

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

## **ONLINE ANNEX**

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## Annex A. Country case studies

Ministries, public employment services (PES) and other public agencies engage in many different forms of partnerships to deliver publicly financed active labour market programmes (ALMPs). One form of partnership is contracted-out employment services, where employment services such as job brokerage, counselling and case-management of jobseekers are delivered through contracted providers. The working paper "[Paying for results: Contracting out employment services through outcome-based payment schemes in OECD countries](#)" draws on a rich set of country examples, which are summarised here in country factsheets, containing one or more programmes per country including both completed and ongoing programmes. The aim was to provide information for each programme on client groups, market structure, selection criteria, payment model, service requirements, outcomes, cost-effectiveness, and – for a number of programmes – additional comments. Furthermore, suggestions for further reading are provided.

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## Australia

Australia has been outsourcing its employment services over the past two decades. Under this arrangement, the Australian Government purchases services from a range of not-for-profit and for-profit employment services providers, with those providers in control of their day to day operations. The process started in 1994, with the privatisation of employment counselling for the long-term unemployed. In 1998, Australia fully privatised its employment services replacing the *Commonwealth Employment Service*. Since then, employment services have been provided exclusively by a mix of for-profit and not-for-profit private providers contracted by the Commonwealth Government over successive three-year periods until June 2015 and a five-year period since July 2015. Initially called the *Job Network*, the system has evolved over time, being replaced by *Jobs Services Australia* in 2009, which in turn was replaced by *jobactive*<sup>1</sup> in July 2015. The *jobactive* tender initially covered the period 2015 to 2020, but has been extended by two years and will be replaced by the *New Employment Services Model* in mid-2022. Trials of the new model – the *New Employment Services Trial* (NEST) – started in 2019 introducing amongst other innovations the possibility for jobseekers to self-manage their unemployment spell through an online platform and a new payment model. A mainstream online employment servicing platform was created on the *jobactive* website in response to the increased demand for unemployment benefit payments and employment services due to the COVID-19 pandemic. The *Online Employment Services* (OES) platform allows the most job-ready jobseekers to manage their job search and reporting requirements online, and is supported by safeguards including assistance from a *Digital Services Contact Centre* and the ability for jobseekers to choose to transfer to a contracted provider.

### *jobactive*

#### Client groups

The majority of registered jobseekers are referred to contracted providers for employment services, with the most job-ready referred to the OES.

Jobseekers are assigned to one of the three different service streams – A (“work ready”), B (“vocational issues”), and C (“serious non-vocational issues”) – depending on the outcome of the *Jobseeker Classification Instrument* (JSCI) or an *Employment Services Assessment* (ESAt). The JSCI is a regression-based profiling instrument that assesses a jobseeker’s relative level of difficulty in getting a job in the relevant labour market and likelihood of becoming or remaining long-term unemployed. The benefit administration agency *Services Australia* implements the JSCI, which collects the necessary JSCI information through a questionnaire addressed to the jobseeker and existing administrative records. There are 18 factors characterising an individual included in the JSCI, among them are age and gender, work and jobseeker history, educational attainment, English proficiency, Indigenous status, access to transport, and disability and medical conditions. The JSCI outcome is used to determine the jobseeker’s assignment to stream A or B and indicates whether a jobseeker has multiple and complex issues for employment that may require further assessment. Jobseekers that require further assessment are referred for an ESAt. An ESAt provides a comprehensive work capacity assessment for people with disability or other complex or multiple issues affecting their capacity to work. The ESAt will determine if the jobseeker requires stream C services or referral to other services such as Disability Employment Services (DES).

#### Market structure

When Australia initially rolled out contracted-out employment services in 1998 there were 306 service providers. During subsequent contracts, this decreased to 205 during the 2000-2003, almost halved to slightly

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<sup>1</sup> Some elements of current *jobactive* system remain under government control – for example the *Online Employment Services* and the *New Employment Services Trial*.

more than 100 in the next three contract periods (spanning the 2003-2012), and then further reduced to 44 providers for the 2015-2020 period. Providers usually operate in multiple areas throughout Australia.

An important element in the Australian system is client choice, as jobseekers usually can select a provider out of several that operate within a service delivery area. Jobseekers, who do not execute a choice, will be referred to a suitable provider within their area. Prior to COVID-19 and the introduction of amended referral arrangements to facilitate rapid connection to income support, 3.9% of jobseekers were allocated to a provider by the IT system as they had not chosen their provider.

Until April 2020, *jobactive* arrangements included a “Maximum Time Transfers” (MTTs) process, whereby jobseekers who had not achieved an Employment Outcome with their provider after two (Stream A) or three (Stream B and C) years, are transferred to another provider in the same area. This process also affected providers’ market share to ensure that providers did not use the automatic transfer as mechanism to remove the more difficult-to-place jobseekers from their caseload without a penalty. As part of the government’s COVID-19 contingency arrangements MTTs were paused in April 2020 to minimise disruption to jobseekers and providers.

#### Selection criteria

The Australian Government does not use cost as a selection criterion in its employment services tenders. For the *jobactive* tender, past performance carried a weight of 30 per cent, as providers typically have a long history of delivering employment services. Their performance during the entire contract period is assessed through a complex statistical measuring system called *Star Ratings*, which measures placement performance of contracted providers adjusted for differences in jobseeker characteristics and local labour market conditions. The Star Rating system is important to guide jobseekers’ choice of providers and for the contracting authority to guide contract extensions and possible early termination due to under-performance. The calculation of *jobactive Star Ratings* ceased after the September 2020 release due to volatile economic data as a result of the COVID-19 pandemic.

#### Payment model

For each jobseeker providers receive an up-front administration fee, and subsequent administration fees for each six months of services provided. Administration Fees range from AUD 269.50 to AUD 472.16 depending on the characteristics of the jobseeker. Providers also receive a service fee to deliver the programme *Work for the Dole*, where jobseekers undertake six months of *Work for the Dole* Activities (15 hours per week or 25 hours for those under 30 years) with a not-for-profit organisation. If a jobseeker is placed into employment, outcome fees can be claimed at 4, 12 and 26 weeks of employment (see Table A1). Of the potential total fees a provider can obtain, the largest amount is outcome fees. Overall, there has been a trend towards a higher proportion of outcome fees in comparison to previous tender rounds (Jobs Australia, 2015).

Another shift in *jobactive* in comparison to *Jobs Services Australia* is an increased focus on getting jobseekers into a job as quickly as possible. Also, short-term jobs of four weeks (e.g. seasonal work, such as fruit picking) are rewarded through the first outcome payment already being available after four weeks (of which providers can claim up to four per year and jobseeker). The rationale is that short-term jobs can provide jobseekers with work experience and work habits, which will be useful for finding longer-term employment (Department of Employment, 2014).

**Table A1. Outcome Fee structure for *jobactive* provider-managed jobseekers in non-regional and regional locations as at 31 August 2021**

