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1. Introduction and main findings

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

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

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

Main findings

- In recent years, all three review countries have engaged in substantial, sometimes radical reforms of their labour market policies. The United Kingdom has for many years demonstrated the importance of actively engaging with unemployed clients, and has progressively developed this principle since 1997 with the creation of “New Deals” for a range of specific target groups and an increased focus on beneficiaries of “inactive” benefits. The Netherlands followed with a far-reaching transformation of its Public Employment Service (PES) towards the private provision of reintegration services for unemployment benefit as well as social assistance recipients. Germany has more recently restructured its national labour office, and integrated its two, previously separate, labour market activation and benefit streams for the long-term unemployed.

- Information on activation strategies for unemployed clients was sought in a questionnaire to member countries. Results have shown, inter alia, an increase in the number of countries that
have explicit regulations for job-search efforts, and in those that set up binding action plans (such as “integration agreements”) at the beginning of an unemployment spell. Services that increase search efforts, job motivation and job readiness, can positively “activate” those whose own initiatives are rare or ineffective, and can thus reduce their risk of becoming long-term unemployed. They bring clients into contact with vacancies and other services, which might otherwise be ignored, and make it generally more troublesome to live on long-term benefit.

- The three review countries have implemented a number of components of activation strategies. These include:
  - Emphasis on options for returning to work from the very first contact, frequent follow-up contacts and interviews, signing-on requirements and job-search reporting obligations. Often more intensive types of contact and follow-up tend to apply in cases where placement and reintegration are contracted out to private providers with their often more advantageous staff/client ratios.
  - Greater emphasis on benefit eligibility criteria, a tightening of suitable job requirements and a targeted use of benefit sanctions. In all three countries, legal regulations on eligibility and benefit sanctions have been evolving over the past decade, with a tendency towards tightening existing regulations. While there is no clear trend in the incidence of sanctions for voluntary unemployment, their incidence addressing behaviour during the benefit period has increased considerably in Germany and the United Kingdom, and has stayed at a particularly high level in the Netherlands.

- For activation strategies to be successful, it is essential to monitor and manage the performance of employment services. PES procedures should be continuously reviewed and developed through high-quality impact evaluations. Further, when employment services are subcontracted, government agencies should assess outcomes in terms of the number of their clients who remain on benefits and/or who are in employment on average over a subsequent reference period. The latter should be set for a relatively long period (several years), so that there are strong incentives for rewarding long-term outcomes rather than short-term jobs.

- There is mixed evidence as to whether private provision of employment services leads to better outcomes than public provision. The Netherlands are the prototype of a “reintegration market” characterised by a “purchaser/provider” split, where private-sector and non-profit organisations compete for the acquisition of publicly-funded tenders to supply re-employment services to the unemployed. However, because of differences in client characteristics between the residual public service, municipalities and private reintegration providers, the relative performance of public sector and private reintegration services cannot be directly compared. In the United Kingdom Employment Zones, where provision is through the private sector, have quite favourable results compared with the public provider, whereas initial evaluations of the (more recent) contracting-out arrangements in Germany have suggested no substantial efficiency gains so far.

- In contrast to the Australian Job Network and the UK Employment Zones, where there is only one “principal”, the Netherlands reintegration market (where several hundred local authorities are tendering for services) is widely decentralised. In Germany, a limited number of regional PES bodies purchase private sector services. When the market is diffuse and contract conditions are variable, benchmarking of performance is difficult. However, this does not mean that markets for reintegration services cannot function efficiently in a decentralised policy framework. In particular, decentralised frameworks provide a greater opportunity for experimentation and
methodological innovation. In such decentralised markets, the central government’s role remains important for increasing the transparency of the market, *i.e.* the evaluation and reporting of outcomes.

- The activation approach is also increasingly applied to “non-employment” benefit recipients. Reversing the growth in non-employment benefit caseloads and associated expenditures through activation policies is indeed a challenge for public policy – for example, in the Netherlands and the United Kingdom the percentage of the working-age population reliant on non-employment benefits is several times the percentage of unemployment benefits. Examination of the three countries shows that:

  - There is considerable scope to apply activation strategies to persons receiving non-employment benefits, albeit with appropriate modifications for the specific characteristics of each group (the disabled or lone parents, for example). OECD countries have seen a number of reforms which have applied full or partial availability-for-work requirements to target groups that were not previously required to accept work at all – such as the reforms affecting the majority of lone parents in the United States and the Netherlands, or the partners of benefit recipients in Germany and the United Kingdom.

  - Poorly controlled access to such inactive or “non-employment” benefits can undermine the impact of activation measures, by diverting a share of the long-term unemployed to benefit schemes that are pathways to inactivity. In particular, disability benefit gate-keeping needs to be reinforced, in view of high numbers of recipients transferring to this benefit either from a drawn-out sickness spell or from unemployment benefit recipiency. “Work capacity” rather than disability/invalidity should be the key concept in applying activation strategies for this client group.

  - Employment services that are used for activating inactive client groups are similar to those used for the long-term unemployed: job-search training and monitoring, intensive counselling and direct placement assistance, with targeted use of training and wage subsidies. Municipalities in the Netherlands and the new employment service consortia in Germany use activation, work-first and in some cases workfare measures for their social assistance caseloads. However, work requirements can, and should, not always be imposed, for example in the case of lone mothers, when childcare availability is insufficient. There is also a need for specific resources and assistance strategies targeted on barriers to employment due to poor health or care responsibilities.
2. Employment services reform in the Netherlands, Germany and the United Kingdom

2.1. The Netherlands: Reform history and major features of current provision

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

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

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

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

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

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

10. The 2004 Work and Social Assistance Act gives municipalities full responsibility for activating and reintegrating their currently 340,000 social assistance clients, and no longer excludes any client group(s) from reintegration.¹ They receive lump-sum payments from the national government, based on socio-economic parameters that take into account the demographic and regional labour market situation. There are two financing components: for benefit payments and reintegration measures. The new model creates incentives for reducing caseloads since saved money originally earmarked for benefit can be transferred to other budget lines. Municipalities now also have more discretion in choosing the type of measure for activating their beneficiaries. The fact that previous concepts of “suitable jobs” were widely abolished has, inter alia, facilitated their use of “work-first” policies – which, in turn, is leading a certain number of applicants to drop their claims².

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

12. In sum, recent reforms have followed the principle of giving work priority over income, stressed client activation and enhanced competition in employment service provision through widespread market-type mechanisms. They reinforced the role of the government in the (remaining) PES; streamlined social insurance provision; and gave a larger autonomy to local authorities in determining their reintegration policies. Independent of these far-reaching structural reforms, spending on active labour market programmes – as a percentage of GDP and per unemployed person – has remained way above OECD average and is the highest among the three review countries (Table A.2). The following are some of the current problem areas pointed out by critics:

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

13. After having earlier on followed an approach which effectively broke the links between the placement and benefit functions, from the second half of the 1980s the United Kingdom introduced a series of reforms that concentrated PES work on benefit claimants and strengthened its focus on rapid return to unsubsidised employment. These reforms included the introduction of Restart interviews with the long-term unemployed in 1986; the abolition of the tripartite Manpower Services Commission in 1988 and its replacement by an employment service more directly supervised by the government; the introduction of back-to-work agreements upon benefit application as well as fortnightly “signing on” under the 1995 Jobseeker’s Act; the offer of new Deals for young people (1998) and long-term unemployed adults (2000); and, more generally, stronger emphasis on reinforcing work incentives and monitoring job search behaviour (“stricter benefit regime”) (Wells, 2001a; Finn, 2005).

14. The introduction of a “work-first” paradigm implied greater use of low-cost measures aimed at immediate job entry. The redefinition of unemployment benefit as Jobseekers’ Allowance (JSA) accompanied the new focus on intensified job search and brought together features of support for the unemployed and social assistance beneficiaries, as it can also be received by persons without any entitlement to unemployment insurance benefit. There was also the establishment of a performance targets regime geared to job entry and efficient service delivery. In this context, however, it needs to be noted that the stricter benefit regime had as one of its consequences that many employed as well as unemployed persons have chosen to move to incapacity benefit (IB) and other types of “inactive” benefits. For example, the IB caseload grew by 100% during the 1980s and by 70% during the 1990s, while the number of registered unemployed grew by 20% and then declined by one-third in the same two decades.

15. The government’s 1997 “welfare-to-work” programme followed on from the new approach and intensified efforts to reduce all types of benefit dependency. An important precondition for streamlining the public employment service was the merger in 2001 of the Department for Education and Employment and the Department for Social Security to constitute the new Department for Work and Pensions. Following the merger, the hitherto still separated placement and benefit functions – the Employment service and the benefit agency – were merged into the Jobcentre Plus organisation (JCP), the current one-stop-shop for inactive and unemployed clients of working age seeking reintegration into the labour market, income support and disability benefit. The majority of local units have now adopted this type of organisation, with the national rollout to be fully implemented by late 2006.

16. The JCP is thus the “single work-focused gateway” to the system of income replacement benefits for people of working age. However, after the “One” pilots tested the integrated delivery of all relevant services, housing benefits and services not directly related to the labour market (psycho-social services, addiction, debt counselling) remained in the domain of local authorities. In 2001/02 the JCP inherited 1 500 offices and 90 000 staff, coming from two different administrative cultures and traditions. Currently, there are 132 JCP district offices and 1 100 local Jobcentres, all supervised by DWP. The network is supposed to shrink further to 1 000 local offices and 70 000 staff over the next few years (DWP, 2005a). JCP currently services about 800 000 persons on unemployed and lone-parent benefit each, as well as 2.5 million IB recipients. Staff efforts have concentrated on JSA recipients and the New Deal programmes for unemployed youths and adults, while caseloads per staff member have been high with respect to inactive clients (see Box 1).

17. Since 1998, active measures are offered under the “New Deal” designation. New Deal programmes address specific target groups and commence after a certain duration of unemployment: they are obligatory for youths after six months and for adults after 18 months of unemployment. By contrast, participation in the New Deals for clients aged 50 and over, the Disabled, Lone Parents and Partners is voluntary.
18. In contrast to the Netherlands and Australia, the United Kingdom does not plan to outsource the full range of employment services or have the private sector replace public employment service provision. Nevertheless, outsourcing has become an important feature of PES services. First, JCP contracts with private and voluntary sector “partner” organisations that deliver a variety of specialised services, such as CV preparation or interview training. Second, New Deal programme options are outsourced to private and voluntary sector organisations determined through regional-level tendering. Third, Employment Zones that were introduced in 2000 to 15 areas with high levels of long-term unemployment, are the most radical component of the outsourcing strategy. In such zones, New-Deal-eligible clients are assigned to private providers contracted with DWP, who have a high degree of flexibility as to their choice of reintegration measures (Hales et al., 2003; Hasluck et al., 2003). According to one account of contractual arrangements with private, voluntary and public sector providers, JCP in 2002 had contracts with over 1 000 organisations to deliver employment programmes, a market worth some 1 billion Pounds (i.e. one-quarter of active labour market policy expenditure) (Finn, 2005).

