation sets, on the basis of a national contract with the responsible ministry, overall goals and operational targets that are then adapted to local circumstances and can be flexibly implemented at the local level. Operating units are typically given a great deal more discretion in the use of funds and personnel and in the mix and management of programmes than in more traditional administrative structures but are expected to achieve centrally set targets or goals in terms of which their performance is assessed.

12. What this means in practice for decentralisation and local flexibility in implementation can vary greatly. In practice one can observe two clearly different models of PES performance management in MBO-type PES organisations: the more centralised and hierarchical agency model (e.g. France, Great Britain) and the more decentralised self-administration model (e.g. Austria, Germany). The agency model entails a strong separation between policy and implementation, a national level 'agency' agreement, top-down allocation of targets to the regions and local agencies, central controlling etc. Thus in France the implementation of employment policies remains relatively centralised even after the introduction of management by objectives and some developments in the direction of decentralisation. In particular the placement agency (ANPE) exhibits a top-down management style, although the impact of decentralisation has been greater in other components of the Public Employment Service. Local actors can choose from a toolbox of relatively rigidly defined national programmes but they are not free to adapt them to local needs or invent new programmes. Moreover, their freedom to allocate expenditure among different types of programmes is limited (Simonin 2003).

13. In Germany the Federal Employment Service is a quasi-independent administrative agency under the jurisdiction of the Federal Ministry for Labour and Social Affairs and the 178 local PES district agencies function with a great deal of discretion in implementation, within the budgetary and legal framework established by the national employment service and social security law. The PES agency itself enjoys greater policy autonomy vis-à-vis the ministerial level, target setting incorporates stronger elements of dialogue, some targets are autonomously set at the regional level, and quantitative targets are only one element in a more consultative style of performance assessment; local PES agencies receive a flexible reintegration budget in deciding on their programme mix but have only limited discretion in developing their own innovative programmes.

#### *Political decentralisation*

14. In political decentralisation or devolution other lower tiers of government in the public sector come to play a central role in the implementation of labour market policies. Political decentralisation is strongest in federal systems in which responsibility for labour market policy is devolved to state or provincial governments that are politically, administratively and financially strongly independent actors in the national politico-administrative system, for example, in the United States or Canada.

15. The devolution of responsibility for the design and delivery of active labour market programmes from the central to the provincial governments in Canada is particularly interesting because it is asymmetrical. Since 1996 the responsible national ministry has concluded bilateral Labour Market Development Agreements with the provinces and territories in two basic forms:

- Under ‘transfer’ agreements the provinces and territories assume responsibility for the design, delivery and management of national employment and training service programmes, which continue to be funded by the federal government, insofar as they are similar to the national programmes and consistent with the purpose and guidelines of national legislation. Federal and provincial programmes are integrated in a joint employment service system.<sup>1</sup>
- Under ‘co-management’ agreements the national ministry (Human Resource and Social Development Canada) delivers the national portfolio of unemployment benefits and active measures but shares responsibility for their design, management and evaluation with the province.<sup>2</sup>

16. Devolution has been voluntary and until recently Ontario, the most populace Canadian province, had not concluded a devolution agreement. National programmes in Ontario before this time were implemented directly by the federal government.

17. Through the bilateral agreements with the provinces and territories the federal government strives to maintain a national policy framework. The agreements specify in general terms requirements pertaining to fiscal and performance accountability, including core indicators and evaluation, integrated service provision, the coordination of a national labour exchange systems and the collection and dissemination of labour market information.<sup>3</sup> A LMDA Management Committee in which provincial and federal governments are equally represented provides for ongoing coordination and interpretation of the agreements.

18. For example, the 2005 Canada-Ontario Labour Market Development Agreement defines the shared labour market goals and objectives of the parties; sets joint priority areas and desired outcomes for the use of Federal fund; provides for the establishment of an accountability framework and data sharing. A Canada-Ontario Strategic Planning Committee, which reaches its decisions on the basis of consensus, was established to oversee the bilateral agreement. The agreed level of Federal funding by priority area is set out for a six-year period, subject, however, to annual parliamentary approval and any terms and conditions that may be attached. The agreement is valid initially for a six year period but may be extended by mutual consent.