Employment Outcomes	Employment duration satisfying requirements of an employment outcome	Participant's Period of unemployment is <24 months		Participant's Period of unemployment is 24-59 months		Participant's Period of unemployment is 60+24 months	
		Partial <sup>b</sup>	Full <sup>a</sup>	Partial <sup>b</sup>	Full <sup>a</sup>	Partial <sup>b</sup>	Full <sup>a</sup>
Non-regional locations							
Stream A and Volunteers	4 week period	AUD 172.48	AUD 431.20	AUD 215.60	AUD 539.00	AUD 258.72	AUD 646.80
	12 week period	AUD 215.60	AUD 539.00	AUD 431.20	AUD 1 018.00	AUD 539.00	AUD 1 347.50
	26 week period	AUD 0	AUD 700.70	AUD 0	AUD 1 347.50	AUD 0	AUD 1 670.90
	Total	AUD 388.08	AUD 1 670.90	AUD 646.80	AUD 2 964.50	AUD 797.72	AUD 3 665.20
Stream B	4 week period	AUD 323.40	AUD 808.50	AUD 431.20	AUD 1 078.00	AUD 539.00	AUD 1 347.50
	12 week period	AUD 646.80	AUD 1 617.00	AUD 862.40	AUD 2 156.00	AUD 1 078.00	AUD 2 695.00
	26 week period	AUD 0	AUD 2 048.20	AUD 0	AUD 2 695.00	AUD 0	AUD 3 395.70
	Total	AUD 970.20	AUD 4 473.70	AUD 1 293.60	AUD 5 929.00	AUD 1 617.00	AUD 7 438.20
Stream C	4 week period	AUD 431.20	AUD 1 078.00	AUD 646.80	AUD 1 617.00	AUD 862.40	AUD 2 156.00
	12 week period	AUD 862.40	AUD 2 156.00	AUD 1293.60	AUD 3 234.00	AUD 1 724.80	AUD 4 312.00
	26 week period	AUD 0	AUD 2 695.00	AUD 0	AUD 4 042.50	AUD 0	AUD 5 390.00
	Total	AUD 1 293.60	AUD 5 929.00	AUD 1940.40	AUD 8 893.50	AUD 2 587.20	AUD 11 858.00
Educational Outcomes <sup>c</sup>		AUD 1 078.00					
Regional locations							
Stream A and Volunteers	4 week period	AUD 215.60	AUD 539.00	AUD 269.50	AUD 673.75	AUD 323.40	AUD 808.50
	12 week period	AUD 269.50	AUD 673.75	AUD 539.00	AUD 1 347.50	AUD 673.75	AUD 1 684.91
	26 week period	AUD 0	AUD 876.41	AUD 0	AUD 1 684.91	AUD 0	AUD 2 089.16
	Total	AUD 485.10	AUD 2 089.16	AUD 808.50	AUD 3 706.16	AUD 997.15	AUD 4 582.58
Stream B	4 week period	AUD 404.25	AUD 1 011.16	AUD 539.00	AUD 1 347.50	AUD 673.75	AUD 1 684.91
	12 week period	AUD 808.50	AUD 2 021.25	AUD 1 078.00	AUD 2 695.00	AUD 1 347.50	AUD 3 368.75
	26 week period	AUD 0	AUD 2 560.25	AUD 0	AUD 3 368.75	AUD 0	AUD 4 245.16
	Total	AUD 1212.75	AUD 5 592.66	AUD 1 617.00	AUD 7 411.25	AUD 2 021.25	AUD 9 298.83
Stream C	4 week period	AUD 539.00	AUD 1 347.50	AUD 808.50	AUD 2 021.25	AUD 1 078.00	AUD 2 695.00
	12 week period	AUD 1078.00	AUD 2 695.00	AUD 1 617.00	AUD 4 042.50	AUD 2 156.00	AUD 5 390.00
	26 week period	AUD 0	AUD 3 368.75	AUD 0	AUD 5 053.66	AUD 0	AUD 6 737.50
	Total	AUD 1 617.00	AUD 7 411.25	AUD 2 425.50	AUD 11 117.41	AUD 3 234.00	AUD 14 822.50
Educational Outcomes <sup>c</sup>		AUD 1 347.50					

Notes:

- a. Full outcomes will be paid when a jobseeker gets a job and moves fully off income support for the duration of the outcome period.
- b. Partial outcomes will be paid where a jobseeker has a job which reduces their income support on average by 60% and may be paid at four and 12 weeks only. A full outcome conversion will be available to employment providers in the 26 weeks where the partial outcome rate applies and the jobseeker moves completely off income support. Where an employment provider claims a 12 week partial outcome for a jobseeker and before the end of the relevant 26 week outcome period, if the jobseeker remains off income support for the 26 week outcome period, the outcome period will be extended to maximise the opportunity for employment providers to claim a full outcome.
- c. Education outcomes reward employment providers for improving the job prospects and employability of jobseekers aged between 15 and 17 years through participation in courses that lead to attainment of a qualification or successfully complete one semester of at least a two semester course within 12 months.

Source: Department of Education, Skills and Employment (2021).

#### Service requirements

An important feature of *jobactive* is the largely “black box” approach to service delivery, i.e. there are few/no mandatory service components and providers are free to decide which interventions to offer to clients in

order to help them into, and to sustain, employment. Providers are, however, bound by a number of minimum service requirements, including: Conducting a comprehensive initial interview, developing an individual Job Plan with the jobseeker, monitor and ensure appropriate job search by jobseekers, arrange, monitor and manage jobseekers' annual activity requirement.

Providers also administer the *Employment Fund* for each individual jobseeker. The *Employment Fund* can be used to purchase goods and services to help the jobseeker into work. Providers have discretion to ensure funding is used to enhance employability.<sup>2</sup> This is not considered a payment to a provider.

#### Cost-effectiveness

Given the long history of contracting out all employment services, cost comparisons with alternative systems (e.g. a public system) are difficult in the Australian case. Comparisons of the average "cost per employment outcome" before and after the full outsourcing of employment services suggest that the cost had halved (Davidson and Whiteford, 2012<sup>[21]</sup>). Increased emphasis on outcome-based fees in recent years are likely to have further reduced the cost per employment outcome.

#### Additional comments

The Australian system is quite exceptional as it reimburses providers for outcomes, not inputs. This feature has been acknowledged in many OECD reports that, however, also conclude that the fee structure could be tilted towards longer-term outcomes to ensure job retention. With the total potential provider fees being available after 26 weeks of employment, longer-term employment outcomes are not sufficiently rewarded in the *jobactive* scheme. Paying for employment outcomes beyond 26 weeks could promote employment retention and advancement by rewarding placement into better and more stable jobs and the delivery of pre-placement training and post-placement assistance OECD (2017).

The Australian system, however, also highlights the need for a world class contracting function both during the tender stage as well as managing existing contracts through auditing employment service providers for contract compliance, the validity of expense claims, and service quality. In some areas there may also be higher transaction costs in comparison to some publicly delivered systems, as certain client transactions require more documentation such as sanctions or referrals to specialist provision (OECD, 2012).

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<sup>2</sup> The *Employment Fund* is a flexible pool of funds that can be used to reimburse purchases of goods and services that help to tackle barriers that jobseekers face in finding and keeping work (e.g. work-related items, professional services, targeted training). Notional credit allocations to the *Employment Fund* are based on a per-client basis and the credits can be used flexibly to provide the types of services and support that the employment provider thinks will enhance the employability of any of their registered jobseekers.

### Box A1. The New Employment Services Trial (NEST) in Australia

In preparation of the *New Employment Services Model* (NEST) to be launched mid-2022, Australia started trialling the new model in two regions – Adelaide South in South Australia and the Mid North Coast in New South Wales – from July 2019 for two years. Important aspects of the new service model are i) the digital services model; ii) the new payment model; iii) changes to jobseekers' assessment and a new mutual obligations system; and iv) a new IT system. The first two changes are discussed here.

#### Digital service model

With NEST Australia introduced the possibility for job-ready and digitally literate jobseekers to self-manage their unemployment spell through a digital platform. A *Digital Services Contact Centre* (DSCC) supports self-managing jobseekers via phone or email and is operated by the Department of Education, Skills and Employment (DESE). While jobseekers have the right to opt out of digital service delivery at any time, a 4-monthly *Digital Service Review* (DSR) assesses whether jobseekers are capable of self-managing. Jobseekers are encouraged to opt out of digital services, if digital services are found to be unsuitable. Jobseekers who need extra support receive additional support through a NEST provider, including face-to-face case management as under *jobactive*.

#### NEST payment model

NEST participants are assigned to two different tiers, based on their JSCI score, with Tier 1 participants being relatively closer to the labour market than Tier 2 participants. The NEST payment models differs to the *jobactive* payment model in a number of ways, which are sketched out here:

- **Engagement fees:** Instead of six-monthly administration fees, a one-off engagement fee of AUD 1 000 is paid upon jobseekers starting in NEST.
- **Progress fees:** A new fee-type, which rewards providers' investments in improving participants' job readiness and progress towards employment. Progress fees (AUD 500 for Tier 1 and AUD 750 for Tier 2) may be paid once per participant over the attachment period. They are paid, when a participant has either i) achieved a short-term employment outcome (4-week full or partial employment outcome), ii) achieved an educational outcome (e.g. 26 consecutive weeks full-time participation in accredited education), or iii) completed of two approved activities or interventions including work placements, vocational or non-vocational interventions. Strict documentation requirements intend to ensure that providers are not rewarded for "activities", but participants' progress towards employment.
- **Progress in Service Bonus:** A one-off fee paid if participants move up a tier, i.e. from Tier 2 to Tier 1 (bonus of AUD 500) or from Tier 1 into Digital Services (bonus of AUD 400).
- **Employment Outcome Payments:** As under *jobactive*, employment outcome fees continue to be payable once participants remained 4, 12 and 26 weeks in employment (\$500, \$1 000 and \$2 000 respectively for participants with JSCI scores 34 and below; and \$1 000, \$3 000 and \$5 000 respectively for participants with JSCI scores 35 and above). Similar to *jobactive*, higher job outcome payments are payable for participants who are very long-term unemployed (VLTU) upon joining NEST (i.e. 24 or more months). The higher payments are called "VLTU bonus" and are available for 12- and 26-weeks employment outcomes. The amounts are AUD 1 000 for a 12-week partial outcome; AUD 2 000 for a 12-week full outcome; and AUD 4 000 for a 26-week full outcome, which are paid in addition to the outcome payment.