19. Current reform avenues include the centralisation of benefit processing work in several dozen separate benefit processing centres. Also, the UK 2004 National Action Plan for Employment envisages building further on previous success in reducing unemployment by pursuing a better tailored local approach, with greater devolution to local managers, to tackle remaining pockets of high worklessness (DWP 2004a; 2004b). That unemployment in the United Kingdom, perhaps to a higher degree than in other OECD countries, is also a result of skill deficiencies, is recognised by the start-up of a New Deal for Skills, in addition to the New Deals for Work referred to above. To this end, JCP offices are screening customers’ basic skill levels and provide work-focused basic skills training (see the discussion of the respective PSA targets in DWP, 2005b; and OECD, 2005a). However, based on the assumption that the unemployed claimant count cannot be expected to decrease much further, JCP attention is now shifting towards developing appropriate strategies for bringing inactive benefit recipients into the labour market. In particular, efforts to initiate employment trajectories for Lone Parent and incapacity beneficiaries are now being prioritised.

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

- The lack of success so far of the strategy to bring down incapacity benefit caseloads, since few beneficiaries participate in the respective voluntary New Deal programme, and the need for strengthening the mandatory elements of the strategy (see DWP, 2006, and the discussion of the Pathways to Work programme in Section 4 below).
- The lack of activation for lone parents with children up to 16, an exceptionally lax regulation in international comparison (a new government programme plans to increase incentives to take up work for lone parents with children aged 11 and over).
- The need to strengthen the basic skills training component in the welfare-to-work package.
- Growing concern about the adequacy of JCP staffing levels to fulfil its multiple tasks.
2.3. Germany: Reform history and major features of current provision

21. The German PES has always been a powerful national institution with large offices and high staff numbers (currently 89,000 staff in total), which integrates the main PES functions of placement, benefit payment and referral to labour market programmes. The PES is organised into ten regional directorates and 180 large local offices (with an average of 200 to 400 staff each). Despite legal oversight by the Ministry of Labour and Social Affairs, the service is largely autonomous in its operational business and its resource allocation for active programmes and has been characterised by strong influence of the social partners in its supervisory bodies. An OECD review in the mid-1990s questioned, however, whether sufficient resources were allocated to the task of monitoring and supporting job-search efforts and suggested reallocations within the PES and a move towards a more streamlined organisational model, giving more priority to this task as compared to its many other functions (OECD, 1996).

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

23. The redesign of the Federal Employment Agency (formerly “Office”) is still ongoing. Structurally, it is being transformed from a public authority into a service provider with private management structures. More personnel has been shifted to placement and counselling functions, so as to improve on staff/client ratios – of the currently 70,000 staff in local offices, over 40% can now be broadly considered as working in the area of placement and counselling. Target agreements between the different layers of the PES have largely replaced previously strict budget lines. Jobseeker profiling now determines PES intervention strategies. Integration agreements set down the activities expected from job-seekers, with a focus on conditionality or “mutual obligation”.

24. Elements of contestable markets were also introduced into employment service provision. Several types of contractual arrangements with private providers were developed as complementary options towards more efficient reintegration of the unemployed, less as an overall alternative to the public provision of employment services (Konle-Seidl, 2004, 2005; Bruttel, 2005). Major tools are the training voucher, the placement voucher, the so-called personal service (i.e. temporary work) agencies and the contracting out of certain placement and reintegration measures (see section 5.2 below). With these and other reforms, Germany, previously a laggard in reform with a heavily bureaucratic PES structure whose main task seemed to be that of “administering unemployment”, is now trying to catch up with the leading OECD countries in employment services reform.

25. In the past, Germany has had two labour market activation and benefit streams, one administered by the PES for unemployment insurance and unemployment assistance recipients (UI and UA), and one administered by local authorities’ social assistance offices (SA) (see Adema et al., 2003; Mosley, 2005). As a result, responsibility for clienteles with similar characteristics was divided up, resulting in an overly fragmented delivery system.

26. The “Hartz IV” act brought together the services for UA and employable SA recipients (i.e. mainly the long-term unemployed), who now receive the same type of assistance (the so-called...
unemployment benefit II). For the long-term unemployed, the reform implies less generous benefits in terms of their level and the suitable job requirements attached to the new benefit. After public debate as to whether this group of clients should be served by the employment office or by local authorities, it was decided to create a new institutional infrastructure composed of both entities, i.e. “joint associations” or “consortia” (ARGE), using staff and funding from both administrative layers. Germany thus decided to neither follow the Dutch set-up (where these clients are serviced by municipalities), nor the UK one, where all unemployed and social assistance clients are serviced by JCP offices.

27. This joint structure brought with it some start-up problems in 2005 which are not entirely resolved. Two very different administrative mentalities were merged. One open question relating to the governance structure of the new entities is the issue of unclear competencies among the two partners. In August 2005, an attempt was made to solve problems of authority and hierarchy by means of a contractual arrangement whereby the Federal Labour Ministry and the Federal Employment Agency offered the local authority partners the chance to take the lead.

28. Debates continue in Germany as to the most efficient administrative level for dealing with the long-term unemployed and hard-to-place. Critics of the new arrangements claim that these client categories are better served by the municipalities. Since the Hartz IV act allowed 69 local authorities to deviate (“opt-out”) from the ARGE model and manage employable social assistance (now UB II) recipients themselves, after some years a comparison of performance will be possible between these two alternative models of client administration and follow-up.

29. The German reform process is relatively recent, and it is therefore not surprising that interim evaluations of the new employment service structures and programmes that have become available in early 2006 show sometimes disappointing results about their efficiency and effectiveness, particularly with regards to the new contracting-out arrangements (e.g. WZB/Infas, 2006; see Section 5 further below). Other often-cited problem areas include:

- The Hartz Commission’s intention was to give the responsibility for all jobseekers to one institution; however, critics charge that instead of “one-stops”, highly complex and sometimes impracticable structures have been created.

- Also, the two organisational units (federal employment agency; ARGE) are separated by benefit entitlement, not based on clients’ service needs: a suboptimal solution that is bound to entail duplication of effort. For example, many unemployed not eligible for insurance benefit nevertheless have relatively good labour market prospects, e.g. well-educated youths, university graduates, women re-entering the labour market or highly qualified immigrants (Kemmerling and Bruttel, 2005; Mosley, 2005).

- Another concern is that the new UB II benefit which was supposed to increase incentives to work for the long-term unemployed by bringing the income replacement rates down from the previous unemployment assistance level, has in fact led to large cost overruns since eligibility rules were relaxed and more claimants than expected registered for the new benefit.
Box 1. **Staff resources in employment services**

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

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

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

Over the past few years, the **German** Federal Employment Agency (BA) has made intensive efforts to assign more staff to placement work. Among its 88 000 employees, placement and counseling staff has now become much more numerous than staff involved with benefit payment. In mid-2005, 29% of BA staff employed in local PES offices and ARGEn was classified as employment counselors and placement officers. Adding the municipal staff now working in placement and counseling within the ARGEn (over one-third of 16 000 employees) results in a staff/client ratio of about 1 to 200. However, there remain a number of BA offices where one placement officer still services 400 or more unemployed clients. The ratio is more advantageous in the ARGEn, where the legislator has set targets of 1 to 75 for youths and 1 to 150 for adults. One ARG office (in Offenbach) visited by the OECD was close to that target, with 65 placement and counseling staff for 10 000 UB II recipients. However, registered unemployment would still need to decrease considerably, for PES staff ratios in Germany to come close to levels prevailing in the Netherlands or UK (see also WZB/infas, 2005).
3. **Activation strategies and interventions in the unemployment spell**

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

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

32. These and other types of interventions are designed to bring job-seekers into regular contact with vacant jobs, which might otherwise be ignored, correct ineffective job-search strategies and increase job motivation and job readiness. The “activation” approach is often coupled with greater emphasis on testing and monitoring of work availability, and with a tightening of “suitable job” requirements (see Box 3). Also, profiling through the use of job-seeker classification instruments is meant to enhance the effectiveness of activation strategies, allowing employment services to better tailor the type and frequency of interventions to the particular type of client (see Box 2). However, not all countries favour this type of instrument. The Netherlands has practiced profiling (called “phasing”) since the late 1990s with mixed results, and the concept has recently been introduced in German PES work, while no explicit jobseeker classification instrument is used in the United Kingdom.

33. More intensive types of activation such as the UK New Deal programmes, make benefit receipt dependent on participation in an active programme after a defined time spent on benefit. In the Netherlands, some municipalities now implement “work-first” strategies which can involve full-time or near full-time programme participation from the start of a new benefit claim. Such obligations to participate in intensive or full-time programmes, backed-up by benefit sanctions in case of refusal, have been shown to persuade some benefit recipients to take up market work, drop their claims earlier than they would otherwise have done, or not even initiate such claims. In addition to such “motivation” or “deterrent” effects, activation measures tend to increase rates of participation in both short-term and long-term employment services. When these are of high quality, they often have longer-term positive impacts on their participants, particularly their employment rates and earnings.

34. While OECD countries differ widely on the nature and frequency of such interventions, they usually fall under several different types, depending on the time within the unemployment spell where they apply: i) at the beginning of the unemployment spell, usually a lengthy registration interview is conducted and some countries also require the set-up of integration agreements outlining actions the individual needs to take; ii) ongoing contacts consist of signing-on requirements, job-search reporting obligations, and
referrals to vacant jobs; iii) often at some defined duration of unemployment, more intensive types of intervention are scheduled, e.g. a detailed action plan is established, participation in an active labour market programme is required, or people exhaust their UI entitlements and then must (if eligible) claim assistance benefits, which have stricter work-availability and programme-participation requirements. Other and often more intensive types of interventions tend to apply in cases where reintegration programmes are contracted out to private providers that often have much better staff/client ratios.

3.1. Types of intervention

35. In most responding countries, initial registration for placement is a precondition for benefit payment. Entitlement to benefit may begin on the day of registration for placement (Germany, United Kingdom) or can be retroactive back to the date of loss of work (Netherlands). None of the three countries imposes a waiting period before benefit starts (as for example in the case of Japan, Norway and Sweden). Availability checks (with their impact on benefit status) tend to be part of the initial registration interview, which is now entirely held via telephone in the United Kingdom, and increasingly so in Germany. Few responding countries give concrete evidence as to the frequency of referral to vacancies during the first contact. JCP statistics show that in the United Kingdom 12% of first contacts result in a submission for a job, and a bit less than 1% actually result in a job entry.

36. In the Netherlands, from the very first contact the emphasis is placed on options for returning to paid work, as laid down in the 2001 SUWI Act. Jobseekers register at the public employment service, CWI, which assesses the main aspects of benefit conditionality, i.e. labour market availability and job search prospects. The use of the “Chance-meter” usually allows the registration interview to determine which clients will remain with CWI and which will be handed over to UWV or municipalities for reintegration purposes (see Box 3). Registration ought to occur within the first week of unemployment, otherwise entitlement will not be retroactive. All benefit application forms are then forwarded to UWV or the municipalities. However, since the processing of the benefit application takes at least eight days, job offers are being made during this period, and in fact, in almost 1 out of 5 cases, inflow into regular unemployment benefit is prevented either through a new job start (in which case benefit can still be paid on a daily basis up to the actual take-up of the job or signing of contract) or otherwise withdrawal of the application. A respective “prevention quota” is included in CWI’s annual target agreement with the government.

37. Germany’s and the UK’s regulation on registration for benefit is stricter than in the Netherlands in the sense that no retroactive payment is possible should registration occur after the first day of unemployment. Also, a recent legislative provision in Germany envisages sanctions if registration does not occur immediately after dismissal is notified (i.e. before it takes actual effect). Behind this provision is the same kind of rationale as in the Netherlands: preventing the inflow into benefit through using a given time frame for referring applicants to vacancies.