19. Recently, Canada has introduced a new type of federal-provincial partnership agreement that was first signed between Canada and Ontario in November 2005, simultaneous to the Canada-Ontario LMDA. The partnership agreement was created to fill a major gap by making programmes available to the uninsured unemployed (women immigrants, young people) since regular active programmes under the Labour Market Development Agreements are primarily focused on providing services to persons on unemployment insurance.

20. *Regionalisation* is another model of political decentralisation. Several previously highly centralised political-administrative systems have devolved power to strong regional governments, including major responsibilities in the field of labour market and employment policy, for example, Spain and Italy.

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<sup>1</sup> New Brunswick, Quebec, Manitoba, Saskatchewan, Alberta, Northwest Territories, Nunavut, Ontario.

<sup>2</sup> Newfoundland and Labrador, Prince Edward Island, British Columbia, Yukon, Nova Scotia. The Government of Canada has announced that it will move forward to complete the transfer of responsibility for the delivery of employment benefits and support measures to these provinces and territories.

<sup>3</sup> As in other cases of devolution, there are particular problems with the integrity and comparability of performance data exchanged across multiple governmental levels (Rymes 2003).

21. Prior to the decentralisation reforms Spanish employment policy was primarily a responsibility of the central state, managed and implemented by the Public Employment Service (Instituto Nacional de Empleo, INEM). INEM was exclusively responsible for the core functions of labour market policy: placement services, active policies, including training and employment promotion, management and payment of unemployment benefits. Now, as a consequence of the decentralisation process, the autonomous communities and local authorities implement active policies related to employment and training, within the framework established by the national administration. Basic labour legislation, including labour market regulations and the social protection system, remain a national responsibility. Regional governments apply labour legislation and develop active policies adapted to their own needs. The regional authorities are also responsible for local economic development. INEM remains exclusively responsible for the administration of unemployment benefits. Initially, the management of vocational training was transferred and, beginning in 1996, other active policies. As of 2004 16 of the 17 Spanish 'Autonomous Communities' had established their own employment services.

22. Although the governments of the autonomous communities have a certain flexibility, they are required to spend the funds they receive for active policies for specified purposes (i.e. training, or employment for the handicapped) and in accord with the applicable state regulations for these programmes. National funds for active employment policies are allocated to the Autonomous Communities in six programme funding blocks, and there is at present only limited discretion to shift funds between programmes. There are a series of basic principles to which the regional employment services must adhere (Ruiz, 2003).

23. *Municipalisation* of service delivery is a third model of political decentralisation. This is found especially in the organisation of labour market services for social assistance recipients, which in many countries is primarily the responsibility of the local authorities. This type of decentralisation is practiced, for example, for the new German Basic Income Support for Jobseekers in Germany as well as for social assistance clients in the Netherlands. In Denmark it has been adopted as a framework for services for all client groups, including those on insurance benefits.

24. The German Basic Income Support for Jobseekers, which came into effect in January 2005 ('Hartz IV'), provides a new framework for integrated provision of benefits and labour market services to the long-term unemployed and other employable social assistance recipients. Under the new legislation all needy unemployed persons not eligible for the regular unemployment insurance benefit (UB I) are eligible for the new Unemployment Benefit II (UB II), a consolidated benefit near the social assistance level, which is funded by the federal government and administered jointly by the PES and the municipal authorities. New joint agencies ('Arbeitsgemeinschaften') or Jobcenters are responsible for providing not only the new unemployment benefit II but also for active programmes to all employable social assistance beneficiaries, including social services provided by the local authorities. The final legislation also permitted 69 local authorities (municipalities and counties) to assume full responsibility for placement and active programmes as well as for benefit administration. The legislation defines this local option as a limited experiment for a period of 6 years until 2010. In 353 local districts so-called joint agencies or Jobcenters in which there is co-location and close cooperation between local social agencies and the PES were established.

25. The Jobcenter is established on the basis of a contract agreement between the local authority and the local PES. There is a clear division of labour in the Jobcenter between the PES and the local authorities. The PES is responsible for the financing and implementing active measures and for the administration of unemployment benefit II. The social agency of the local authority is responsible for the administration and financing of rent subsidies and traditional social services (e.g. debt, drug and psychological counseling, child care). In the experimental municipalities the local authority is fully responsible for providing all services for this client group.