Source: Department of Education, Skills and Employment (2021a), "NESA National Conference: The New Employment Services Trial and the OES the DESE and Provider Experience" and Department of Education, Skills and Employment (2021b), "New Employment Services

Trial (NEST) – Enhanced Services Provider Payments and Vacancies". Both downloaded from <https://www.dese.gov.au/collections/new-employment-service-trial-nest-guidelines> (accessed on 20.08.2021).

#### Further reading

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Department of Employment (2014), Request for tender for employment services 2015-2020, <https://docs.employment.gov.au/documents/request-tender-employment-services-2015-2020>.

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## Belgium (Flanders)

For several years, the PES of Belgium Region of Flanders – called *Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding (VDAB)* – has been outsourcing coaching and mediation services for jobseekers on the one hand, and issuing career guidance vouchers to employed individuals on the other hand. While providing a brief overview of those two existing forms of outsourcing, this Annex zooms in on a recent experiment in the Antwerp region. In this experiment, coaching and mediation vouchers are issued to jobseekers, hence combining elements of the two existing forms of outsourcing.

### ***Contract tenders for intensive guidance and mediation (Tender intensieve begeleiding en bemiddeling – TIBB4)***

VDAB has been outsourcing employment services since 2005 to support unemployed jobseekers with intensive coaching and mediation services. The service requirements for contracted providers include registration guidelines, quality requirements, and minimal service descriptions. Jobseekers in turn have mutual obligation requirements. While competition prevails during the tender stage, there is no competition whilst contracts are running, as there is usually a single provider per contract area. The result-based payment in these contracts is up to 40% of the total cost. The total cost is based on an average price per participant and providers are expected to achieve an employment outcome for 65% of jobseekers over the measurement point. Providers who achieve more outcomes receive a bonus for each surplus result.

The latest scheme to contract out employment services is called “*Tender intensieve begeleiding en bemiddeling*” (*TIBB4*), and runs from January 2017 to December 2022. Under *TIBB4*, VDAB expects to refer around 10 000 jobseekers to contracted providers. The target group is jobseekers (priority is given to those who receive unemployment benefits) who are in need of a more intensive and personalised support to find employment (e.g. because of lack of active application behaviour). Clients that are assigned to *TIBB4* are allocated to the provider that operates in their area. VDAB consultants allocate the client after an introductory interview.

A concern with this form of procurement is that truly client-tailored services are difficult to achieve and jobseekers have little or no say in influencing the services they receive. Furthermore, tenders have high fixed costs and may generate excessive transaction costs in-between tender rounds.<sup>3</sup> In contrast, the voucher system has the potential to establish a provider landscape with long-term contracts. This in turn, may give providers more opportunities to build up knowledge, grow, and invest in innovation.

### ***Vouchers for career coaching (loopbaancheques)***

In 2013, VDAB introduced career guidance vouchers for employed and self-employed workers. Individuals have the right of up to two vouchers every six years. Each voucher offers four hours of subsidised career guidance, which can be used with mandated providers, which include both non-profit and profit organisations (OECD, 2019). The voucher system enables both good matches between providers and clients and gives providers the option to offer tailored client services. While client satisfaction rate is very high, one concern is that the vouchers do not reach all categories of employees (e.g. low take-up among low-skilled workers despite adapted terms). Each voucher offers the provider a fixed amount.

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<sup>3</sup> E.g. when provider staff may need to switch between providers whose contracts have not been renewed to those with new contracts.

### ***Vouchers for coaching and mediation services – an experiment in Antwerp***

In an experiment in the Antwerp region in the year 2021, *VDAB* started issuing vouchers for coaching and mediation services to unemployed jobseekers.<sup>4</sup> With the experiment, *VDAB* tries to combine the benefits and contain the risks of the tender contract and voucher systems. The use of vouchers gives jobseekers freedom of choice to select from a pool of (accredited) providers, with the intention to increase motivation and ownership among jobseekers. Vouchers were issued to jobseekers in the Antwerp region since April 2021, and around 1 500 to 2 000 jobseekers will receive a mediation voucher as part of the experiment. The experiment is realised with support from the European Social Fund (ESF) and evaluated jointly with the University of Hasselt.

#### *Client groups in the experiment*

The targeted client group is the same as in the *TIBB4* project and in the Antwerp region both projects run in parallel. Jobseekers pre-selected for the target client group are randomly selected to actually participate in the voucher experiment or in the *TIBB4* programme.

Clients who have been allocated to the voucher experiment have an introductory interview with a *VDAB* counsellor explaining the voucher and possibility of provider selection. This was an important change in the work of *VDAB* counsellors and therefore carefully planned and prepared in run-up to the pilot (see Box A2). Thereafter, clients compare and choose a provider that fits their personal needs. A simple online information platform was developed for clients to compare the offers of providers.<sup>5</sup> For computer illiterate clients handouts are available. If a client does not make a choice, they receive coaching support from *VDAB* to make their decision. Clients who do not want to choose or who are not able choose a provider are assigned to *TIBB4* (or an alternative programme).

#### **Box A2. Preparing *VDAB* counsellors for the voucher experiment**

Before starting the experiment, it was important to change *VDAB* counsellors' mind-set, from allocating clients directly to a provider towards advising clients on the choice of provider without steering clients' decisions. Therefore, it was important to allow for sufficient preparation time before the first "voucher-client" was assigned to the project. An elaborate training and information campaign was rolled out to make sure that staff in the Antwerp region were aware of the concept and the target of the experiment. Support material included guidelines and a webpage and the project lead was available to discuss Q&A with staff involved in the experiment. An internal working group is responsible for practical aspects of the implementation and follow up.

#### *Market structure*

While the voucher experiment aims to give jobseekers the choice of their final service provider, there is a legal requirement for a contractual agreement between *VDAB* and the providers in form of a concession. Different to *TIBB4* contracts, there are no guaranteed referrals and also providers can decide on how many jobseekers to accept to enable them to grow and develop their own market "niche". In total, 13 providers competed in the experiment, covering different client groups (e.g. accepting all types of jobseekers in a

<sup>4</sup> The initial idea for the experiment was developed already in 2015, but the actual planning started at the end of 2019 only. The development of the experiment and the evaluation strategy began in early 2020 and the experiment started in March 2021. A final report of the experiment is expected in 2022.

<sup>5</sup> Due to the short duration of the experiment (one year, with a possible one year extension), *VDAB* did not yet invest in a more sophisticated online platform or a client review or rating system.

location, specialisation on jobseekers with a health issue or disability, expertise in jobseekers with higher education).

#### Selection criteria

During the call for the concessions, interested providers were evaluated based on their experience and their capacity to deliver services i) in the entire Antwerp region or two sub-regions; ii) in one sub-region; or iii) for a special target group or sector. There was no limit on the categories chosen, but for the final offer, candidates were asked to choose a geographical area, possibly combined with one or more target groups. *VDAB* received offers from 13 providers. While no provider was refused, some did fail to sufficiently document their specialisation and were not considered for offering the respective special services then. In subsequent collective and bilateral information and negotiation sessions, one provider stepped out of the scheme. Eleven parties were contracted.

#### Outcomes

The experiment is evaluated by researchers at the University of Hasselt, which also advised on the set-up of the experiment. The evaluation will focus on the perception and appreciation of the vouchers by clients, providers, and *VDAB* counsellors.

#### Further reading

*VDAB* (2021), “Draaiboeken en projectfiches TIBB4, TIBB4 anderstaligen, BGLANDKOR en SCRABA” [“Roadmaps and project sheets”], <https://extranet.vdab.be/mlp/draaiboeken-en-projectfiches/tubb4-tibb4-anderstaligen-en-scraba>.

OECD (2019), OECD Skills Strategy Flanders: Assessment and Recommendations, *OECD Skills Studies*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264309791-en>.

## Canada

Employment services in Canada are administered by the individual provinces and territories, with considerable differences across in the degree to which services are administered by contractors (OECD, 2015): The discussion below focuses on a results-based scheme which was introduced in the province of Ontario in January 2021.

### ***Employment Services Transformation, January 2021-present***

The province of Ontario is in the process of gradually implementing a system of contracted-out employment services which integrates social assistance and employment services throughout the province. In July 2019, the Ontario Ministry of Colleges and Universities initiated a public tendering procedure for a pilot programme of contracted-out employment services in a trial attempt to consolidate the employment services previously offered separately by Ontario Works, the Ontario Disability Support Program and Employment Ontario. The private providers awarded the contracts began receiving clients three geographical “catchment areas” beginning in January 2021. Further expansions to additional areas are foreseen in 2022 and 2023.