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

Box 2. Determining jobseeker categories through profiling

Jobseeker profiling is used in a growing number of OECD countries to assess the strengths and weaknesses of unemployed clients, estimate their chances of finding work and designing corresponding intervention strategies. In particular, profiling is usually designed to filter out various easy- and hard-to-place categories of job-seekers with the aim of determining the intensity of services to be offered to each of them. Prediction accuracy is therefore one important element for determining whether a profiling system is working efficiently, as low accuracy can imply a considerable waste of employment service resources.

The Netherlands in 1999 introduced the “chance-meter” as a tool to determine jobseekers’ distance to the labour market. With the help of a checklist and a decision-making matrix, the CWI counsellor assesses the personal situation, occupational and skill profiles and the ability for independent job search. Four groups (“phases”) of jobseekers are thus established. Those with a significant chance of finding work quickly, i.e. within six months, are placed in phase 1 and stay with CWI. The remainder are interviewed a second time to establish their belonging to one of the other groups and to develop an interview protocol and transfer report for one of the other service providers in the chain (UWV or municipalities). Phase 2 and phase 3 jobseekers are considered to have a chance of finding work either within a year or after more than one year, with the help of labour market instruments. Phase 4 clients are considered to have only small chances of finding work as a result of serious obstacles.

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

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

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

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

39. Some other OECD countries rely rather on regular declarations to be made by post, telephone or internet, with the internet channel gaining in importance. Practically everywhere, however, there is a legal requirement to report changes of status. In the Netherlands, jobseekers document their continued availability by means of a job-search form sent by post. Germany belongs to the group of countries without
any fixed separate reporting on unemployment status, where such reporting is rather integrated in the intensive follow-up interviews (see below).

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

41. In the Netherlands, the CWI supervises job search activities of clients profiled as easy-to-place while private providers monitor search efforts of those persons contracted out to them by UWV or municipalities. In addition, all jobseeker categories are required by the unemployment insurance law (WW) to report and document by mail on a standardized form (werkbriefje WW) a minimum of four applications every four weeks. Evidence can be application letters, but also personal notes about more spontaneous “walk-in” applications or about efforts to set up business. Thus, the requirement is less rigid than it looks at first sight. The rule is usually interpreted according to the individual situation; for example, jobseekers with skills that are in high demand are encouraged to take more than four actions in the 4-week period. In any event, the CWI seems to feel that the regulation has become inefficient and “too bureaucratic”: recipients tend to apply for any vacancy in order to comply with the rule, and this tends to disturb the general functioning of the matching process for publicly-advertised vacancies.6

42. In Germany and the United Kingdom, the jobseeker usually signs an “integration agreement” or “Jobseeker’s agreement” with the employment counsellor, where the required job-search efforts are detailed. Among German unemployment insurance beneficiaries, clients in profiling groups 2 and 3 need to demonstrate their job-search activities to their employment counsellor roughly every two months, and their number can be estimated (based on participant observation) as between four and six during that period; verbal evidence or personal notes are usually accepted.7 In the UK, requirements are stricter: at least two steps a week are usually required, so that the number of demonstrated job-search actions – again, verbal evidence is accepted – can be estimated at about ten per month (a number also required in many US states). On the other hand, when on an active measure, UK clients do not need to continue applying for jobs, while they are expressly required to do so in the Netherlands (Hasselpflug, 2005).8

43. The degree of PES intervention in the matching process can vary from providing a computer portal for consulting advertised vacancies, to providing some light complementary information, to intensive screening of closed vacancies. Direct referrals of registered unemployed to vacancies, normally implying an obligation to attend a job interview with an employer, can be an important type of PES intervention. For example, they can be targeted on jobseekers who are thought to be making few realistic job applications on their own initiative. Usually PES counsellors negotiate with the employer on the various potential ways of advertising a vacancy: from open vacancies with full contact details, to semi-open vacancies (where the counsellor gives out the contact information), to closed vacancies (where referrals of pre-selected candidates are made).

44. While many PES organisations responding to the OECD questionnaire gave no information about how often direct referrals were made, those that did reported from less than one direct referral per year per unemployed client (in Finland and Portugal, for example) to six such referrals (in Luxembourg and the United Kingdom). There also seemed to be little documented information about the average number of clients sent to apply for each vacancy. Few countries seem to apply regular pre-selection interviews for
determining the suitability of jobseekers for specific vacancies, with many pointing out that they can be made upon the request of an employer, but are usually not needed.

45. The Netherlands belong to those countries that did not quantify, in their answer to the OECD questionnaire, the distribution of vacancies between open, semi-open and closed. However, information obtained from the SZW during a 2005 OECD mission revealed a preponderance of semi-open vacancies, an impression confirmed by visits to local job centres (see also SZW, 2005a). The holding of pre-selection interviews among CWI clients nevertheless seems quite rare. In comparison, nine out of ten vacancies on the website of the German federal employment agency are advertised openly, with full contact details, while pre-selection interviews are again quite rare. In both countries, regular interviews with employment counsellors usually result in several direct client referrals that need to be followed under threat of sanctions. Any efficient job counsellor will discuss the client’s account of recent job search activities with a counter-check of available vacancies on his computer screen in the client’s professional area, adjacent fields or beyond (in line with “suitable-job” criteria). The United Kingdom has the most detailed information on these issues among the three countries. Vacancies handled in JCP offices are almost evenly split between open (46%) and semi-open (54%). According to employment service records, an average of six submissions are made per client annually, with every treated vacancy receiving an average of eight referrals.

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

47. Germany tries to follow the same approach, but officials usually note that there is little cooperation by employers in communicating the reasons for not hiring, and in determining whether a job applicant sent by the office seemed available and co-operative or not. In the United Kingdom, it is rather the jobseeker who is asked to fill in the respective information in the “Actively Seeking Employment” form for the fortnightly signing.

48. Regular intensive interviews are another important counselling tool for maintaining the client’s work focus. They usually start with a detailed intake interview held about a week or two after initial registration, with the aim to register sufficiently detailed information to allow successful matching. In the Netherlands, after the distance to the labour market is assessed at the initial registration interview, in case of persons who are not job-ready there will be a second, more intensive interview to determine a proposal to UWV or municipalities with regard to reintegration activities. Depending on their profiling category, for a large percentage of newly registering unemployed a third detailed interview will then be held at UWV or with municipalities’ social assistance offices. The United Kingdom has a specific four-day target for the intensive (40 to 60 minutes-long) interview after initial registration – called the Work-focused interview, WFI – where an individual action plan, the Jobseekers Agreement, is usually established. A “better-off” calculation presenting evidence that return to work will be more lucrative than remaining on benefit, is usually also part of this interview. In Germany, the detailed interview usually takes place within a week after initial registration. It is here that an integration agreement is signed and the rough initial profiling at registration is replaced by a more detailed job-seeker classification, currently into four categories as determined by the federal office.
49. Following the initial phase of unemployment, intervals between intensive interviews differ widely, both among countries and among client types. Most OECD countries give a substantial amount of discretion to the counsellor or case manager as to the frequency of calling in an unemployed person for interview. By contrast, a few countries have a fixed schedule of interviews at specific durations of the unemployment spell, while some others may set a maximum interval. The United Kingdom has the most rigid schedule among the three countries surveyed, in that the jobseeker initially needs to attend quarterly (13-week) reviews, on top of the fortnightly signings. Following entry into the New Deal phase, regular intervals between interviews of JSA clients are reduced to one week. A more recent focus of job centres is the set-up of work-focused interviews for recipients of “non-employment” benefits (such as lone parents and incapacity beneficiaries, see Section 4 below).

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

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

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

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

54. As noted above, “activation” regimes tend to be coupled with greater emphasis on benefit eligibility criteria, monitoring of work availability and a tightening of suitable-job requirements. In this context, benefit sanctions, usually stops or reductions of benefit payment, have also received increasing attention, as a kind of last-resort mechanism in the job counsellor’s “tool kit”, that is meant to activate jobseekers and to enforce the range of requirements imposed on them. Several recent studies from the Netherlands and Germany find that the imposition of a sanction has a positive effect on re-employment rates (Abbring et al., 2005; van den Berg et al., 2004; Wilke, 2003).

Box 3. Suitable-job criteria

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

Netherlands: For CWI and UWV clients, during the first six months of unemployment, a suitable job refers to employment corresponding to the client’s level of qualification. After that, the jobseeker is no longer entitled to receiving job offers restricted to his qualification level, but needs to search for a wider range of jobs requiring different/inferior skills and paid below the previous job. Persons with lower and medium-level education must accept any job as suitable after six months, those with tertiary education after 18 months.

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

According to the 2004 Work and Social Assistance Act, social assistance recipients can be asked to accept all “generally accepted employment” without occupational or earnings protection.

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

Maximum commuting time to and from a job is two hours a day. Relocation may be considered suitable to ensure “reasonable prospects” of finding employment.

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

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

Different criteria apply for UB II recipients: any job a person is able to do physically or mentally, independent of salary or qualification level. Caring responsibility for a child three years and above is not an obstacle if there is a place in childcare.
In all three countries, legal regulations on eligibility and benefit sanctions have been evolving over the past decade. In the Netherlands, a new law on sanctions was adopted in 1996 (*Wet Boeten en Maatregelen*), and UWV has refined its sanction arsenal based on that authority; in the United Kingdom, new benefit legislation (Jobseeker’s Allowance) of 1996 modified the sanctions regime; and in Germany, the Hartz acts identified new types of rule violations liable for sanctioning, separately for “UB I” and “UB II” recipients. Box 3 lists in some detail suitable-job requirements currently in force in the Netherlands, Germany and the United Kingdom.

Sanction regimes in the three review countries can be briefly summarised as follows. The Netherlands has the longest and most precise list of sanction categories (five categories with 26 subdivisions). The law seems to leave to local agencies much discretion in deciding sanctions, for example combining benefit reductions of 5 to 30% with specific durations of temporary benefit stop. In general, a principle of proportionality between the sanction and the type of violation of job-seeker obligations will be applied. However, refusal of a full-time job offer or a place on an ALMP will be met quasi-automatically with a full benefit stop.

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

By contrast, Germany had in the past only four types of sanctions, for voluntary quit (a); refusal of work (b); refusal of an ALMP (c); and quit of an ALMP (d). Penalties for non-attendance were always possible, but were not considered sanctions, and no statistics on them are available. Since 1985, the sanction for voluntary quit has been a 12-week benefit stop. Sanctions for categories (b) to (d) were actually softened and made more flexible in 2003, depending on whether a first infraction (three weeks benefit stop) or repeat infractions (6 and 12 weeks) are involved. Cumulated durations of 21 weeks benefit stop will lead to exclusion (sanctions for voluntary quit enter this calculation). In recent years, sanctions for late registration, insufficient job search (a two-week benefit stop) and non-attendance at convocations (a one-week benefit stop) have been added, but no statistics are publicly available yet for these categories. Finally, sanctions for UB II recipients involve benefit reductions by various percentages (for example, 30% in case of refusal of a job offer). In contrast to the UK, German employment counsellors decide on sanctions themselves; however, there is quite an extensive appeals activity, with one study showing that half of all sanctions were being lifted within a week’s time (Wilke, 2003). One recent change that may reduce the success rate of appeals in the future is the reversal of the burden of proof, whereby a benefit recipient now needs to demonstrate that a certain job offer was unsuitable.