26. Accountability problems have arisen especially in connection with the municipal option. For example, it has proven extremely difficult to establish a common data base between the PES-led Jobcentres

and the 69 local option counties and municipalities because of differences in IT systems and in data standards in implementing agreed common indicators. Moreover, the responsible (BMAS) has only limited supervisory authority over them because they are subject to the jurisdiction of the Länder (state) governments. For example they are not included in performance management system of the ministry, which even faces constitutional limitations in exercising finance controlling over their activities that it funds.

***Elements of decentralisation and flexibility: What can be decentralised?***

27. It is useful to define more precisely what decentralisation or flexibility could mean in the context of public organisations and service provision. The elements listed here represent an initial stocktaking of basic elements of flexibility in implementation. They are drawn in particular from my own experience in analysing labour market policies but are in principal also applicable to organisations in other policy areas. Ideally, we would want to answer some such set of questions in order assess the degree of decentralisation or flexibility in labour market policy (or other policy areas) in a given national setting.

28. Goals and performance management:

- To what extent are organisational goals and targets centrally determined or do they allow room for sub-national (regional and local) goals and hence flexibility in adapting goals to local circumstances and local strategies?
- Are targets and indicators hierarchically imposed or bargained with regional and local actors?
- Is performance assessment based solely on quantitative criteria or integrated in a process of dialog that takes local conditions and strategies into consideration?
- Are sanctions imposed or is the MBO process largely a consultative framework?

29. Organisation of service delivery:

- Is the organisation of service delivery centrally regulated or are local operating units of the PES and other service providers relatively free to adapt organisational structures for service delivery to local actor constellations and conditions? Here there is a certain argument for standardization in the management and controlling of organisations at the national or regional level but also for flexibility in adapting them to local circumstances.
- Software and data systems are central to modern PES organisations and structure to a very large extent processes and the interaction with clients. To what extent is standardised software and IT systems used or are local operating units free to use their own software and IT systems? Local software may increase process flexibility at the expense of the standardised data collection and transparency in assessing performance at the national level.

30. Integration Strategies:

- Are local actors free to determine the programme mix and even adapt design features of programmes, including target groups, or are these largely centrally determined? May local PES offices implement innovative programmes outside the standard programme portfolio? There may be a trade-off between local flexibility and equality of service provision in the national territory.

31. Financing:

- Are the resources available to regional and local operating unit adequate? Transfer of responsibilities to regional and local authorities must be accompanied by adequate financial resources to carry out the assigned tasks.
- Do regional and local actors have flexible global budgets or line item budgets for active measures? Can funding not used in one year be carried over into the next fiscal year? A key element in administrative or political decentralisation is whether regional and local operating levels are free to allocate resources flexibly between budget items for active measures. In traditional line item budgets flexibility for operating units is low.

32. Personnel:

- To what extent are local organisational units free to hire, recruit, train and pay personnel and to assign them to tasks at their own discretion, subject to the usual limitations of collective agreements and the public service?
- Is the budget for administration and personnel costs centrally determined and inflexible or interchangeable with programme expenditures? For example, are operating units free to decide what services to contract out to external providers?

## **Accountability**

### *Different meanings*

33. Four principal types of accountability criteria can be identified, which central authorities are typically concerned to uphold even in decentralised systems (Mosley 2003):

- **Legal accountability:** Public agencies are expected to act on the basis of the rule of law and in conformity with applicable regulations.
- **Fiscal accountability:** Correctness and economy in the use of public monies. Public bureaucracies are expected to minimize costs and account for expenditure based on law.
- **Performance accountability:** Output-oriented effectiveness and efficiency: whether declared goals have been achieved and whether the results justify the resources committed.
- **Public accountability:** Democratic public administration requires political accountability to elected government officials but also responsiveness to the needs and preferences of citizens (e.g. the Citizens Charter in the UK).

34. In more traditional systems of public administration, the accountability framework emphasizes legal and fiscal accountability and the separation of administration and politics, whereas 'New Public Management' gives greater emphasis to decentralisation, managerial discretion, performance measures, quality standards and consumerism in accountability frameworks.