#### *Client groups*

Participants comprise many different jobseekers including those receiving social assistance, unemployment benefits or those with a disability, regardless of duration of unemployment. Clients are be segmented into three different streams based on their perceived employability and detachment from the labour market (Streams A, B, and C, with low, medium and high risks of long-term unemployment, respectively).

#### *Market structure*

The programme is first being implemented in three of Ontario's 20 “catchment areas”, which were defined by the government for the purposes of service delivery based on statistical regions. One provider was selected per catchment area. The three prototype regions were deliberately selected to provide a mix of urban and rural delivery settings. The three providers are a local subsidiary of a for-profit employment services corporation based in Australia, a consortium led by a non-profit based in New York state, and a local university.

#### *Selection criteria*

The tender had two phases. In the first phase, providers were scored on qualitative criteria, including their prior experience and proposed approaches to handling clients. Providers had to meet a minimum quality threshold to qualify for the second phase. The final scoring was as follows: (i) 70% (260 out of 370 points) of the score related to qualitative criteria (with 40 of these points relating explicitly to past performance, 10 points relating to how rigorous the cost proposal calculations were deemed to be, and the remaining 210 points relating to quality of their proposed programme), (ii) 22% of the score (80 points) was comprised of the bid price, and (iii) 8% (30 points) based on an interview and presentation with the two best-scoring bidders for each of the three lots. In the first phase, 17 bids passed the minimum quality thresholds (of these, five bids were from consortia comprising of several providers). Three providers were selected in the second phase and each provider was awarded one contract area.

#### *Payment model*

Approximately three-quarters of the payments are expected to be fixed: while they will vary based on realized outcomes, after taking into account the predicted exits into employment, the government tender anticipates that roughly 23% will be outcome-based. Providers are to receive monthly, lump-sum attachment fee payments in exchange for providing services to at least the number of clients which they specified in their bid (these are determined separately for each of the three client groups). In addition,

outcomes-based payment are based on a client being employed at on, three, six and 12 months after receiving employment services from the private provider. The total potential payment amounts as well as the distribution of the payments varies across the client groups: for the least employable group, the maximum potential payments are higher and the distribution of the payments is more front-loaded. For example, for the most readily-employable group, the share of payments for employment at months one and 12 are 0% and 47.1%, respectively; for the least employable group, the respective shares are 9.8% and 37.9%. The government's reference (lead) prices for the maximum cumulative outcome-based payment per client for each of the three groups amounted to CAD 344 (Stream A), CAD 1 105 (Stream B), CAD 3 230 (Stream C).

A different payment structure is envisioned for the beginning, transitional phase of the programme, which was originally due to take place from 1 April 2020 to 1 October 2020. During this phase, when providers begin receiving clients but were not yet allowed to change the standardized client journey, lump-sum payments are to be provided irrespective of clients' employment outcomes. Even during this period, however, small performance-based payments are envisioned – for providers that have developed a comprehensive web presence and a plan for adjusting the delivery-network of third-party training providers.

#### Service requirements

Providers are required to develop an individual action plan with each referred client. While not explicitly defined, the government has made clear its intention to monitor the performance-based payments to avoid contract gaming or having clients parked by providing preferential service to one client stream over another. Thresholds for the minimum number of clients in each client group that the provider must "serve" were specified by each provider's bid during the tendering process, where serving a client is defined as conducting the activities mutually-agreed upon in each client's Employment Action Plan. For each catchment area, detailed key performance indicators are defined (these include more specific minimum shares of vulnerable groups served), with providers scoring very well eligible to have their contract extended without another public tender. Conversely, those not scoring sufficiently high may have the scale of their contracts reduced (so that they serve fewer clients) or possibly have their contracts terminated.

If the providers are deemed by the government to be attempting to game the contracts, the Ministry may modify the parameters of the performance based funding in subsequent years – for example, adding a requirement that providers must achieve certain outcomes for the hardest-to-place group of jobseekers (Stream C) before they can receive performance-based payments for the more readily employable (Streams A and B).

During the first, transitional phase of the programme, providers are not allowed to make changes to service delivery and are required to continue referring clients to existing "service providers" which provider training and employment support services. At the conclusion of the first phase, providers are free to redesign these aspects of service delivery.

#### Additional comments

In addition to payment for the services they provide to jobseekers, providers will have an additional discretionary budget to be disbursed to jobseekers or employers to help clients move into employment – so-called "employment-related financial supports for jobseekers and employers". These are intended to be used to help overcome temporary barriers to participation in training activities or to enter into and remain in employment. Examples of employment-related financial supports to jobseekers include transportation, work clothing or uniforms, tools and special equipment, and emergency or infrequent childcare. Examples of employment-related financial supports to employers include accommodation supports or assistance with onboarding requirements. The amount budgeted corresponds to roughly 15% relative to what providers are expected to receive with the attachment and performance-based fees.

*Further reading*

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OECD (2015), Back to Work: Canada: Improving the Re-employment Prospects of Displaced Workers, Back to Work, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264233454-en>.

## Finland

In Finland, contracted-out employment services containing an outcome-based payment structure were first introduced in the 2010s, with several pilot programmes having been implemented since then. The Finnish government decided in autumn 2016 to increase the effectiveness of the public employment services and to increase the use of private service providers in the Finnish PES. Subsequent pilots were launched in preparation for an anticipated comprehensive regional government reform planned by the government, which in the end did not go through due to a change of government. As part of the regional government reform, the public employment services were supposed to be gathered into growth services. Therefore, the pilots were initially called “growth service” pilots, but at later stage they were called partnership pilots.

Two pilot programmes of contracted-out employment services with an outcome based payment scheme include one targeted towards young jobseekers and another targeted towards helping entrepreneurs recruit workers. The pilot programme targeted towards young people, Nuorten tulospurustaiset hankinnat, provided 9 thousand jobseekers with intensive counselling services through private providers (Ministry of Economic Affairs and Employment, 2020). Another example of a project with performance-based payment model is the national Employ with Competence project (TE, 2021): This project provides small businesses with advice on various aspects related to employing new workers, including how to find suitable job candidates, legislation related to employment contracts, and financial supports available.

More broadly, performance-based procurement services have been used quite widely in the Finnish PES. In the ELY Centre of Central Finland, these services have been developed in an ESF project called Marke. The project has recently published a handbook to performance-based procurement services (ELY, 2021). The handbook includes basic information on the performance-based procurement services. The project has received funding for a new development project, in which new pilots will be carried out.

In the PES service strategy, published in December 2020, one of the guidelines is to continue the procurement of performance-based services. Also, a national development project on the procurement of the employment services was initiated in early 2021. In September 2020 the first national public procurement strategy was published aiming at enhancing the social efficiency of the public funds used for the public procurements and sustainability of public finance. It also aims at being part of performance and corporate governance. This means that all state owned organisations are due to follow the strategy.

### Further reading

ELY (2021), “Marke –palvelumarkkinoiden kehittäminen -hanke: Asiakasmuutos ja tulospurusteinen TE-palveluhankinta [Marke Service Market Development Project: Customer change and performance-based procurement of TE services],” <https://www.ely-keskus.fi/-/k-c3-a4sikirja-asiakasmuutos-on-vaikuttavuutta-te-palveluissa-valmistunut-keski-suomi->.

Ministry of Economic Affairs and Employment (2020), “Performance-based procurement of services for young people effectiveness study”, <http://urn.fi/URN:ISBN:978-952-327-491-4>.

TE (2021), “Employ with competence service”, <https://www.te-palvelut.fi/employers/for-entrepreneurs/employ-competence>.

## France

The government's monopoly on the provision of job placement services in France was abolished in 2005, when the Social Cohesion Law permitted temporary work agencies to offer counselling and job brokerage services to jobseekers (Crepon et al., 2012). Following this liberalization, three experiments on the provision of contracted-out employment services were launched. One experiment focused on welfare recipients (Crepon et al., 2013), another focused on young university graduates who had been searching for a job for at least six months (Crepon et al., 2012), and a third focused on jobseekers risk of long-term unemployment. The last experiment is described in detail below.

### ***Private Placement Operators Scheme***

#### *Client groups*

Limited to jobseekers who were entitled to unemployment benefits for a year or more and who did not have additional barriers to employment (i.e., they lacked social, psychological or addiction-related difficulties). Participation was optional: clients selected to be in the treatment group could opt to stay with the PES under its standard client treatment, and 60 percent of clients given the option declined participation (Behaghel et al., 2014).