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

**Table 1. Incidence of unemployment benefit sanctions**

<table>
<thead>
<tr>
<th>Germany</th>
<th>Netherlands</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a percentage of the inflow to benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanctions for voluntary unemployment</td>
<td>6.4</td>
<td>7.0</td>
</tr>
<tr>
<td>As a percentage of the average stock of beneficiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanctions for behaviour during benefit period</td>
<td>1.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Refusal of work</td>
<td>0.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Refusal or quit of ALMP</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Insufficient job search and/or availability for work</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>
| Administrative infractions | .. | .. | .. | .. | .. | .. |..

.. Data not available.

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

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

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

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

64. One of the more striking developments in employment and social policy during the past decade has been the increased attention that is being paid to applying activation principles, first developed for the unemployed, to welfare benefits paid to inactive persons (the disabled or lone parents, for example). However, while for unemployment benefit recipients, availability-for-work rules strengthen the requirement to participate in employment programmes, assistance to inactive persons is usually not tied to such requirements. Poorly controlled access to such inactive or “non-employment” benefits can undermine the impact of activation measures, by diverting a share of the long-term unemployed to benefit schemes that are pathways to inactivity, thus decreasing rather than raising overall labour market participation.

65. An extension of activation measures to persons receiving non-employment benefits would normally be appropriate under certain conditions: i) the characteristics of the target group need to be such that members can reasonably be expected, in most cases, to do at least some work; and ii) the types of activation measures that are effective for unemployment benefit recipients – perhaps with certain modifications – would also work for this target group.

66. OECD countries have seen a number of reforms which have applied full or partial availability-for-work requirements to target groups that were not previously required to accept work at all – such as the reforms affecting the majority of lone parents in the US and the Netherlands. Disability benefit gatekeeping also needs to be reinforced in certain countries, in view of high numbers of recipients transferring to this benefit either from a drawn-out sickness spell or from unemployment benefit recipiency. “Work capacity” is the key concept in applying activation strategies for this client group: first, entry to non-employment benefits by people who have remaining work capacity needs to be effectively supervised, and second, there is often no reason for not extending availability requirements to benefit recipients with remaining work capacity. Concerning the three countries under review, it is particularly in the Netherlands and Germany that local authorities have increased the intensity of work-first and often workfare measures for their social assistance caseloads, while the United Kingdom still imposes relatively few availability requirements for non-employment benefits, but is now slowly changing its stance.

4.1. The spread of benefit recipiency

67. In many OECD countries, the percentage of the working-age population receiving disability benefit and lone parent or non-categorical social assistance benefits exceeds the percentage receiving unemployment benefits. The percentage of the working-age population reliant on non-employment benefits is on average two or more times the percentage on unemployment benefits. This also tends to be true for expenditure levels. Countries that have seen their number of unemployment benefit recipients fall have often experienced continuing growth in recipiency for at least one major non-employment benefit which has therefore received closer attention.

68. Chart 1 shows long-term trends in these three benefit recipiency rates since 1970 for the review countries. In the Netherlands, the proportion receiving incapacity benefits increased from 5% in 1970 to about 10% in 1980 and has remained stuck at that level since, despite various reform efforts. Social assistance beneficiaries (including RWW, the unemployment benefit abolished in 1996) have also been more numerous than unemployment insurance recipients for over two decades, although their number decreased from a peak in the mid-80s. In the United Kingdom, the proportion receiving disability benefit rose from 2% in 1980 to almost 7% currently, surpassing unemployment beneficiaries in the mid-1990s, while the number of lone parents on income support is currently on a par with that of JSA recipients. Germany is the only one of the three countries where recipients of unemployment benefits outnumber those on social assistance and disability benefit. This is probably explained by more restrictive procedures prevailing in Germany for re-classifying unemployed persons with health impairments into a disability.
category (Hollenderer, 2003; Knuth and Finn, 2004).\textsuperscript{22} Considering the sum of the three benefit rates, the United Kingdom comes out lowest with 11\% of the working-age population in 2004, followed by Germany with 13\% and the Netherlands with 16\% (keeping in mind that these data are not standardised across countries).\textsuperscript{23}

69. Not all people who receive non-employment benefits can or should work. For example, the payment of a full income-replacement benefit without work-related requirements is appropriate in many situations of incapacity or care responsibilities. However, many inactive people, including those declaring disabilities, can or even wish to work, at least on a part-time basis. For example, in international surveys, a significant share of disability benefit recipients do not consider themselves as disabled. This percentage is about 30\% in the Netherlands and over 40\% in the United Kingdom. Consequently, about a quarter and almost half of them, respectively, are in employment (this share is at one-third in total OECD, but at over two-thirds in Sweden, see OECD, 2003a).\textsuperscript{24} These figures show that disabilities are frequently compatible with some type of employment.

70. The growth in non-employment benefit caseloads and associated expenditures is a long-term challenge for public policy. To reverse this trend and change work expectations among groups that are currently inactive will, \textit{inter alia}, require \textit{i}) ensuring that people who are able to work do not enrol in non-employment benefit schemes; and \textit{ii}) creating the right incentives and providing targeted assistance to those already on non-employment benefits, who could potentially work.

4.2. \textit{Extending work-availability requirements}

71. The Netherlands belong to those OECD countries that started early to implement “welfare-to-work” strategies seeking to achieve rapid return to work by recipients of several types of benefits. These strategies tended to include not only stricter interventions in the unemployment spell (as noted above) but also alterations to gate-keeping procedures for disability benefits, and an extension of availability-for-work requirements for larger proportions of the caseload for non-categorical social assistance benefits and lone-parent benefits. A prime example for the latter approach has also been welfare reform in the United States.

72. The Netherlands undertook a number of such initiatives since the 1990s. First, it has undertaken several administrative drives to re-examine existing claims, resulting in some claimants losing their entitlement to disability benefit. Further, in 1996 the Netherlands abolished the unemployment assistance benefit (RWW), thus requiring its former beneficiaries to claim the social assistance benefit (ABW), while at the same time ABW legislation was revised to put more emphasis on active measures to get beneficiaries into work. For example, the 1996 legislation stated that lone mothers could be required to work when their youngest child reached five years, compared to 12 years under the previous legislation.
Chart 1. Evolution of unemployment, social assistance (lone parent) and invalidity caseloads, 1970-2004

Percentage of the working-age population

Netherlands

Germany

United Kingdom

Source: Netherlands Bureau for Economic Policy Analysis, for the Netherlands; Bundesagentur für Arbeit, Statistisches Bundesamt, and Deutsche Rentenversicherung Bund, for Germany; and DWP (2006), for the United Kingdom.
73. In addition, after the national government for many years financed the bulk of the social assistance costs actually incurred by municipalities, this rate was reduced to zero in 2004; since then, municipalities receive an annual grant related to expected, rather than actual costs – implying incentives to reduce caseloads (Struyven and Steurs, 2003; van der Veen and Moulijn, 2004). Moreover, municipalities were given further increased freedom to define work requirements. Thus, some municipalities have extended work-availability requirements to lone parents with children of any age, depending on circumstances. Finally, the Netherlands recently abolished the special category of unemployment benefits (originally created in 1984), paid to older workers (starting from age 57.5) without any job-search or availability obligation.

74. In contrast to the Netherlands, the United Kingdom does not generally require lone parents on Income Support to be available for work, even if they join the New Deal for Lone Parents (NDLP) programme. Nevertheless, efforts have been underway by JCP offices to encourage lone parents to take up or increase hours of paid work via the NDLP. The government has set a target of 70% of lone parents being in work by 2010 (up from 55% in 2002), and to reach this target, job centres have scheduled more frequent compulsory meetings with lone parents, and increased the work focus of all interventions (Evans et al., 2003).

75. The United Kingdom is also an interesting example of policy change in the area of availability requirements for the partners of assistance beneficiaries – such requirements can potentially bring a significant share of the inactive population into the labour force. Since 2001, depending on age, couples without dependent children have been required to make a joint claim for social assistance, thus enforcing the obligation for both partners to actively look for a job and attend interviews at local job centres. Before the reform, usually only the head of the household claimed benefit. Partners are also encouraged to enter one of the New Deal programmes offered at local job centres (New Deal for Partners) (DWP, 2005d).

76. Germany, by introducing the new benefit for former unemployment assistance and employable social assistance recipients (UB II), has also increased the work focus and extended availability requirements of assistance beneficiaries. In January 2005, after the integration of the two benefit streams, the official number of unemployed registered at local PES offices increased by almost half a million. Apart from allegations that municipalities shifted some “unemployable” assistance recipients to the ARGEn, this occurred mainly for two reasons: i) while employable social assistance recipients were always required to register with their local employment office, local authorities had been negligent in enforcing this requirement; ii) as in the United Kingdom, all employable partners of (UB II) benefit recipients, who are not already working, now need to register for work, unless they have caring responsibilities or are engaged in initial education (Bundesagentur für Arbeit, 2005a).

77. In addition, Germany requires parents receiving the UB II benefit with children from age three onwards to be available for work as soon as institutional child care is available – the law requires municipal authorities co-operating in the ARGEn to give priority to this clientele in local child-care provision. In general, however, work requirements are difficult to impose when availability of child care is insufficient, as continues to be the case in Germany. This may explain the lack of requirements in many countries on parents whose children are below school age.

4.3. Tighter gate-keeping of entry to incapacity benefits

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

79. First, creating financial incentives for firms can impact the level of inflows into disability schemes, for they share a responsibility in monitoring sickness leaves. Indeed, in many countries, the main track to disability is via long-term sick leave. This is why, in the 1990s, some countries have tried to reinforce incentives for employers to monitor sick leave by making them financially responsible for paying a share of the respective benefits:

- In the Netherlands, employers are now required to pay sick workers their full wage for a maximum of a year and are responsible, from 2003 onwards, for the rehabilitation of sick employees either within or outside their companies. If they fail to do so, they can be sanctioned by having to pay sick employees for more than one year.

- In the United Kingdom, employers have been financially liable since 1985 to bear the first 28 weeks of statutory sick pay before public benefits start to be paid. In Germany, by contrast, employer responsibility for sick pay is restricted to six weeks.

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

81. Second, as regards medical evaluation, a key aspect for efficient gatekeeping is that long-term sickness and disability status be challenged early enough in the process. In all countries applications for disability benefits involve an evaluation of health status, with some countries relying more heavily on medical evidence and doctors’ discretion while others give more discretion to administrative officials and the application of rules (European Commission, 2002). Independently of the nature of the process, efficient gate-keeping requires early checks during the initial period of sickness absence from work, which can help envisage alternative solutions to long sickness leaves that often lead to permanent inactivity.

82. Third, the strictness of criteria used in the process of evaluation, along with periodic retesting, are also important. For example, it is helpful when assessments can clearly distinguish between full and various types of partial disability. Several countries have recently reinforced assessment procedures:

- Since 2001 in Germany (and even earlier in Austria), disability benefits have been granted only on a temporary basis except in cases of 100% disability.

- The United Kingdom, following the introduction of the New Deal for Disabled People in 1998, introduced in 2000 a new incapacity assessment procedure. While previously the focus was on whether levels of incapacity were high enough to qualify for incapacity benefits, the Personal Capability Assessment now focuses on what kind of work people can do despite their incapacity, taking into account possible workplace adaptations required to perform the work.

- In the Netherlands, a retesting launched in 1994 and completed in 1998 led to reclassification of disability benefit entitlements – in some cases, benefit loss – in 30% of all cases. In October 2004, a large-scale obligatory re-examination of people below the age of 50 receiving disability benefit was started: results showed that large numbers of employees were reassessed as having work capacity greater than originally assessed. With their new “Work and income
According to the “Labour Capacity” Act, the Netherlands have also changed the underlying definition of partial disability assessment, by raising the minimum loss in earning capacity to qualify for it from 15 to 35% (SZW, 2005b; OECD, 2004).