35. Accountability standards may conflict. For example, a strict interpretation of legal and fiscal accountability may be an obstacle to increased discretion of managers at the operative level to promote improved performance, for example, when reporting requirements for programmes or expenditures are too onerous. Participation of the social partners or local actors in decision-making may be inimical to managerial efficiency, for instance, if there is a lack of agreement on goals or if there is a conflict of interest, e.g. when local actors are themselves service providers.

### *Trade-offs between decentralisation and accountability*

36. Experience with decentralisation in its different forms suggests a number of typical or trade-offs between decentralisation and accountability:

- Overriding national policy objectives. Labour market policy is in most countries a national priority that requires national coordination. For example, in Sweden classical active labour market policy was regarded as a ‘national and integrated component of economic policy and thus a pre-eminent national concern’ (Behrenz et al. 2001). In countries with high wage replacement rates (e.g. ‘flexicurity’ in Denmark) ALMP and robust activation policies are part of the national system and cannot be entirely left to local discretion. Even Switzerland has in recent years moved toward a more coordinated and directed labour market policy with a strong evaluation system in place for regional PES offices (Hilbert 2006). The national importance and the financial volume of expenditure for labour market policy in most countries place limits on the degree of decentralisation that is politically acceptable. The question in most countries is rather what degree and what types of decentralisation are desirable and feasible within the framework of national policy.
- Interest conflicts. Conflict of interest between local ALMP actors and national interests represented by central authorities is an important justification for central rules and regulations in labour market policy. For example, programmes that subsidise local firms may distort competition and merely lead to job loss elsewhere in the country. Unregulated this could lead to a ‘‘prisoners’ dilemma game’ entailing long-run losses for all’ (Behrenz et al. 2001). Subsidised employment may displace regular employment. From a national perspective labour mobility to different parts of the country may be preferable to the lock-in effect of local training or job creation programmes. In a Swedish study PES managers were sceptical about giving more control over ALMP to the municipalities and concerned about the municipal representatives’ alleged lack of knowledge and understanding of the aims and functioning of ALMP measures and ‘local protectionism and municipal rent-seeking’ (Behrenz et al. 2001).

Moreover, the design of the financing system for labour market policy may have important consequences for efficiency and effectiveness. If local expenditures are not tied to local revenue generation bureaucratic rent seeking may be encouraged in delivery systems in which implementation is devolved to lower levels of government ‘since vertical fiscal transfers may allow local officials to ignore the financial consequences of mismanagement.’ (Fisman and Gatti 2002). Insofar as local actors are required to bear an appropriate share of the costs of funding programmes the agency problem inherent in decentralised administration can be mitigated.

- Performance accountability in decentralised systems, especially those with forms of political decentralisation, frequently faces major problems due to the variety of organisational forms and lower level of standardisation and comparability in labour market and performance data. Insofar as different jurisdictions enjoy flexibility in programme design their performance at the programme level is per se difficult to compare, especially since flexibility can also mean differences in data collection requirements. Moreover, different regional and local jurisdictions frequently use different software, which further compounds the problem of collecting and exchanging standardised performance data.

The accountability framework of the Workforce Investment Act in the US can be regarded as an attempt to adapt performance management to the special tasks and problems of multi-level governance. It establishes a common performance accountability framework for programmes implemented by state, and local governments and private sector partners. There is a small set of ‘core’ performance indicators for different target groups, while state and local governments are free to include additional indicators beyond these minimum requirements. Importantly, the core

indicators (e.g. entering employment; retention after 6 months; earnings) are largely gathered at low cost from unemployment insurance wage records. Formal performance agreements with the states establish performance targets and provide in principal for sanctions. In this complex and decentralised system there have been formidable problems both in developing comprehensive data and information systems and in reconciling differences in the definition of core indicators (e.g. job placement). The accountability framework is also a major concern in current debates in the US over reform of the Workforce Investment Act. State and local officials frequently criticise federal regulations and accountability requirements for limiting flexibility and impeding adaptation of programmes to local needs (Eberts 2003, Dorrer 2003).

Spain and Canada have experienced similar accountability problems due to the difficulties of establishing a common information system and data exchange for the multi-level governance system. In Spain in the course of decentralisation, some regions had opted for their own information systems with different data bases and software. In the process of agreeing common definitions of a number of basic concepts (claims, job offers, duration of unemployment, job matching etc.) administrative practices as well as information systems had to be adapted to ensure compatibility (Ruiz 2003, Rymes 3003).