#### *Market structure*

One provider for each of 16 geographical areas (Behaghel et al., 2014). Ultimately, 11 different providers were chosen; these included temporary work agencies, consultancies specialized in the placement of workers after mass layoffs, and international firms specialized in the placement of job-seekers coming from Australia and the Netherlands.

#### *Payment model*

In practice, 50-60% of payments were outcome-based (French National Assembly, 2014). The attachment fee, paid for each referral to the private provider, amounted to 30% of the maximum contract value. An additional 35% of the maximum contract value was to be paid for placing clients into employment, with a further 35% for sustained employment after 6 months. The maximum contract value per worker was determined by the bidding process and varied from between EUR 3 000 and EUR 3 947.

#### *Service requirements*

Weekly counsellor-client meetings and a counsellor caseload of no more than 40 jobseekers per counsellor (Behaghel et al., 2014). For comparison, average caseloads for jobseekers remaining with the PES and not in the pilot programme averaged 120 jobseekers per counsellor.

#### *Outcomes*

Given the considerably higher resources than those in the standard PES programme, the private programme was successful in increasing exits to employment compared to the baseline group (Behaghel et al., 2014). Exits to employment increased by 4.5 percentage points from the baseline exit rate of around 20 percent after 6 months. However, a parallel pilot programme which experimented with offering jobseekers more intensive counselling from PES counsellors who also had their caseloads reduced witnessed a much stronger improvement in exits to employment: 10.2 percentage points. While all private providers were less effective than the PES counsellors with reduced caseloads, there were some differences amongst the types of providers: temporary work agencies were significantly less effective than consultancies specializing in the placement of workers after mass layoffs, with international placement firms in-between.

### Cost-effectiveness

The programme was not cost-effective. This holds both relative to the standard PES treatment with much higher caseloads as well as if judged with the alternative of providing PES with additional resources to lower their counsellor caseloads (Behaghel et al., 2014). The parallel experiment with the PES provided superior outcomes at a considerably lower cost.

### Additional comments

The superior outcomes found for the PES intervention of providing more intensive counselling with PES staff – which ran in parallel to the pilot programme with private providers – may represent an upper bound on the possible effectiveness of the PES given increased resources. This is because the PES counsellors selected to participate in the parallel experiment were not selected at random; rather, they were recruited from among their existing staff by means of a special call for tender. According to Behaghel et al. (2014, p. 146), “enrolled caseworkers shared the characteristic of being highly motivated. They were attracted by the possibility of participating in a programme that allowed them to do their job in good conditions, with more time to focus on the specific needs of each jobseeker due to a lower caseload and better equipment.” Furthermore, private providers were not explicitly in charge of monitoring: they only had a counselling role. As a result, clients placed with private providers were considerably less likely to be threatened with a sanction that would imply a loss of unemployment benefits.

### Further reading

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Crépon, B. et al. (2013), “Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment”, in *Quarterly Journal of Economics*, Vol. 128/2, pp. 531-580, <http://dx.doi.org/10.1093/qje/qjt001>.

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French National Assembly, 2014, “Rapport d’information sur le recours par Pôle emploi aux opérateurs de placement pour l’accompagnement et le placement des demandeurs d’emploi [Information report on Pôle emploi’s use of placement operators for the support and placement of jobseekers]”, <http://www.assemblee-nationale.fr/14/rap-info/i2156.asp>.

## Ireland

The Irish *Pathways to Work* 2015 strategy set out the implementation of *JobPath* as a programme for people who are long-term unemployed. At that time, the Public Employment Service (PES) staff-to-client ratio of around 1:500 remained far too high. While there had been efforts to increase the number of PES counsellors, financial and recruitment constraints limited the degree to which the Irish PES *Intreo* could have expanded its services further. With the introduction of extra capacity via *JobPath*, the aim was to improve staff-to-client ratios, giving case officers at the PES more time to focus on a smaller pool of unemployed jobseekers. The rollout of *JobPath* began in July 2015 and new participants were referred until the end of 2020.

### ***JobPath***

#### *Client groups*

*JobPath* was targeted at the long-term unemployed registered with the Irish PES *Intreo*. *JobPath* segmented long-term unemployed into five payment groups according to their unemployment duration (just entering long-term unemployment, 12-24 months unemployed, 24-36 months unemployed, 36+ months unemployed, part-time employed in receipt of benefit). Participation was mandatory for referred jobseekers. Referrals were made through a dynamic randomised referral mechanism: i.e. those who were not referred at first, were eligible for referral later on; jobseekers were selected for referral on a weekly basis.

#### *Market structure*

*JobPath* represents the single biggest employment services contract of the Irish state. The contracts for *JobPath* covered all of the Republic of Ireland, which was divided into four tender lots (= contract areas) in the request for tender. With the Government spending little money upfront and a strong focus on payment-by-result fees, smaller, non-commercial providers were not able to participate in the tender as prime contractors. Bids were accepted for single contract areas or bids combining contract areas. In each contract area there was only one prime contractor (i.e. no competition/choice within areas). *JobPath* services were provided by only two prime contractors, both delivering services in two contract areas each.

#### *Selection criteria*

All bidders who submitted valid bids had to pass two qualification criteria:

1. Economic and financial standing (turnover, financial robustness of the tenderer, ability to finance the contract); and
2. Technical and professional ability (experience for the services sought, senior staff competences and experience in the area of employment service delivery).

Providers passing the first tender stage had their bids assessed against four criteria with the following weights: Cost (40%), implementation of services (18%), delivery of services (30%), contract management and governance (12%).

#### *Payment model*

The Irish Government did not set a lead price for the *JobPath* services; i.e. during the tender stage there was full price competition. The price that tenderers included in their bids was determined through i) the actual costs of providing *JobPath* services (staff costs, indirect staff costs, accommodation costs, IT costs, operating costs, client costs, partnership & research, borrowing costs) and ii) the tenderer's stated profit margin. The price to be received for upfront "registration" and payment-by-result "sustained" employment was determined through the bidders "performance offer". For this purpose, providers received information on an expected counterfactual, i.e. outcomes expected for the long-term unemployed in absence of

*JobPath*. Providers, however, had to set an expected performance at least 30 percent above the counterfactual. Providers also had to specify the percentage of participants they expected to remain in sustained employment at 13 weeks, 26 weeks, 39 weeks and 52 weeks. The maximum proportion of registration fees as a proportion of the total aggregate fees was set at 35%.

The *JobPath* pricing model also contained a link with labour market developments. The Department reserved itself the right to apply discounts (4%, 8% or 16%) to the initial prices submitted by tenderers if the employment levels exceeded a certain reference levels to account for the possibility that employment growth would be stronger than in the reference level (Department of Social Protection, 2013). The reference level assumed relatively weak employment growth and was surpassed by the positive labour market developments in Ireland in the years following the *JobPath* roll-out. Consequently, the Department applied a discount of 8% to the fees for the period April-December 2017 and a further discount in the year 2018, after an in-depth evaluation of the financial position of the contractors and their cost (Office of the Comptroller & Auditor General, 2017).

#### Service requirements

The request for tender specified a “service guarantee” of minimum services that contractors had to offer, including:

- A one-to-one meeting with a counsellors within 20 days of the referral;
- A Personal Progression Plan (PPP) within twenty 20 days of the first one-to-one meeting;
- One-to-one review meetings with a counsellor at least every 20 days where jobseekers have not entered employment;
- In-depth review meetings and update of the PPP, if the jobseeker was still unemployed at 13, 26 and 39 weeks;
- In-employment support for at least the first 13 weeks in employment;
- A final meeting;
- Minimum service hours, accessible locations for face-to-face meetings that are no more than 60 minutes commuting time.

#### Outcomes

A counterfactual impact evaluation of *JobPath* found that unemployed who participated in *JobPath* in 2016 were 20% more likely to move into employment in 2017 than without *JobPath*, and 26% more likely in 2018. Participants who found a job also earned 16% more per week in 2017 and 17% more in 2018 if they benefited from *JobPath* in 2016. This means that, on average, individuals who participated in *JobPath* in 2016 had earnings from employment in 2017 that were 35% higher than without the programme and 37% higher in 2018. What is more, positive effects were found for all participant cohorts, including those furthest from active participation in the labour market (DEASP, 2019).