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

4.4. Employment services for recipients with limited work capacity

84. The employment services that are used for groups that have only recently been required to seek work seem to be similar to those used for the long-term unemployed: job-search training, assistance and monitoring, intensive counselling and direct placement assistance, with targeted use of training. In fact, in the United States the most detailed existing impact evaluation studies of employment services concerned recipients of non-employment benefits (lone parents on AFDC/TANF). Municipalities in the Netherlands and the new employment service consortia in Germany use activation, work-first and in some cases workfare measures and hiring subsidies for their social assistance caseloads, including lone parents.

85. The perhaps-surprising tendency to use work-first strategies for target groups that previously were not expected to work finds some indirect support from certain impact evaluation findings.

- Employment-focused programmes tend to be more effective than education-focused programs for disadvantaged groups (Michalopoulos et al., 2002).

- Unemployment can in itself be a cause of poor health while employment has a positive impact on well-being (Dodu, 2005). For example, in relation to back pain, randomised controlled trials routinely fail to demonstrate any benefit from even short periods of rest, whereas continuing normal activities, within the limits of pain, has been consistently shown to lead to more rapid recovery (Lee, 2005).

- Entering formal employment status improves the sense of well-being and social integration among people with both physical and mental disabilities.

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

Programmes for Lone Parents

87. Practices in the Netherlands and in Germany regarding availability requirements for parents in relation to their children’s age were noted above. Children’s age limits, up to which parents are not required to work, vary widely in OECD countries, however, and may go up to 16 years, as in the United Kingdom. In the latter case, requirements for lone parent beneficiaries to participate in work-focused interviews can be helpful. Interviews in UK job centres take place every six months the first year, and then annually. The personal adviser tries first to assess the barriers to employment and evaluate how seriously parents are engaged in job search. But the main aim of the interview is to make parents aware of
the disadvantages of staying outside of the labour market, and proving to them they can be better off by working (earning simulations for part-time/full-time jobs, including tax credit and child care provisions). The adviser also provides information about the advantages of participating in (voluntary) New Deal for Lone Parents programmes. The government’s recently announced “New Deal for welfare” programme envisages to hold interviews every three months with lone parents whose youngest child is at least 11 years old.

88. Even when work or activity requirements are imposed, in the absence of sufficient child-care availability they are often not effective in terms of job entries; this is the more so for low-skilled parents with young children, given their lack of resources for private child care and the limited financial gains from low-paid or part-time work. An ability to assure lone-parent clients that child-care is available helps to overcome objections to the principle of working, allowing counsellors to concentrate on job placement. By contrast, experience in several countries shows that imposing work requirements without improving child-care possibilities can be sterile. Countries such as France, Denmark and Finland show the importance of availability of free or low-cost child care for the labour force participation of women.

Programmes for the disabled

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

90. In the United Kingdom, the New Deal for the Disabled, introduced in 1998, introduced a range of schemes, where job centre counsellors work closely with local training providers, medical centres and local employers to follow through their clients’ work experience. A more recent measure is the piloted Pathways to Work programme that uses tools like mandatory work-focused interviews and “condition management” (see Box 4).

91. Vocational rehabilitation is often critical to achieve or secure employment. Several countries, along with measures to reduce inflows to disability benefits, have recently strengthened requirements for disability benefit recipients or claimants to participate in rehabilitation measures early in the process, because it is usually difficult to require return to work once people are durably installed in the disability status. Rehabilitation in some cases aims to prepare partially disabled people for return to their former employer; in others it provides skills for another occupation which is more appropriate given their medical condition.

92. As pointed out in OECD (2003a), there is a major distinction between countries in which participation in such programmes is voluntary and those where it may be compulsory before a disability benefit can be granted. While rehabilitation is not obligatory in the United Kingdom and the Netherlands (where, however, employers are required to offer early intervention), in Germany both the right to rehabilitation and the principle “rehabilitation before pension” are laid down in several acts. The disabled person is required to support his/her rehabilitation as efficiently as possible, and certain benefits can be suspended where such support is refused. Further, legislation requires early intervention (starting during sickness absence) and speedy implementation of the necessary rehabilitation measures.
93. **Subsidies** to private employment of the disabled exist in most OECD countries, whether in the form of increasing workers’ net wages, reducing employers’ labour costs, or compensating employers for workplace or schedule adaptation. Sheltered employment schemes are also widespread and have a high take up historically; the Netherlands are among those countries where government expenditure on these schemes has been particularly high (together with France, Belgium and Denmark) (European Commission, 2002). Several pieces of legislation have encouraged municipalities in the Netherlands to move away from public provision and place disabled clients with private employers.28 In turn, since 2005 employers are offered financial incentives for hiring handicapped persons by means of a “no risk” insurance that compensates them in case a new (handicapped) hire has an above-average sickness absenteeism or falls again long-term ill (SZW, 2005a).

94. In Denmark, subsidised jobs in the private sector called “flex-jobs” now play a key role in the management of entry to disability benefits. Individuals who are only partly disabled are entitled to a “flex-job”: there is no partial disability benefit. And conversely, full disability benefits are only granted to people who are unable to work in a “flex-job” (Samoy, 2005). Since flex-jobs are full-time (albeit with relatively low hours, often 32 to 35 per week), there is little incentive for the individual to declare himself/herself partly disabled, in contrast to the situation in countries which grant partial disability benefits.

95. Finally, in some countries, activation measures allow increased autonomy to disabled people in their choice of strategy for entering or retaining employment.

- In the United States, an innovative scheme was introduced in 1999 with the Ticket to Work and Work Incentives Improvement Act (TWWIIA), which grants disability benefit recipients an envelope they can use freely to buy services from selected service providers (the Employment Networks). Clients choose which provider to use, how long and when. Providers offer vocational rehabilitation, employment or other support services to help prepare for or maintain work. They are paid on an outcome basis, for months in which a participant is effectively working up to 60 hours and can receive additional payment, if they help participants to stay in work for longer periods.

- In Germany, job retention has also been given additional individualised means, with a unique feature in international comparison: employees with serious disabilities are entitled to hire people to provide them with special assistance on the job, or employers may hire such assistants for them.29

96. In sum, recent experience demonstrates that there is considerable scope to apply activation strategies to persons receiving non-employment benefits, albeit with appropriate modifications for the specific characteristics of each group. Introducing adapted work availability requirements and improving the offer of services are the two main options. Well-designed reforms have the potential to reintegrate many inactive persons into the labour market; this is particularly welcome in the context of population ageing, since reducing benefit dependency among the working-age population is one of the most promising strategies for limiting future increases in overall dependency ratios.
Box 4. From Incapacity to Employment in the United Kingdom

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

The large majority of those claiming the benefit have been diagnosed with common health problems, and many of these would be capable of returning to work if the right support was given. As in other OECD countries, a part of those actually receiving a disability benefit report that they do not suffer from any disability; this share is as high as 45% in the United Kingdom, suggesting that the mismatch is even stronger there than in other countries.

The UK government currently aims to remove the disincentives resulting from the design of incapacity benefit. In particular, it plans to extend the Pathways-to-Work (PtW) pilots across the country by 2008. This programme comprises a mandatory work-focused interview from the eighth week of claiming, five additional monthly interviews with a personal adviser for those who can work but are not likely to return to work (to incite people to enrol into New Deal for Disabled People for instance), the completion of an action plan as well as an earlier scheduling of Personal Capacity Assessment. Services offered include a benefit payable upon return to work, immediate access to a variety of existing labour market programmes, and participation for six to 13 weeks in "condition management" programmes. A recent study suggests that pilot areas are getting twice as many recorded job entries as other areas.

According to the government proposal contained in the New Deal for Welfare, new claimants except for the most severely disabled, will need to participate in work-focused interviews, produce action plans and, as resources allow, engage in work-related activities or see their benefit level reduced. Also, the personal capacity assessment would have a much stronger focus on how claimants can be helped back to work. After the encouraging results from the initial PtW pilots, the programme will be extended to cover around a third of the country by autumn 2006.

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

5. Reintegration markets and contractual arrangements

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

5.1. Employment Zones in the United Kingdom

98. In the United Kingdom, New Deal programmes – principally entrusted to Jobcentre Plus – have to some extent been contracted out to private providers. In 2002, a dozen private-sector led New Deals were set up, where private providers need to closely follow the stages of the public New Deal model (motivational training, “Gateway” and “Options”). The Employment Zones (EZs) that currently cover 13 deprived areas with high unemployment are the most far-reaching component of the contracting-out strategy. EZs give providers more discretion in designing their interventions when compared to standard New Deal programmes. They service annually 30 000 clients referred by the Jobcentre Plus network, normally jobseekers that would in other areas enter mandatory New Deals for JSA recipients; i.e. they receive youths (18-24), who have already finished a period of New Deal for Young People and been unemployed for a further six months, and adults (25 and over) after 18 months of unemployment. There are also some early entrants with certain labour market handicaps. The following are other main features:

- There are two kinds of EZ: i) single-provider zones; and ii) multi-provider zones with up to three providers. In the latter, providers are awarded a fixed market share and clients are randomly assigned to them. The DWP contracts centrally with all providers, referring typically between 1 000 and 7 000 clients to a given provider over the contract period. The current contract period started in 2003 and will last up to 2009/10, i.e. it covers a considerably longer time span than either in Australia or the Netherlands.

- The case management involves job search, job placement and if necessary, intensive assistance. It has three stages, lasting a maximum of 12 months. In Stage 1 (up to four weeks) the provider interviews the jobseeker to identify any obstacles to reintegration. If the provider decides to take on the client (which is usually the case), an action plan is established and the client passes to Stage 2. Lasting a maximum of 26 weeks, Stage 2 contains intensive job placement efforts by the provider who also administers and pays out the unemployment benefit to the client in this period. In this respect the EZ experience is unique, since neither in Australia nor in the Netherlands is the actual benefit payment handed over to the provider network. Stage 3 is a 22-week follow-on period, where the provider can continue working with the clients (although they have returned to JCP) and can still claim the outcome fee in case of placement.

- Providers have the authority to stop benefit payment in cases of insufficient client co-operation, although clients can reapply to JobCentre Plus for benefit, which will be paid unless and until the JCP Sector Decision Maker decides to apply a sanction. JobCentre Plus typically soon refers the client back to the EZ provider, so that providers in the longer term still have to pay up to 26 weeks of benefit.
Box 5. The Australian Job Network: some key features

Since the second half of the 1990s, Australia delivers employment services through contracts with private and non-profit community providers – the “Job Network” (JN) – while its previous public placement service is effectively abolished. The only purchaser of private employment services is the Department of Employment and Workplace Relations, DEWR. There have so far been three tender rounds, during which the operations of the Job Network have changed substantially. Adjustments can be characterised as follows:

- The number of contracted providers has decreased significantly from 300 to a little over 100 in the 3rd tender round, while the size of the remaining providers has considerably increased. Thus, there has been considerable concentration and professionalisation in the employment services market.

- The initial arrangement with three separate levels of service that could be delivered by different providers was replaced with an arrangement where the same provider delivers a continuum of services for a given unemployed person, from the start of their unemployment spell. Among other things, this change addressed the problem of “parking” by introducing fees for specific job placement services. Today, the service continuum starts with counselling, followed by job search training and, after 12 months, more intensive support. Even after leaving the unemployment register clients who again become unemployed return to their former provider.