In the case of forms of political decentralisation flexibility in programmes and service delivery models needs to be reconciled with the need for a national policy framework. This usually requires a legislative framework or coordinating mechanism, the development of a common set of performance indicators and a system for the exchange of labour market data, and minimum standards of service for citizens throughout the national territory. In Canada and the United States this takes place on the basis of negotiated labour market development agreements with the provinces or performance agreements with the states. The leverage of central authorities over independent state or provincial governments is based in particular on central funding. In principal the US Department of Labor can suspend payments to US states that fail to fulfill their obligations under the applicable performance agreement, although this does not happen in practice. In regionalised systems, in which the central government has more legislative powers, coordinating bodies are established. For example, in Spain the national Minister for Labour and Social Affairs and the representatives of the ministries of the Autonomous Communities meet in the Sectoral Conference for Labour Affairs to resolve conflicts and insure a common national framework.

- Legal accountability in the sense conformity with law and applicable regulations and fiscal accountability, i.e. correctness and economy in the use of public monies remain important criteria in decentralised systems. Insofar as decentralisation entails the devolution of legal and financial supervision and controlling to lower tiers of government the unintended effect is as a rule different level of oversight and different interpretations of the relevant regulations in different jurisdictions.

37. Finally, it should be noted that accountability frameworks impose substantial costs for keeping and auditing financial and administrative records, programme monitoring and evaluation and contract management on organisations. These costs would appear to increase with the complexity of the delivery system and the number of actors of different types involved.

### **Local Flexibility**

38. What decentralisation actually means in terms of the transfer of responsibility to local levels of government or administration<sup>4</sup> can vary, depending on whether flexibility in the provision of employment

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<sup>4</sup> What decentralisation and flexibility at the “local” level actually mean is unclear, given the large differences in the size of countries and the various tiers of multi-level governance to which authority may be transferred (national, state or regional, provincial or county, PES agency of municipal level).

services at the sub-national (state, province, regional) level is actually passed on to local actors. Four dimensions are particularly important for local praxis (see paras 27-32): Resource flexibility, programme flexibility, eligibility criteria and performance goals.<sup>5</sup>

### ***Budget flexibility***

39. Flexibility in the allocation of budget and personnel resources is an essential prerequisite of local PES flexibility in labour market policy. A few countries allocate funds for active measures in the form of block grants that can be flexibly allocated by local PES actors. In many countries there is some freedom to shift funds between budgets lines. However in others, local actors appear to have little or no budget flexibility. The reasons why traditional line items budgets for active measures are still retained in some countries are not entirely clear. Presumably it is a product of the strength of traditional notions of accountability as fiscal accountability and commitment to central control. International experience suggests that budget flexibility can be conceded to local PES actors without posing serious accountability problems. Accountability should be secured by focusing on output or performance than on inputs and by normal accounting practices rather than by line item budgets.

40. The German case is interesting in that it combines budget flexibility with room for central initiatives. There is a global 'reintegration budget' for active measures for SGB III (insurance) programmes in the 178 local employment agencies, who decide on the allocation of their funds to various programmes. National priorities are imposed through the planning of targets in the MBO system (outputs) rather than through control of inputs in the form of line item budgets. On the other hand, the government makes additional funds available for special programmes of high priority that are earmarked for specific purposes, for example, the 'Initiative 50 plus' for the older unemployed. This division of labour has the advantage of retaining flexibility in local PES budget allocations, while at the same time giving the government the possibility of intervening on high priority issues on an ad hoc basis. Local PES agencies are free to apply for these funds for special programmes or not at their own discretion.

### ***Programme flexibility***

41. The degree of flexibility that local/sub-regional employment agencies have in the design and mix of their programme portfolio (labour market training, job creation measures, employment subsidies etc.) varies markedly across OECD countries. In most countries that practice administrative decentralisation (MBO) or allocate funds in the form of block grants to sub-national authorities, local administrators can choose their own programme mix from the centrally determined programme menu. In a few countries (e.g. Switzerland) local actors have considerable leeway in designing programmes specifically to meet local needs, within broad national guidelines. In other countries only a limited share of local funding is available for innovative programmes not foreseen in the national guidelines. For example, in Germany and Austria 10 per cent of budget for active measures can be used freely for innovative programmes. In many countries, however, local PES actors appear to have little or no flexibility with regard to programme mix or programme design. International experience suggests, however, that at minimum local actors can be given considerable leeway in shaping their local programme mix and be allowed to allocate a portion of their resources to innovative programmes not foreseen in the national programme portfolio.