Qualitative evaluations were carried out through online and telephone interviews with *JobPath* participants. In the years 2016 to 2018 this included more than 4 000 phone and over 8 000 online surveys. Respondents were asked not only whether they were satisfied with *JobPath* overall, but they were also asked to compare the service offered by *JobPath* with the services provided directly by the PES. The surveys showed a strong overall performance of *JobPath* providers. On a five point scale (five as the top score) providers consistently scored above 3.5 in the online surveys and over 4 in the phone-based survey. More than half of the participants felt that the contracted providers offered similar or better services than comparable PES services (DEASP, 2018 and 2019).

#### Cost-effectiveness

A cost-effectiveness (and/or cost-benefit) analysis of *JobPath* is not available.

### Additional comments

*JobPath* is a successful programme both with respect to the preparation, contracting, and implementation. Many features of its contract design address shortcomings of other programmes in an international perspective, even though competition prevailed only during the tender stage. The programme has a strong performance management system, which was backed up by rigorous monitoring of the providers and their results, even though some parts of the monitoring were not automated and required manual checking (e.g. providers' payment claims). The *JobPath* random referral mechanism also enabled a robust and reliable quantitative counterfactual impact evaluation, which is rare for programmes implemented on a national basis.

### Further reading

Department of Employment Affairs and Social Protection – DEASP (2018), “Satisfaction with JobPath service providers (Online research 2018)”.

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DEASP (2019), “Evaluation of JobPath outcomes for Q1 2016 participants”, *DEASP Working Paper*, Dublin, <https://www.gov.ie/en/publication/0939ba-working-paper-evaluation-of-jobpath-outcomes-for-q1-2016-participant/> (accessed on 20.08.2021).

Department of Social Protection (2013), “Request for tenders by the Department of Social Protection for the Provision of Employment Services (“JobPath”), <https://assets.gov.ie/43953/779cf0d7113342669a36f09f39e9ad5b.pdf> (accessed on 20.08.2021).

Office of the Comptroller & Auditor General (2017), “JobPath Employment Activation Service”, <https://www.audit.gov.ie/en/Find-Report/Publications/2018/2017-Annual-Report-Chapter-12-JobPath-Employment-Activation-Service.pdf>.

## Italy

The public sector monopoly on the provision of government-funded employment services in Italy was formally abolished in the late 1990s. Prior to the rollout of a national scheme via a system of “reintegration vouchers” beginning in 2017, the use of contracted out employment services was implemented exclusively on a region-specific basis, with considerable differences in the use of contracting across Italy’s 21 regions (OECD, 2019). Of these regions, all but three have their own region-specific scheme, each with its own parameters in terms of the provider payment model and client eligibility criteria.

This factsheet details the Italian experience in two programmes: the nationwide vouchers overseen by the national PES, and the example of a regional scheme from the region of Veneto.

### ***The Reintegration voucher (assegno di ricollocazione), Italy, 2017-present***

Italy’s national PES, ANPAL, implemented a nationwide voucher scheme beginning in 2017.

#### Client groups

All unemployment benefit recipients who have been unemployed for at least four months. During the pilot phase, which ran from March 2017 until May 2018, only programme participants selected to be in the treatment group were eligible. Clients are to be referred to the provider for 6 months (ANPAL, 2019).

#### Market structure

Geographically overlapping providers, with large numbers of different types of providers within each region, including the local offices of the PES. In 2018, there were 354 public providers (public employment offices) and 2 017 private providers, with 1 649 private providers having national accreditation (ANPAL, 2019). Larger regions tended to have more providers. The region with the largest number of providers, Lombardy, has 486 providers.

#### Selection criteria

Individuals are given the ultimate choice of their employment services provider via the voucher scheme and, hence, providers are thus meant to satisfy basic quality criteria. Three types of selection and accreditation procedures exist for establishing eligibility as service providers under the reintegration voucher: i) regional authorities may determine that public employment offices are eligible to provide services via the reintegration voucher; ii) private service providers may be accredited according to regional accreditation systems; iii) private service providers may be accredited at the national level by ANPAL, the national PES (OECD, 2019). The following providers are automatically eligible to provide employment services via the reintegration vouchers: public and private universities, vocational education providers, municipalities, chambers of commerce, employers’ associations and trade unions.

#### Payment model

In practice, roughly 50% of payments to providers are likely to be based on outcomes.<sup>6</sup> Providers are to be paid up to EUR 106 for each new client so as to compile a new individual action plan (with the precise amount depending on how work-intensive the process was claimed to be). The maximum possible payments vary depending on the employability profile of the jobseeker as determined by a quantitative profiling tool (OECD, 2019). The amount varies from EUR 1 000 to EUR 5 000 for placement into

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<sup>6</sup> Calculated based on estimates from ANPAL (2018). The share of individuals placed with the private service providers who entered employment averaged 25.9% while the share of those who became employed for at least 6 months amounted to 12.6%. Taking the payment range for different client groups and assuming the maximum attachment fee for a 3-hour counselling session to compile an updated individual action plan yields a wide range of possible outcomes, from 10% to 60%.

permanent contracts, EUR 500 to EUR 2 500 for placements into fixed-term contracts of 6 months or more, and EUR 250 to EUR 1 250 for placements into fixed-term contracts of 3 to 6 months (ANPAL, 2020). This means that a large share of the potential payment for each referred client is based on employment outcomes – for an individual client, the variable component is over 90%, regardless of the client profile. Nevertheless, the variable components do not give the private providers a strong incentive to improve on the outcomes that would have happened had the clients remained with the PES.

An aggregate minimum outcome floor was set for providers to continue receiving attachment fees for referred clients: they have to achieve 110% of the job-placement rates for provincial-level unemployment benefit recipients over the past 5-11 months (ANPAL, 2018).

#### Service requirements

Providers must provide a revised individual action plan for their new clients (for which they are allocated up to three hours).

#### Outcomes

An impact evaluation of the programme's short-term effects found a slightly positive, but statistically insignificant effect (ANPAL, 2019). After one year, individuals receiving services from private providers had an employment rate that was 3.3 percentage points higher than the control group, in which 25.9% had entered employment. There were considerable differences in the estimated effects across regions (although they were still statistically insignificant), with the point estimates of the effects highest in north-eastern Italy.

#### Cost-effectiveness

Given the lack of statistically significant results for the outcomes, the programme cannot be judged to be cost-effective.

#### Additional comments

Despite the high share of outcome-based payments in theory, the parameters of the payment model means that providers do not have a strong incentive to achieve outcomes in excess of what is achieved by the PES. The lack of a statistically significant positive effect shows that the provision of effective employment services can be challenging for both public and private providers (OECD, 2019). At the same time, the small sample sizes and the short length of the pilot programme evaluation arguably decreased its statistical power – the potential for the evaluation to yield statistically significant effects even if they do exist. One additional factor complicating the assessment of the national voucher scheme stems from the presence of additional, region-specific contracted-out service schemes which were running in parallel. These were not accounted for in the ANPAL (2018) study.

According to statistics from 2018, the programme suffers from an extremely low take-up rate: one year after the start of the programme, only 9.9% of eligible jobseekers had decided to use their vouchers to seek contracted-out employment services (ANPAL, 2019). OECD (2019) attributes this low take-up rate to the fact that private providers may have been more likely to enforce sanctions for individuals not complying with the active job search requirements that are (theoretically) a precondition for receiving unemployment benefits.

#### Further reading

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### ***Jobseeker's Allowance (Assegno per il Lavoro) in Veneto, 2017-present***

In the Veneto region, which includes the city of Venice, the Jobseeker's Allowance voucher scheme is used in place of the national scheme. Vouchers entitle beneficiaries to receive on job search information, counselling, training and other support from the private providers, for a duration of up to 6 months (Veneto Lavoro, 2021).

#### *Client groups*

All registered unemployed over 30 in Veneto, regardless of unemployment duration. Employed or self-employed individuals with sufficiently-low income are also eligible.

#### *Market structure*

Large numbers of different types of providers within each region. In total, there are 108 providers with 400 offices in total. Most of the clients are serviced by a relatively small number of providers: since the programme began in 2017, the largest 10 providers have served approximately two-thirds of the clients, while 48 of the providers have each served less than 50 clients.

The largest share of the market is comprised of for-profit corporations, including multinational employment services providers and temporary-work agencies. A smaller share of the market is comprised of other accredited entities, including non-profit organisations and cooperatives.

#### *Selection criteria*

As individuals are given the ultimate choice of their employment services provider via the voucher scheme, the providers need only satisfy basic quality criteria. Providers need to be accredited for providing employment Services in the Veneto Region and providing services under the Jobseeker's Allowance.

In order to enable jobseekers to make an informed decision about which provider they choose, the regional PES publish rankings of providers based on performance measures evaluating orientation, number of hours of counselling provided, job placement rates, vocational training rates, and customer satisfaction indicators.