- This prescription of a service continuum and a focus on service standards and expectations detailed in the Job Network Code of Practice have largely replaced the initial “black box” concept which implied that the government could pay for employment outcomes without needing to be informed about the strategies pursued to achieve these outcomes.

- In the first contract period, price paid an important role in deciding among bids. This was replaced by fixed pricing, so that selection of providers is based on criteria relating estimated capacity to deliver services and achieve outcomes. A dual funding model, i) on commencement or at a fixed rate for services delivered; ii) for outcomes defined as employment lasting 13 or 26 weeks, has been the case in all three tender rounds; however the relative size of the two elements has considerably evolved. For example, the outcome fees are now about 40% of total income received by a provider for a client who is placed within the first 12 months, and about two-thirds for a client who is placed after 3 years of unemployment. The fee model also changed through the introduction of a personalised Job Seeker Account for purchasing special services that address barriers to reintegration.

- Through a complex automated reporting system, DEWR evaluates provider performance and develops star ratings using regression adjustments to reflect differences in jobseeker characteristics and local labour market conditions. The ranking helps jobseekers exert choice, but is mainly important for selecting providers in future tender rounds. The best-performing JN-members will be automatically accepted in the next round, without them having to go through an extensive and time-consuming application processes. This roll-over of contracts avoids the disruption of provider operations which has characterised past tender rounds.

Changes in contractual arrangements have closely followed evaluation results. For example, evaluations showed that many long-term and hard-to-place jobseekers received little assistance from their providers in Job Network Stages 1 and 2; this was a key factor informing the introduction of the individualised Jobseeker Account. DEWR (2003) reported that the net impact of participation in the two main JN-programmes (Intensive Assistance and Job Search Training) improved considerably between the 2000 and 2001 cohorts. Also, the total number of three-month employment outcomes achieved by JN clients doubled between 2002 and 2004, suggesting that programme impacts increased as the performance management framework took hold. Some evaluations are more sceptical about overall net outcome rates, but all agree that total costs are substantially lower than the services provided under the previous public employment service (DEWR, 2003; OECD, 2001b and 2005c; and Productivity Commission, 2002).
Table 2 shows three variants of pay for providers in multi-provider zones, depending on the exact timing of placement within Stage 2. There are three types of payment:

- a fixed fee of GBP 400 for Stage 1;31
- GBP 1 200 for Stage 2, which normally covers 22 weeks of Jobseeker's Allowance. This means that if providers do not manage to place a client within 22 weeks, they incur a loss (a client who remains unemployed for 26 weeks costs over GBP 1 400); on the other hand, if they place the client early on in Stage 2, they can keep the remaining amount as a profit;
- upon entry to work, there is a first fee of GBP 400, and then of GBP 3 600 after a 13 week outcome. There is no top up for 26 weeks outcomes as in Australia.

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

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

101. A visit by an OECD team to one EZ provider gave evidence that the high quality of advisors, good staff/client ratios and individually tailored (including financial) assistance measures are likely to explain much of the superior outcomes – an impression shared by the comparative study of personal advisors in JCP and EZ provider settings by Joyce and Pettigrew (2002). Another reason for success is the stringent “work first” focus of provider activity, with extensive use of work trials (a test period in a job of up to 15 days). However, against the background that little training is provided in the process – vocational training occurs only after a specific need for it has been established with a potential employer – placements are mainly into low- or semi-skilled jobs. Also, the focus on 13-week outcomes can be considered “provider-friendly” and more attention could be paid to longer-term placements (in both Australia, Germany and the Netherlands, outcome payments are triggered by longer job durations).
Table 2. Income for a provider in UK multiple-provider Employment Zones, 2005

<table>
<thead>
<tr>
<th>Placement after one month in Stage 2</th>
<th>Placement after 21 weeks in Stage 2</th>
<th>Placement after 26 weeks in Stage 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP</td>
<td>%</td>
<td>GBP</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Stage 1</td>
<td>400</td>
<td>7</td>
</tr>
<tr>
<td>Stage 2</td>
<td>1 200</td>
<td>21</td>
</tr>
<tr>
<td>Placement fee</td>
<td>400</td>
<td>7</td>
</tr>
<tr>
<td>13-week outcome fee</td>
<td>3 600</td>
<td>64</td>
</tr>
<tr>
<td>Total</td>
<td>5 600</td>
<td>100</td>
</tr>
</tbody>
</table>

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

5.2. Employment service reforms and contractual arrangements in Germany: recent evaluations

102. Under its “Agenda 2010”, Germany started its far-reaching structural reforms in employment services later than the other review countries. The laws for “modern labour market services” (Hartz I to IV) were passed with the proviso that the new labour market policy elements they contained ought to be regularly evaluated. To be able to incorporate evaluation results, many of the laws’ elements were introduced with an expiration date. In January 2006, the federal government published the first evaluation results commissioned from over 20 research institutes. They refer to the Hartz I to III Acts, and do not cover the merging of the two benefit streams “unemployment assistance” and “social assistance” under the Hartz IV Act. These are interim results, characterised by the government as “work in progress”, while a final evaluation report will be prepared at a later stage and will then also include policy recommendations.

103. The interim evaluation results included numerous labour market policy features, such as job subsidies to private employers, support for business start-ups, public sector job creation, and mini-jobs. However, the text below only refers to those results of most relevance for the present report, namely the re-organisation of placement activities and contractual arrangements with private providers (Bundesregierung, 2006; WZB/Infas, 2006; IZA/DIW/Infas, 2006). With respect to the latter element, in particular, the assessment of reintegration outcomes has so far remained below initial expectations.

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

105. There are four central elements in the German strategy of contracting-out employment services. First, since 2002 private providers can be contracted by the PES for placement of its clients, or for specific placement-related tasks (case management, profiling, application techniques, etc.). After six months the unemployed even have a legal claim for referral to private placement agencies. Since 2004, contracts are regularly put up for tender, with regional BA purchasing centres deciding on bids based on quality and price. As in other countries, there has been a trial-and-error process with regard to tendering details, the relative weight of price and other factors, etc. As in the Netherlands, there is a tendency towards
result-oriented pay structures and smaller batches. In 2004, relative to the average annual stock of unemployed, about 14% were contracted out to private providers. Quantitative evaluations of the major programme elements showed that participants were not more likely than other unemployed to exit more rapidly into employment.33

106. Next, the Hartz Commission had proposed that employment agencies contract with temporary work agencies which would employ and hire out unemployed clients as temporary workers, with the ultimate aim of finding them regular employment. Again based on public tendering, all local agencies have since concluded contracts with “personal service agencies” (PSA), with a stock of 25 000 to 35 000 employed (higher targets were initially set, but never reached). PSAs receive both a basic payment per person-month and a success premium for placement in regular employment. Contrary to initial expectations, evaluation results show that within a given year the transition rate of PSA employees into regular employment was lower than that of a control group, mainly due to lock-in effects. Only from the ninth month onwards did it exceed that of the control group.34 Following these disappointing results, the use of PSAs by employment agencies has already been scaled down significantly.

107. One major characteristic of recent reforms is the increased use of vouchers. Placement vouchers have been much used by agencies as an activation instrument; they can also be requested by any unemployed after a spell of three months (since recently six weeks) duration, who can then offer it to one or several private placement agencies. In case of successful placement, the private agency now receives EUR 2 000 (in two instalments), while there are no up-front or service fees. This instrument has however not had the desired results, so far. While over 10% of the unemployed received such vouchers in 2004, in only 8% of those was the first instalment cashed in and, in turn, in only half of these cases employment relationships of over six months duration were involved so that the second instalment became due. Private agencies tend to view the success premium as too low for undertaking intensive placement efforts. There is also a problem of quality after the liberalisation of the private placement market. Further, agencies need to prove that a placement was the result of their own efforts, and there is thus little incentive for them to improve overall motivation or assist independent job search. Quantitative impact assessment showed no improvements in exit from unemployment through use of a placement voucher.

108. Following its reinforced emphasis on placement, the number of training participants subsidised by the PES has strongly declined in recent years, together with an increased focus on reintegration quota. In this context, the training voucher is a new instrument based on “client sovereignty” and freedom of choice. It implies that the unemployed can use a voucher from the local employment office to choose themselves a training provider for a specific recommended measure. Local PES offices thus no longer have any influence on the choice of provider. However, training organizations need to be recognised by certification agencies cooperating with the employment service and choice is limited to those providers and measures where high reintegration rates are considered probable (usually a projected exit rate from unemployment of 70% at six months after the measure). The interim evaluation of the new training regime based on vouchers and projected reintegration rates notes strong creaming effects, implying disadvantages for the less skilled. Over the medium-term, voucher users did not take up regular, unsubsidized employment more often than a control group (although long-term effects that would imply a lesser importance for the “lock-in” factor, remain to be analysed). Overall then, the four central elements of “privatised” employment services in the German reform strategy have produced quite disappointing (interim) results.

5.3. The pluriform reintegration market in the Netherlands

109. How does the employment services “quasi-market” in the Netherlands compare to experience in other OECD countries? A few comparative accounts of similarities and differences between the Dutch and Australian market models have already been published (Grubb, 2003). The most comprehensive recent
comparison of these two prototypes summarised recent developments in the two models as follows (Struyven and Steurs, 2005):

- Both have gone through a trial-and-error process of continuous adaptation and adjustment of their respective system, with a view to creating a market and payment structure that promotes competition, improves the transparency of procedures and reduces creaming effects and other inequities in provision.

- While Australia has rather moved away from price competition, results-based funding and selection by tender, and has increased performance control by central government, the Netherlands have stressed results-based funding and intensified the tender mechanism.

110. Among further major differences might be added (the list is by no means exhaustive)

- With the UWV, municipalities and employers, the reintegration market in the Netherlands has a large number of purchasers of services and only limited co-ordination among them. By contrast, in Australia (as in the UK Employment Zones), the central government contracts with the private providers centrally, and subjects them to nationally consistent contract management, based on much longer contract periods.

- While Australia decided to leave both direct placement of easy-to-place jobseekers and reintegration services for the hard-to-place to the private Job Network, the Netherlands still services the former through a public provider (CWI).

**Market structure in the Netherlands**

111. The Netherlands reintegration market developed in several steps, as discussed, inter alia, by Sol and Hoogtanders (2005). Importantly, at first the public employment service became the provider from whom municipalities and social insurance organisations purchased services. The obligation to buy from the PES was then lifted in 2000 and replaced by a full-fledged tendering system where reintegration programmes are purchased from private providers. Since that time, the UWV contracts have evolved considerably, in terms of, inter alia, payment structures, criteria for selection among bidders, the extent of customer choice, and the degree of freedom for providers to choose procedures and programmes. Not the least, the role of longer-term training within the system is being constantly reviewed.

112. As outlined further above, the UWV has been obliged to contract out all reintegration programmes to providers, while municipalities from 2002 have been required to contract out 70% of their reintegration budget – a requirement which was lifted as from January 2006. Although many officials in welfare administrations complain about high transaction costs and believe that they could do a better job than outside providers, it is nevertheless likely that municipalities will continue to rely on outside provision for a large part of their reintegration services.

113. In addition to UWV and local authorities, purchasers in the reintegration market can also be employers commissioning rehabilitation from medical providers. UWV and municipalities handle annually from 60 000 to 80 000 cases each, employers close to 10 000 cases. The UWV market is dominated by large providers, while the municipalities market works with comparatively smaller ones, often from the non-profit sector.