### ***Eligibility criteria***

42. In most countries decisions on eligibility for programmes and the allocation of services to specific target groups are made at the national level and relatively inflexible for local actors (See the background report prepared by the OECD Secretariat (LEED Programme) for this conference. In Germany, for example, there are as a rule legally mandated eligibility requirements based typically on duration of unemployment. Only where programme eligibility requirements are non restrictive, e.g. 'unemployed

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<sup>5</sup> See the Background Report prepared by the OECD Secretariat (LEED Programme) for this conference.

persons', do placement staff have discretion. In addition to eligibility requirements mandated by law, so-called 'action programmes' prescribe what types of services the unemployed are to receive based on a profiling system that classifies clients according to their distance to the labour market and service needs. Management systems of this sort are used to standardise processes and increase management control over resource allocation in local service offices.

43. A principal reason why eligibility criteria are centrally determined is that policy makers in most countries have a strong propensity to articulate policies and define their public initiatives with reference to target groups (youth, women, long-term unemployed, older workers etc.). In many cases performance targets are also defined in terms of labour market target groups. The reasons for this pattern are clear: Labour market policies serve not only the unemployed but also to maintain public support for governments. The political accountability of elected officials appears to override considerations of local flexibility. Indeed, a recurring argument for centralism in policy management is the need for national officials to articulate and implement national policy initiatives in a timely fashion in response to their perception of national needs.

### ***Performance management***

44. In performance management systems national PES operational targets need to be realistic but also 'stretching' in that they stimulate local actors to enhance their performance under the given local labour market conditions. Typically these targets are estimated for the coming year at the national level on the basis of labour market projections and past performance and then disaggregated to the regional and local level in a complex negotiation process. The negotiation process is necessary in order to come to realistic targets for local PES units but also to foster commitment on the part of local actors to organisational goals. The extent to which this process is hierarchical or consensual varies greatly across countries. Whereas negotiations play a strong role even in some countries with national PES organisations that practice administrative decentralisation, in a large number of countries local actors appear to have little or no flexibility in the determination of local performance targets. However some MBO systems explicitly include local targets (e.g. Austria, Germany), which is an important component of flexibility for local actors.

45. The degree of flexibility in a performance management system also depends on the type of targets that are centrally set. For example, during the crisis of the 1990s in Sweden ALMP central goals came to be defined in terms of the number of participants in labour market measures instead of broader labour market goals as had been the case in the past. This type of target reduces the amount of local policy discretion as the local PES is told what to do rather than which labour market goals are to be achieved by its own choice of means (Behrenz et al 2001).

### **Decentralisation and Local Policy Coordination**

46. Decentralisation and the degree of flexibility actors have in implementing policy is also important from the perspective of local coordination of labour market and employment policy. Responsibility for employment services is itself frequently dispersed. In many OECD countries (e.g. Belgium, Denmark, Finland, Ireland, the Netherlands, Portugal, Sweden, Switzerland) job brokerage and responsibility for active programmes are concentrated within the PES and benefit administration is the responsibility of separate agencies. In other countries (e.g. France) responsibility for placement services and active measures are assigned to two or more separate institutions. In a few countries (e.g. Germany and Austria) the national PES provides a full range of integrated employment services. In federal systems with devolution of substantial responsibilities to provincial or state governments there is an even more complicated division of labour (e.g. Canada and the USA). Finally, in many countries services for the unemployed on social assistance are provided in a separate delivery system in which local authorities play a major role (e.g. Denmark, the Netherlands, Germany). Great Britain is one of the few countries that concentrates responsibility for all labour market services for all client groups in one national agency, the

Jobcentre Plus network, which merged responsibility for welfare to work programmes for social assistance recipients with PES services for other unemployed.

47. Beyond employment services, policy implementation also requires coordination between relevant actors in related policy domains (e.g. local economic development, education and training and social policy). This means that decentralisation in, for example, the public employment service cannot be introduced without considering the necessary linkages with local actors.