#### *Payment model*

In practice, approximately 60% of payments are outcome-based. The theoretical upper bound for the outcome-based component – calculated as the share if every referred client were to become employed for at least 9 months – is 75-85%, depending on the profile of the client. Each referred client is receives a training voucher in the amount of EUR 1 770, which the provider may to provide training to the client.

The maximum possible amount paid per client varies depending on the profile of the client (Table A2). Clients are categorized into one of three “bands”, depending on the probability of becoming employed within 24 months. This profiling is conducted by the local PES based on data available from the Veneto Employment Information System and includes individual socio-demographic characteristics (age, gender, geographic location, education, training), information on the unemployment event, and information on employment history prior to becoming unemployed.

**Table A2. Maximum possible values of the Jobseeker's Allowance (EUR)**

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

Note: Maximum possible amounts per client for attachment fee are indicated; providers are reimbursed on a fee-for-service basis for this component.

Source: Veneto Lavoro (2021).

The variable component is paid for providers if their clients remain at their initial employer for either 6, 8 or 9 months (depending on profile of the client), regardless of the type of employment contract.

Service requirements

Clients are referred to providers for either 3, 5 or 6 months, depending on the client's employability band (as assessed by the PES – see above). The shorter periods are for the more readily-employable groups of clients.

Additional comments

The payment for zero payment if individual changes jobs before cut-off point (which is slightly unfortunate – individual could have been retrained by provider, but then provider is not rewarded).

Further reading

Veneto Lavoro (2021), "Monitoring of Jobseeker's Allowance," Report no. 10, February 2021, available at [https://www.venetolavoro.it/documents/10180/7151629/Report+Assegno+per+il+Lavoro+++Febbraio+2021\\_EN.pdf](https://www.venetolavoro.it/documents/10180/7151629/Report+Assegno+per+il+Lavoro+++Febbraio+2021_EN.pdf).

## Korea

Korea has been contracting out employment services since 2006 and outcome-based contracting is used for a number of labour market programmes in Korea. Presented here are the *National Employment Support Programme* and the *Digital Jobs Programme for Youth*. Other programmes not covered here include the *Employment Support Programme* on Jeju island and the *Employment Support Programme for the Disabled*.<sup>7</sup>

### ***National Employment Support Programme***

In January 2021, the *Employment Success Package Programme* was integrated into the *National Employment Support Programme*. As part of the *National Employment Support Programme* Korea's 49 *Regional Employment and Labor Offices* may deliver employment services itself or contract out the services to external providers. There were 308 290 new starters on the programme in 2018, 223 106 in 2019, and 227 327 in 2020.

#### Market structure

When employment services are contracted out, contracts with external providers are concluded for one year with competent providers selected through open competition. The 49 *Regional Labor and Employment Offices* select one or more providers taking account of factors such as the target number of participants and additional capacity needed. As of 2021, there were 533 contracted providers throughout Korea under the programme. The size of providers differs and may include small, sole proprietorship business as well as larger for-profit and not-for-profit providers.

#### Payment model

The *National Employment Support Programme* is structured into different payment groups and contracted providers can receive both service and outcome-based fees. The assignment to client groups (A, B, C or D) is based on a client survey that collects information on health status, age, educational background, period of unemployment, period of employment insurance subscription, employment-related qualifications, etc.

- Service fees: Upon completing an Individual Action Plan (IAP) with participants the providers receive KRW 400 000 per participant or KRW 650 000 for certain vulnerable groups.
- Outcome fees are available when participants successfully find work. The amount of outcome fees vary depending on the i) employment competency of the participant, ii) the participant's income in the new job, and iii) the speed of finding employment (i.e. the period between completion of the IAP and the person finding work). For participants with lower employment competency (Grades A and B), providers can receive between KRW 300 000 and KRW 1.6 million (KRW 500 000-KRW 1.8 million for certain vulnerable groups) as a function of the participant's income in the new job. For participants with higher employment competency (Grades C and D), providers can receive between KRW 100 000 and KRW 1.4 million (KRW 300 000-KRW 1.6 million for certain vulnerable groups) as a function of the participant's income in the new job.

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<sup>7</sup> Both General Employment Support Programme and the regional development programme for Jeju have the same client groups, targeting unemployed in low income households, young people, micro-business owners and other vulnerable groups (e.g. North Korean defectors). The *Employment Support Programme for the Disabled* targets individuals with disabilities seeking employment aged 18 to 69 years.

### Service requirements

Jobseekers eligible for the programme can choose a provider, otherwise they are assigned to a provider close to their residence, and providers must take on every participants assigned to them. Providers at first establish an individual action plan with each participant. At this stage, participants receive the first payment of the job-search incentive payment (“job search promotion subsidy”; KRW 500 000 per month). In the following months (month 2 to month 6), participants also receive a job-search incentive payment unless they find employment before. Once participants have found employment, the follow-up management period of three months for the providers start. For participants who have not found employment, an intensive job placement services period lasting three months starts.

### Outcomes

A study by the Korea Labor Institute (KLI) in 2018 showed that the programme improve employment and reduced poverty through a 16.6 percentage points increase of the employment rate and a 2.4 percentage points decrease in the poverty rate.

### **Digital Jobs Programme for Youth**

The Digital Jobs Programme for Youth is a private sector job creation programme the youth, which subsidises labour costs of small- and medium-sized companies that hire young people in IT-related positions to provide young people with IT-related work experience. The contracted providers that operate the programme receive basic management fees and performance-based fees:

- Basic management fee: KRW 200 000 for each young person that participates in the programme.
- Performance-based fees: KRW 100 000 per young person hired as regular employee or converted to a regular position early in the programme. Additional fees of KRW 50 000 per person are available, if the young person is hired to work in a position related to “big data” technology. Furthermore, KRW 50 000 per person are paid when the participants finds employment in a start-up launched by a young entrepreneur.

## Netherlands

The use of contracted employment providers has a relatively long history in the Netherlands, where publicly-funded provision of contracted employment services first began in the late 1990s (Sol and Hoogtanders, 2005). A large-scale shift from the PES towards contracted services occurred in 2002, when “reintegration programmes” – encompassing education, training and employment for individuals registered with the PES – were transferred to contracted providers. Parts of the PES which had previously offered such services became an independent government company, which could compete for tenders. The Netherlands made another important step towards a quasi-market for employment services in 2004, with the introduction of a statute which would make it compulsory for municipalities to outsource their reintegration services. In addition, the 2004 reform stipulated that municipalities would become fully financially responsible for their social assistance expenditures by 2007, providing additional financial incentives for the provision of effective employment services.

### ***Reintegration markets & Open House contracting***

The Dutch approach to contracting is decentralized and involves providing vouchers for employment services from various contracting authorities – there is no single access point for receiving the vouchers, and they are not overseen by a central authority. The broad term originally used for the decentralized markets for employment services organized by the UWV was “Reintegration markets”. More recently, they have been described under the umbrella term “Open House” contracting.

#### *Client groups*

All benefits claimants subject to activation requirements are theoretically eligible for referrals to contracted providers (Finn, 2012). The decision of who to refer varies across the approximately 400 individual municipalities administering social assistance benefits and the Institute for Employee Benefit Schemes (UWV), which is responsible for administering unemployment benefits.

A voucher for employment services was introduced in 2004, where individuals could choose a provider with whom to enter an “Individual Reintegration Agreement”. During 2004-2007, approximately one-third of the roughly 200 thousand clients placed with contracted providers were placed through the voucher system. Recipients of social assistance can opt for a similar agreement with a contracted provider via a “Personal Reintegration Budget” (Beekman and Veerman, 2009).

#### *Market structure*

Large number of relatively small providers. The number of contractors for UWV, the largest sole purchaser, increased from less than 100 in 2003 to 1 960 by 2007. Of these, approximately 1 700 delivered only services for employment services and approximately 1 500 were “one person-providers” servicing 10-15 clients (Finn, 2012). According Sol (2008), providers are mostly for-profit entities: only 4% were non-profits, who specialized in placing disabled clients.

#### *Selection criteria*

Given that clients ultimately chose their provider via the voucher system, accredited providers are selected based on minimal requirements which are not centrally determined. From 2002 and 2008 the UWV organised some sixteen rounds of tenders, with selection undertaken by regional officials (Finn, 2012). The criteria varied depending on the target groups. For contracts relating to work with harder-to-place individuals, relatively greater weight was given to qualitative criteria instead of price.

Less information is available on the details of the tendering process for individual Dutch municipalities who are given considerable freedom in designing their procurement strategies. There was no common framework for subcontracting services.