114. In the first half of 2004 (last available data), there were over 660 providers, of which more than half were medical providers, 35% were reintegration providers and 9% were training institutes. Three out of five providers were small with 1 to 10 employees, one-quarter were medium-sized, and 13% of
providers had over 100 employees [data from RWI reintegration monitor; DWP (2005e)]. Of the 232 reintegration service providers, only 47 had contracts with the UWV, the rest with municipalities. UWV partners had increased from 34 in 2002, which tends to show that the market is not closed and that there is room for new bidders in each contract round (Bruttel, 2004). Nevertheless, the level of concentration in the UWV market is high, with the 10 largest providers servicing 75% of reintegration programmes.

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

Payment structure

116. Considering all types of contracts, Dutch providers get on average EUR 4,000 to 5,000 for their placement and reintegration services. Over the past two years, the UWV – as well as some municipalities – have tended to increase the share of “no cure-no pay” contracts, particularly for short-term unemployed clients from profiling group 2. For the long-term unemployed and other hard-to-place groups from profiling groups 3 and 4, the principle of “no cure-less pay” applies. In the former type of cases no income is received until placement is achieved. Two months after placement into a job of at least six months duration, the UWV pays the provider an outcome fee with separate components for the set-up and execution of the reintegration plan, as well as for the placement itself. There can also be a placement bonus for placements of longer or indefinite duration and a speed bonus for customers that have been placed within X months after the reintegration plan has been authorized by UWV (with X depending on jobseeker characteristics). The amount of the fee components is subject to competitive bidding. To improve provider cash-flow problems, the UWV can, upon request, provide a cash advance of 20% on the contracted fee.

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

5.4. Some further considerations on payment structures

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

119. Public employment services often take benefit caseload decline or short-term post programme employment entries as their measure of successful outcomes. However, ideally the outcomes measured would include off-benefit, employment and wage rate outcomes measured for several years after referral to the provider (consistent with research findings to the effect that programmes reveal their true impact only when followed over a sufficiently long time period). The formula to be applied is \((B+tW)\), where \(B\) is the saving in benefit payments that results from clients leaving the unemployment rolls, \(t\) the tax rate on earnings and \(W\) represents earnings. The sum of \(B\) and \(tW\) can be interpreted as a measure of the impact that increased employment has on a government’s financial balance (OECD, 2005c).

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

- **Model (1):** By paying employment service providers the total value of employment outcomes at the margin (e.g. payments to providers should increase by the value of each additional six-month job placement, in terms of benefits saved and tax revenue according to the \((B+tW)\) formula). This implies that the provider who achieves a placement rate that, although positive, is no higher than what would have happened without its services is paid no outcome fees. (The UK Employment Zones roughly follow this model insofar as providers receive a fixed fee per unemployed person and then have to pay the person's benefits for a defined time: the fee structure is set by relying on PES records that show what – typically – would have happened otherwise). Using this method, the total amount spent on employment services is determined directly in the market. If employment services have no impact for a particular client group (such as those who are already highly motivated and employable or those who are completely unemployable), the market will not support spending on them. The major advantage of this approach is that it creates correct incentives in contexts where measured employment outcomes are not comparable (e.g. across regions or client groups with different levels of disadvantage). The fixed fee per unemployed person should be set at a level where the average provider can only make a small profit. This can be done by competitive tender, with providers competing in terms of the fixed fee. Such a tendering process generates higher levels of the fixed fee for more disadvantaged client groups.38

- **Model (2):** By paying reintegration service providers a fixed service fee per client, while focusing on the comparative measurement of the quantity and quality of outcomes and using the findings to systematically eliminate underperforming providers (i.e. not re-contracting with them in future contract or tender rounds). However, this arrangement allows ineffective providers to make a profit (by taking the fixed fee but providing no substantial services): it is only effective in the long run, when short-term players of this kind are eliminated and only providers who spend (almost) the whole amount of the fixed fee on quality services have been able to survive. Thus, it is important that the fixed fee be set at an optimal level, which will not be the case when, for example, the government sets a high fee per client for a target group that is not employable at all, so that its money will be wasted.

121. Various mixed models (somewhere between the two approaches outlined above) are feasible – for example, the Australian Job Network combines the “pay-for-results” and the “outcome measurement and non-recontracting” strategies, as evidenced by the recent rollover of the majority of providers into the 4th contract period. This is relatively complex but potentially advantageous in terms of averaging out each model’s inherent weaknesses (informational errors). In particular, mixed models reduce the size of losses
for providers whose outcomes fall slightly short of the expected level. However, a mixed model typically allows providers to make some short-term profit by minimising their spending on services (the moral hazard situation described under Model (2) continues in a weaker form).

122. What is the role of competitive bidding in these models? As outlined above, fees are not open to competitive bidding either in Australia or in the UK Employment Zones, but they are to some extent in the Netherlands’ tenders. Under Model (1) above, the government needs to set the financial rewards to providers for reducing benefit dependency and increasing employment rates at the margin: there is no reason to believe that competitive bidding will set this marginal fee at the correct level. However, the government also pays the provider a fixed fee per client. This needs to be set to ensure that providers do not make a loss (otherwise there will be no tenders), but also do not make excess profits (otherwise the government is wasting its money). This fixed fee can be set by competitive tender. When it is set competitively, the government can allow providers to enter and exit the market freely based only on their own information about their profitability. In this case, less-efficient firms are unable to make a profit in the market, given the levels of the fixed fee that emerge from competitive bidding among the market leaders.

123. In Model (2) there is no marginal fee. In this case, there is no reason to believe that competitive bidding will set the fixed fee per client at the correct level. Government needs to set the fixed fee at the “right” level where – when providers spend their income from the fixed fee on employment services – the marginal benefit of services in terms of their impact on (B+tW) is equal to their marginal cost. Entry to and exit from the market must be actively managed by government entirely on the basis of relative performance. Government action – systematically retaining only the highest-performing providers – is the only factor that prevents providers from reducing their spending on employment services below their income from the fixed fee, and keeping the difference as profit.

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

Outcome measures and training

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

Centralised and decentralised market frameworks

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

127. Whether decentralised reintegration markets can function efficiently will depend, above all, on:

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

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

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

- Since different municipalities may adopt different political objectives (for example in terms of requiring lone mothers to work), municipalities that show poor performance on a particular measure (such as benefit costs or the size of welfare rolls) can bring forward many potential explanations/excuses.
- The mini-quasi-markets created by each municipality are small and not comparable (considering the often large differences in socio-economic background characteristics either within or across municipalities), so it may be difficult to benchmark performance of the final providers.
- Decentralisation has some costs in terms of horizontal equity (i.e. comparable cases being treated differently in different municipalities).
130. Interpreting the Netherlands as a two-stage quasi-market, the first stage (the municipal “providers”) has more instruments at its disposal than, for example, Australian and UK private providers do. For example, while municipalities cannot vary the level of benefits, they have much leeway in defining benefit eligibility criteria and using “workfare” schemes, direct sanctions and “claim diversion” strategies, subject to little supervision by central government.41

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

**Partnerships or markets?**

132. Another issue in the Dutch municipalities’ market is a tendency to develop public/private partnerships. These involve, for example, a longer contract duration, but with the details of the contract to some extent left open in order to allow a more flexible service. They may also involve consultation with service providers relating to the design of tenders and contracts. One argument for such partnerships is that they allow more tailored and innovative services, as compared to a model where all details are put into the initial contract. This can make sense if purchasers retain overall control of the case management process using separate providers for services such as job creation, training, and placement. Contracting only on the basis of pay-for-results or quantitative comparisons of results (the two models outlined above) is probably inappropriate in this case because:

- short-term employment outcomes do not measure well the overall impact of job creation or training programmes;

- one provider's employment outcomes are partly attributable to an earlier (or even a potential future) provider's services, implying that pay-for-results will not generate appropriate incentives;

- given the role of municipal case managers, it is difficult to be sure that competing providers (engaging in the same kind of services, e.g. placement) are allocated comparable caseloads. When caseloads are comparable, measured employment outcomes can be used directly as the basis for contracting decisions. When there is any substantial deviation from full comparability, contracting decisions have to be based on quite different criteria – which are often only weak proxies for true provider impact on employment outcomes, and are scarcely verifiable by third parties such as auditors.

133. In fact, under public/private partnership relations municipalities need to hire providers the same way that firms hire employees, *i.e.* judging a variety of input factors such as CVs or reputation. Providers’ performances under these arrangements are not transparent in the sense of quantitative comparisons of outcome rates. Thus, there is an obvious risk that public scrutiny will be ineffective; individual municipalities together with their long-term partners may perform poorly without local electorates being aware of that. As already mentioned, municipalities may cite more generous eligibility criteria, the size of their immigrant population or local industrial decline as explanations for low placement rates, while there is no comparable data base that might demonstrate that indeed employment service performance is poor.
Information and transparency

134. It is here that the central government’s role is important, even in decentralised systems where it cannot act as the principal. Indeed, in a decentralised system, central government's most important role may be in the area of increasing the transparency of the market, i.e. of the measurement and reporting of outcomes. This would require, for example, the use of a centralised computer system for recording client characteristics, benefit amounts and duration, periods in employment and earnings, etc. Other services provided centrally might include standard software for use by providers; model invitations to tender and model contracts for use by municipalities; good practice guides; financing surveys; and comparative research.

135. Central government might also enforce a general requirement on municipalities for transparency in the contracting process. In the Netherlands, however, the actual development seems to go in the opposite direction, with the requirement for local authorities to put reintegration services up for tender having been recently abolished. How municipalities will react to this new situation, remains to be seen. In all likelihood, it will not mean an end to contracting-out and private service provision, so that the achievement of a transparent performance benchmark for the municipalities market remains a challenge.

136. To promote transparency, the RWI website already contains a list of all reintegration providers, information on contract types and satisfaction ratings from client surveys. The UWV, which publishes employment outcome rates of all providers – including by target group – on its website, seems to be one step ahead; however, these are crude outcome rates, with no adjustment for local labour market characteristics, for example. So far, the strongest initiatives for quality assurance may have come from the reintegration sector itself. In particular, Borea, the provider organisation, has developed a quality seal, which asks potential members to meet 13 criteria such as: time spent for setting up a tailored reintegration plan; time between start and completion of plan; number of customers who did not receive a reintegration plan; relation between actual placement rates and those laid down in the contract, etc. [see DWP (2005e) for an English translation of the Borea certification criteria].

137. Also, in 2005 the organisations of purchasers and providers (UWV, VNG and Borea), the RWI and the National Council for Clients (LCR) have started to co-operate to increase the transparency of the reintegration market. In particular, they set up a foundation (“Blip of Werk”) to develop performance benchmarks, manage the quality seal and monitor client satisfaction rates. “Blip of Werk” has already started a performance benchmark for municipalities. The central government offers financial support for developing the different transparency instruments.

138. Detailed information on the operations of the Dutch employment services market can also be obtained from the SZW’s quarterly reports. Recent reports (SZW, 2005a) offer a mix of encouraging and disappointing results; overall, they appear to confirm some doubts voiced within public opinion about the effectiveness of the reintegration market and leave much room for improvement (see Section 6 below).
6. Concluding remarks

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

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

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

142. Section 2 of this report, when outlining current features of employment service provision, has listed for each of the review countries some problem areas pointed out in the respective national public debates. Based on OECD missions to the review countries in the fall of 2005 and other documentation used for this report, below are some further points (albeit an incomplete list), concerning how each country might adjust its activation stance.

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

- Give increased attention to that segment of newly registered unemployed, who may stay unemployed for 12 months or longer without receiving any offer of a reintegration programme, as envisaged in the “comprehensive approach”.