48. Initial findings from ongoing OECD studies suggest strongly that the degree of decentralisation or flexibility local actors enjoy is of crucial importance in forging joint local strategies. Local policy actors are as a rule embedded in national or regional administrative and accountability structures that constrain their room for manoeuvre in adopting and implementing joint strategies at the local level. For example, if local employment services, education or economic development agencies/institutions have little discretion in allocating their funds or adapting their programmes and schedules they will not be able to work effectively in implementing local skill strategies (OECD 2007a, OECD 2007b).

### **Capacity Building at the Regional and Local Level**

49. Decentralisation of responsibility for labour market and employment policies presupposes that local actors dispose of the requisite capabilities. These include being able to coordinate local actors; analyse local needs, develop appropriate strategies, implement programmes, monitor, control and evaluate performance, and comply with the accountability standards that may be required by higher level authorities.

50. The concept of capacity building, which is widely used in the context of development politics, has been criticised for being a chameleon-like concept without precise meaning (Harrow 2001). In our view capacity building remains a useful concept in organisational studies despite the proliferation of meanings. Decentralisation policies need to take into consideration and be adapted to the capabilities of regional (or state or provincial) and local authorities.

51. The relevant capabilities depend on the actual policy responsibilities delegated or devolved to sub-national levels in a particular institutional setting and on the specific local deficits. In general internal capacity building requirements within decentralised state structures can be summarised in terms of (Ohlorhenuan and Wunker 1995):

- *Personnel capabilities*: technical, managerial, and administrative skills need to carry out the assigned tasks in a professional manner.
- *Organisational capabilities*: governance and management structures, IT systems, standardised procedures and processes, accountability structures.
- *Fiscal capabilities*: Resources need to be appropriate to responsibility. Sub-national actors have to be equipped with the necessary resources to carry out the tasks assigned to them and have sufficient flexibility in the allocation of these resources between programmes to meet local needs.

52. When responsibilities for labour market services are decentralised there will be in most cases a need for support services for local actors. There is also a strong need to assist local leaders by providing labour market expertise and technical analytical capacities. Other likely needs are, for example, for the provision of IT services and labour market data, internal training for employees, recommendations and consulting services on work process organisation, programme guidelines or model programmes, audit and accounting services, legal advice and counselling. These supportive services can be provided in various ways by regional or national authorities or by local partners who dispose of the required resources and expertise, for example, the local public employment service. Regional and local authorities also need to develop their own technical expertise, managerial, and administrative skills and organisational capacities to

meet new tasks, either internally or by contracting for services through external providers. In Germany the development of state consulting firms to support the implementation of regional labour market policies is an innovative example of regional capacity building. The importance of labour market policy in Germany's 16 Länder, or federal states, increased greatly since the 1990s as a consequence of the regionalisation strategy funded by the structural funds of the European Union. To cope with their new responsibilities most of the states created new intermediary organisations to assist the traditional ministries and support regional and local actors involved in implementing labour market policy.

53. These consulting companies and service providers perform a primarily advisory and co-ordinating function in the practical implementation of an integrated regional policy (Mosley & Bouche 2008). They carry out six principal tasks for regional capacity building:

- Internal consulting services for the state ministry in matters of (a) programme development or direct development of programme proposals for state labour market policy, (b) reform of the state's policy and funding instruments, and (c) the selection of providers of labour market or industrial policy programmes and projects.
- Co-ordination of the co-operation between the state ministries, regional PES agencies, and other local labour market policy actors; development and maintenance of Internet-aided project databanks.
- External consulting services and support – substantive and legal counsel, including assistance with grant application – for, *e.g.*, local actors planning or conducting projects, providers of further training, outplacement companies, businesses, business start-ups and individuals.
- Internal research and communication, expert reports, and organisation of public hearings as well as external publications and public relations.
- Continuous monitoring of the labour market, internal controlling and evaluation of programmes, including budgets and expenditure.
- Programme administration tasks: independent administration and disbursement of project funds and, in some cases, all ESF funding.

54. Finally, regional and local authorities can vary greatly in their administrative and technical capacities and in their political will to assume responsibility for particular tasks in the design and delivery of employment services. This is a strong argument for some degree of flexibility in decentralisation from the national to the regional/state level or to local authorities for which asymmetrical decentralisation of employment services in Canada or the local option in Germany are interesting examples (see paras 14-26).

## **Conclusion**

55. A few conclusions emerge from the proceeding analysis:

- Within the field of labour market policy the movement toward decentralisation has been concentrated in particular in the area of active labour market policies, whereas benefit systems remain centrally regulated and, with some exceptions, centrally administered.
- It is important to distinguish between policies and implementation. Even in countries with relatively decentralised delivery systems there is usually a strong effort to retain an overall common policy framework, accountability standards and coordinating mechanisms for active programmes.

- We can observe two major types of PES decentralisation in OECD countries: administrative decentralisation, especially in PES organisations with MBO-type systems, and political decentralisation. The former represents a form of organisational flexibility that is basically a managerial strategy. In practice one can observe two clearly different MBO-types: the more centralised and hierarchical agency model and the more decentralised self-administration model.
- Political decentralisation, or devolution, may entail not only managerial discretion but usually a more far-reaching delegation of responsibility for policy implementation from the national to the sub-national (regional, state, or municipal) levels of government.
- Decentralisation may enhance policy delivery by adapting it to local circumstances but may also have unintended negative effects, for example, uneven quality in service delivery or accountability problems related to the fragmentation of responsibility, especially where different tiers of government are involved, and lack of comparable performance data. There is thus a strong argument for minimum quality standards and standardisation of managerial information systems in decentralised regimes.
- Four principal types of accountability can be identified: 1) Legal accountability; 2) fiscal accountability; 3) performance accountability; 4) public or political accountability. These perspectives may in practice entail goal conflicts. For example, a strict interpretation of legal and fiscal accountability may be an obstacle to increased discretion of managers at the operative level to promote improved performance, if reporting requirements for programmes are too onerous.
- Accountability standards are themselves costly and need to be reasonable. They impose substantial costs for keeping and auditing financial and administrative records, programme monitoring and evaluation on organisations. These costs appear to increase with the degree of decentralisation and the ensuing complexity of the delivery system and the number of actors of different types involved.
- Experience with decentralisation in its different forms suggests a number of typical or trade-offs between decentralisation and accountability: First, labour market policy is in most countries a national priority that requires national coordination. Its perceived importance and the financial volume of expenditure for labour market policy place limits on the degree of flexibility for regional or local actors that is politically acceptable. Second, potential conflicts of interest between local ALMP actors and national interests are an important justification for central rules and regulations in labour market policy. For example, programmes that subsidise local firms may distort competition and merely lead to job loss elsewhere in the country. Third, decentralised systems, especially those with forms of political decentralisation, frequently face major problems in performance accountability due in particular to the number of organisations involved and the lack of standardisation in labour market and performance data available.
- What decentralisation actually means in terms of the transfer of responsibility to local levels of government or administration can vary, depending on whether flexibility in the provision of employment services at the sub-national (state, province, or regional) level is actually passed on to local actors.
- Local flexibility in OECD countries in the four dimensions considered is uneven. Budget flexibility in the form of block grants in contrast to line item budgets is an important element of local flexibility that is not available in many countries. International experience suggests that budget flexibility can be conceded to local PES actors without posing serious accountability problems. Accountability should be secured by focusing on output or performance rather than on controlling financial inputs through line item budgets. In many countries, local PES actors have little or no flexibility with regard to programme mix or programme design. International

experience also suggests, however, that at minimum local actors can be given considerable leeway in shaping their local programme mix and be allowed to allocate a portion of their resources to innovative programmes not foreseen in the national programme portfolio. The extent to which MBO-type managerial systems are hierarchical or negotiated varies greatly across countries. The negotiation process is necessary in order to come to realistic targets for local PES units but also to foster commitment on the part of local actors to organisational goals. Some MBO systems explicitly include local targets, which is an important component of flexibility for local actors.

- Local policy actors are as a rule embedded in national or regional administrative and accountability structures that constrain their room for manoeuvre in adopting and implementing joint approaches at the local level. The degree of flexibility local actors enjoy is thus of crucial importance for cooperative local labour market strategies.
- Decentralisation of responsibility for labour market and employment policies presupposes that local actors dispose of the requisite capabilities. Because regional and local authorities may, at least initially, lack the experience and organisational capabilities required for assuming a larger role, decentralisation needs to go hand in hand with capacity building.

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