- Define more clearly the responsibility of the public employment service CWI and its services for phase 1 CWI clients who are not rapidly placed within the initial six-month period; and improve processes for the hand-over of phase 2 to 4 clients from CWI to UWV and municipalities and their subsequent start of a reintegration trajectory (indicator snelle start). The necessary reform of the profiling model should keep these current deficiencies in mind.
• Placement figures for the cohort of unemployment benefit recipients transferred to reintegration providers in 2003 have remained below target (i.e. below 40%) and early results for clients transferred to providers after July 2004 may also be considered disappointing. More systematic benchmarking of provider performance in preparation for future contracting rounds and improved professionalism of purchaser staff should help produce better results, as will continuous fine-tuning of financial incentive schemes for successful placement.

• Start tracking long-term employment outcomes. For example, UWV defines the placement result for the 2002 cohort in terms of whether any placement was achieved by end 2005. It would be desirable to also take account of employment stability, e.g. by comparative tracking of average off-benefit and employment rates.

144. The United Kingdom might find it appropriate to take action in the following areas:

• In view of the intensive official schedule of interventions, JCP staffing levels are scarcely adequate to deliver the full amount effectively – a problem that will worsen if unemployment rises. Planned measures for activating non-employment benefits will spread employment service resources even more thinly.

• Low-level jobs in the UK labour market increasingly require minor qualifications (e.g. safety training certification). Currently, apart from literacy training, no training programmes can be financed during the first 26 weeks of unemployment and they are in fact mainly reserved for New Deal participants. Some relaxation of this rule should be considered. Within the area of private provision, the Netherlands (like Australia) has devised methods for separate or earmarked financing of longer term training which is not necessarily expected to achieve rapid employment outcomes. The United Kingdom should consider possible arrangements of this kind.

• Rules about PCAs for incapacity benefits and New Deal participation for unemployment benefits need to be better coordinated. Currently clients can cycle between IB and JSA indefinitely without either in-depth assessment of medical condition or the obligation to participate in a New Deal option. This should be seen as a loophole that needs to be closed.

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

145. Germany might consider the following comments and recommendations:

• Accompanying further improvement in staff/client ratios, increase placement efforts at the BA for the hardest-to-place profiling group 4 (Betreuungskunden).

• Draw appropriate conclusions from the varying placement results under different contracting-out arrangements that appeared in the 2006 interim evaluation, and possibly unify these arrangements, with a particular view to setting appropriate financial incentive schemes for successful placement.

• Reduce creaming effects under new training voucher arrangements, and make sure that low-skilled trainees are appropriately considered when setting performance targets.
• Improve gate-keeping in the area of disability, *inter alia*, by issuing clear classification standards for the assessment of work ability under the UB II benefit, and clarifying the work capacity of partial disability pension recipients.
### Table A.1. Key labour market indicators, 2004

<table>
<thead>
<tr>
<th>Employment/population ratios (%)</th>
<th>Netherlands</th>
<th>Germany</th>
<th>United Kingdom</th>
<th>EU-15</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>73.1</td>
<td>65.5</td>
<td>72.7</td>
<td>65.0</td>
<td>65.3</td>
</tr>
<tr>
<td>Women</td>
<td>80.2</td>
<td>71.0</td>
<td>78.9</td>
<td>72.9</td>
<td>75.0</td>
</tr>
<tr>
<td>15-24</td>
<td>65.7</td>
<td>59.9</td>
<td>66.6</td>
<td>57.1</td>
<td>55.8</td>
</tr>
<tr>
<td>25-54</td>
<td>66.2</td>
<td>41.9</td>
<td>60.1</td>
<td>40.7</td>
<td>43.2</td>
</tr>
<tr>
<td>55-64</td>
<td>82.5</td>
<td>79.5</td>
<td>80.7</td>
<td>77.8</td>
<td>75.7</td>
</tr>
<tr>
<td>Low skilled&lt;sup&gt;a&lt;/sup&gt;</td>
<td>..</td>
<td>50.2</td>
<td>54.0</td>
<td>57.2</td>
<td>58.0</td>
</tr>
<tr>
<td>Secondary education&lt;sup&gt;a&lt;/sup&gt;</td>
<td>..</td>
<td>69.7</td>
<td>79.6</td>
<td>74.3</td>
<td>72.7</td>
</tr>
<tr>
<td>Tertiary education&lt;sup&gt;a&lt;/sup&gt;</td>
<td>..</td>
<td>83.0</td>
<td>88.0</td>
<td>84.0</td>
<td>81.9</td>
</tr>
<tr>
<td>Unemployment rates (%)</td>
<td>4.7</td>
<td>9.9</td>
<td>4.7</td>
<td>8.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Men</td>
<td>4.4</td>
<td>10.3</td>
<td>5.0</td>
<td>7.5</td>
<td>6.7</td>
</tr>
<tr>
<td>Women</td>
<td>5.0</td>
<td>9.4</td>
<td>4.3</td>
<td>9.1</td>
<td>7.2</td>
</tr>
<tr>
<td>Share of long-term unemployment (%)</td>
<td>32.5</td>
<td>51.8</td>
<td>21.4</td>
<td>42.4</td>
<td>32.0</td>
</tr>
<tr>
<td>Men</td>
<td>35.9</td>
<td>50.5</td>
<td>25.0</td>
<td>41.5</td>
<td>31.9</td>
</tr>
<tr>
<td>Women</td>
<td>28.8</td>
<td>53.7</td>
<td>16.4</td>
<td>43.3</td>
<td>32.0</td>
</tr>
<tr>
<td>Share of part-time employment (%)</td>
<td>24.1</td>
<td>20.1</td>
<td>35.0</td>
<td>17.4</td>
<td>15.2</td>
</tr>
<tr>
<td>Men</td>
<td>15.1</td>
<td>6.3</td>
<td>10.0</td>
<td>6.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Women</td>
<td>60.2</td>
<td>37.0</td>
<td>40.4</td>
<td>31.2</td>
<td>25.4</td>
</tr>
<tr>
<td>Share of temporary work&lt;sup&gt;b&lt;/sup&gt; (%)</td>
<td>14.6</td>
<td>12.2</td>
<td>5.7</td>
<td>13.3</td>
<td>14.5</td>
</tr>
<tr>
<td>Average job tenure in dependent employment (years)</td>
<td>10.6</td>
<td>10.8</td>
<td>8.4</td>
<td>10.8</td>
<td>..</td>
</tr>
</tbody>
</table>

<sup>a</sup> Data not available.
<sup>b</sup> Data refer to 2003 for Germany.


### Table A.2. Spending on active labour market programmes, 1985, 1994 and 2003/04

<table>
<thead>
<tr>
<th>Active spending (as a % of GDP)</th>
<th>Active spending per unemployed person (as a % of GDP per capita)</th>
<th>Active share of total spending on labour market programmes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.6 1.3 1.1</td>
<td>19.6 32.5 25.4</td>
</tr>
<tr>
<td>Netherlands&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1.3 1.5 1.7</td>
<td>26.2 47.2 65.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.8 0.5 0.5</td>
<td>13.7 11.4 21.1</td>
</tr>
<tr>
<td>EU-15&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.8 1.1 1.1</td>
<td>28.2 25.9 34.5</td>
</tr>
<tr>
<td>OECD&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.7 0.8 0.8</td>
<td>28.1 20.5 26.0</td>
</tr>
</tbody>
</table>

<sup>a</sup> 2004 instead of 2003.
<sup>b</sup> Unweighted averages of countries and years available in the database.

Source: OECD database on Labour Market Programmes.
NOTES

1. In the past, lone parents with children under five were not expected to be available for work; availability requirements are now decided by municipalities on the basis of personal circumstances.

2. A representative of the Rotterdam social office pointed out to an OECD team that a detailed explanation of activity requirements to assistance applicants typically led to claim withdrawals in 10% of cases.

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

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

5. Measures which, according to evaluation findings, had a relatively long-term and/or large impact on employment and earnings (and not only on measures of benefit dependency) include certain long-term training programmes (in Germany and the United States), Restart interviews and the New Deal for the Long-Term Unemployed in the United Kingdom, and “mixed” welfare-to-work programmes in the United States. See OECD (2005d) for references and brief discussion of these findings.

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

7. The German Act that introduced the “UB II” benefit requires that “the agency needs to conclude an integration agreement which will determine, in particular, what kind of efforts in what frequency unemployed assistance recipients need to undertake and in which form they need to deliver the respective evidence” (SGB II Act of 2004).

8. The UK Jobseekers’ Allowance regulations were recently amended by increasing the number of required weekly job-search steps from two to three.

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

10. As pointed out in OECD (2001a), if the action plan involves assignment to a longer-term programme, it should occur some time prior to assignment so that “motivation effects” (i.e. increased activity to find market work) have time to operate.

11. One problem encountered during the OECD mission is that participation in New Deal measures can be evaded either by cycling between JSA and incapacity benefit or by switching back and forth between JSA and short-term employment – in both cases, the “clock” starts again and clients may never reach the 18 months duration required for a New Deal start.
12. These regulations apply to unemployment insurance beneficiaries. For social assistance recipients, the maximum temporary reduction of benefit is 20%.

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

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

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

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

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

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

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

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

21. Hasselpflug makes an attempt to explain these differences between the Netherlands and the United Kingdom with the variance in the level of replacement rates.

22. There were over one million unemployed classified as having registered health impairments in Germany in 2004, most of them without an incapacity benefit (Bundesagentur für Arbeit, 2005b).

23. See OECD (2006, forthcoming) for similar inactive benefit recipiency rates in a number of other OECD countries.

24. Some countries have experienced large increases in the benefit caseload of people with a musculo-skeletal condition or mental condition (e.g. work-related stress), who in the past appear to have more often been able to stay in the labour market.

25. The requirement for Incapacity Benefit recipients with partial work capacity to attend work-focused interviews every 36 months remains, however, comparatively lenient.

26. However, the new German federal government in 2005 did not see fit to follow the Dutch example and abolish the special exemption of older unemployment insurance beneficiaries (starting from age 58) from job search or availability for work – a clause that keeps over 100 000 persons off the official unemployment count.

27. Germany, for example, where the share of partial disability pensions has declined from one-third in 1970 to less than 1 in 10 today, could pay more attention to this distinction.
28. Nevertheless, the number of people employed under the terms of the Sheltered Employment Act (i.e. mainly in sheltered workshops), which had reached 100,000 in 2000, is currently still at 95,000 (SZW, 2005c).

29. Disabled workers can thus act as employers of these personal assistants, whose costs are usually covered by the regional disability agencies. The funding is significant, with disabled workers entitled to personal assistance funding worth between EUR 250 and EUR 1,000 per month.

30. The market share of the top ten providers increased to 55% in the 3rd contract round, and among the 109 providers chosen there were only seven new entries.

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

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

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

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

35. Which contrasts with the diminishing number of new providers in each tender round in Australia.

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

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

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

39. The government can make up-front payments to providers to provide cash flow for programmes and activities which will produce employment and earnings outcomes at a later stage. But penalties that claw back the reward, if later on outcomes are less than envisaged, need to be built into such an upfront payment system.

40. As noted above, a 12-month measurement window is too short to reliably capture the impact of many labour market policy interventions, and direct implementation of this model would require long-term tracking of outcomes, or good proxy measures for them.
Municipal governments are elected, so an inappropriate policy of claim diversion and sanctions might, in turn, be sanctioned by the local electorate.
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