### Payment model

Approximately 40-50% outcome-based. Approximately 10-20% of the price was to be paid on completion of an agreed individual action plan, a fixed attachment fee of about 40% was to be paid six months after referral, and 40% or 50% after placement in a job for two months with a minimum six month contract. Average cost per placement trajectory decreased from EUR 4 700 in 2003 to between EUR 2 800 and EUR 3 500 by 2007.

### Service requirements

Not explicitly defined, but in order to have their contract renewed, providers must meet a set of minimum requirements (e.g. client satisfaction results, placement percentages) to be on the potential providers list. Provider with better results have a greater likelihood of being selected to continue delivering services.

### Cost-effectiveness

According to Beekman and Veerman (2009), services provided by contractors via vouchers funded by the UVW are more expensive compared to traditional services, by a factor of 1.2 to 1.4. However, they have been found to be cost-effective for certain types of participants: for disability benefits recipients, the costs-per-placement are lower than with traditional services by a factor 0.7 – 0.9. For the unemployed, the costs-per-placement have been found to be higher, by a factor of 1.0–1.4.

### Additional comments

In the Dutch model, the introduction of vouchers and multiple providers within contract areas fosters competition within the quasi-market. It also gives municipalities the freedom to allocate more intensive help to disadvantaged jobseekers and tailor services to the local labour market. Municipalities also have a financial incentive for establishing the right balance of cost-effective services, as they must finance both passive and active measure for social assistance recipients: in addition to paying contractors for employment services, they also must finance social assistance expenditures. However, the very large number of providers arguably decreases transparency, making it difficult for well-performing providers to be rewarded with additional clients.

### Further reading

Beekman, D. and T. Veerman (2009), *The Dutch Experience with Private Social Services*, <https://ec.europa.eu/social/BlobServlet?docId=8050&langId=en>.

Finn, D. (2012). *Subcontracting in Public Employment Services: The Design and Delivery of 'Outcome Based' and 'Black Box' Contracts*. European Commission Mutual Learning Programme for Public Employment Services, DG Employment, Social Affairs and Inclusion. Retrieved from <http://ec.europa.eu/social/BlobServlet?docId=14110&langId=en>

Robbe, T. (2017), “2018: Evaluation of administratieve tendering / open house procedures: will we continue or not?”, <https://www.sociaalweb.nl/blogs/2018-evaluatie-van-bestuurlijk-aanbesteden-open-huis-procedures-gaan-we-ermee-door-of-niet> (accessed 28 April 2021).

Sol, E. and Y. Hoogtanders (2005), “Steering by Contract in the Netherlands: New Approaches to Labour Market Integration”, in Sol, E., M. Westerveld and M. Westerveld (Eds.), *Steering by Contract in the Netherlands: New Approaches to Labour Market Integration*, Kluwer Law International B.V.

Sol, E. (2008), “It's the client, stupid! An active role for the client in Dutch employment”, in P. Lilly, & O. Hartwich (Eds.), *Paying for Success: How to make contracting out work in employment services*. Policy Exchange.

## New Zealand

New Zealand has a number of results-based contracted-out employment services to support specific segments of unemployed and inactive individuals (for an exhaustive overview of programmes by expenditures, see Ministry of Social Development, 2020). The programmes generally target clients who are at medium-to high-risk clients of long-term unemployment. Examples of such programmes include trial programmes such as the “Sole Parent Employment Service”, which provided employment support to sole parents on the Jobseeker Support benefit for whom returning to full-time work was possible as their youngest dependent child was over 13 years old. They also include programmes such as the “Youth Service”, which are intended to assist disadvantaged 16-17 year olds. Of the programmes serving PES clients, one of the largest set of contracts, the Employment Placement or Assistance Initiative contracts, are described in greater detail below.

### ***Employment Placement or Assistance Initiative contracts***

These contracts enable eligible clients – generally, those receiving means-tested benefits who are not severely disabled – to obtain services from their chosen provider for up to 12 months while they are unemployed and for an additional 12 months if they become employed. Services include pre-employment assistance to ascertain the client’s employment preferences and readiness for employment, identifying employment opportunities, employment placement, employment support for the first 12 months of employment, and in-work support for people who require assistance for career development or work-place issues.

#### *Client groups*

The programme is aimed toward two sets of target groups: (i) the disabled and (ii) those with a health condition. Disabled individuals who qualify for vocational rehabilitation are not eligible.

#### *Market structure*

Geographically overlapping providers, with large numbers of different types of providers within each region. The largest providers serve all of New Zealand, while some only have a single location. Providers include non-profit organisations specializing in working with disabled individuals, education and training providers, and private employment services companies. Clients are given the choice of which provider to contact.

Providers are required to either be accredited according to New Zealand’s Social Sector Accreditation Standards or to acquire accreditation within 6 months of being approved to receive clients. These accreditation standards are intended to assure the capability and capacity of non-government organisations to safely deliver social services. Of the four levels of accreditation, providers needed to satisfy “Level 4”, the least stringent accreditation standards.

#### *Selection criteria*

Individuals are given the ultimate choice of their employment services provider, and providers are responsible for obtaining clients.

Nevertheless, potential providers have to undergo an approval process in order to obtain clients. They first have to demonstrate “success in placing disabled people and people with a health condition into employment and providing in-work support to achieve sustainable employment outcomes” (Ministry of Social Development, 2018b). Conditional on satisfying this precondition, the following qualitative criteria were used:

- **45%: Past performance and experience working with disabled individuals.** This includes being able to demonstrate strong relationships with the disability community and disabled peoples

networks as well as success stories where providers have worked in partnership with disabled people to successfully overcome barriers to work.

- **25%: Management and performance monitoring practices.** This includes specific details about how providers solicit feedback from their clients or employers and how they incorporate them into their business practices, as well as the extent to which staff are actively encouraged to be innovative, developing new approaches or ways of working.
- **15%: Employing staff with relevant knowledge for placing disabled individuals into sustained employment.**
- **15%: Approach to addressing customer-specific employment barriers.** This includes demonstrating how staff are encouraging and optimistic about finding work opportunities based on a disabled client's unique situation, and assessing what is needed in terms of supports or workplace accommodations as well how these can be created/sourced in a timely manner.

#### Payment model

The payment model features a large results-based component that varies depending on the profile of the client. Profiling of the clients is the responsibility of the provider, who assign jobseekers one of three “Support Level Indicators”, with the minimum level of services varying across the three categories (see below).

**Table A3. New Zealand's Employment Service payment model**

Per-client maximum payments based on client's employability profile and duration of employment

Fee type		Support Level Indicator		
		Low	Medium	High
<b>Attachment fees</b>				
	Upon referral	NZD 260	NZD 260	NZD 260
	Individual action plan submitted	NZD 780	NZD 1 612	NZD 2 444
<b>Total attachment fees</b>		NZD 1 040	NZD 1 872	NZD 2 704
<b>Outcome-based fees</b>				
	Entering employment	NZD 1 300	NZD 2 340	NZD 4 160
	3-month sustained employment	NZD 416	NZD 650	NZD 1 300
	6-month sustained employment	NZD 416	NZD 650	NZD 1 300
	9-month sustained employment	NZD 416	NZD 650	NZD 1 300
	12-month sustained employment	NZD 416	NZD 650	NZD 1 300
<b>Total outcome-based fees (upper bound)</b>		NZD 2 964	NZD 4 940	NZD 9 360
<b>Share of outcome-based fees (upper bound)</b>		74%	73%	78%

Note: Fees paid assuming individual enters unsubsidized, full-time employment (at least 30 hours per week). Lower payments are stipulated in other cases.

Source: Ministry of Social Development (2018b).

#### Service requirements

Providers are given the discretion to classify each client into one of three categories based on the level of support needed (“Support Level Indicator”). Based on these ratings, minimum service requirements range from once monthly contact – which can be predominantly electronic – for the most employable group to weekly contacts for the least employable group. Providers are also required to construct an Individual Action Plan for each client.

The contracts stipulated the expectation that providers will achieve the following aggregate employment outcomes:

- 40% of clients will achieve paid employment within 12 months of starting the service,
- 20% of clients will become employed and remain employed for more than 6 months, and
- 10% of clients will become employed and remain employed for more than 12 months.

### Outcomes

Evaluation results are available for the programme's predecessors, Employment Placement or Assistance Initiative contracts. According to these results, summarized in Ministry of Social Development (2018a), the programme is highly effective at placing individuals into employment. Over an observation period of 30 months following their entry into the programme, participants were in employment for 15% longer than comparable individuals not entering the programme. Positive gains were observed in terms of duration of a (lower) duration on income support, for which a 17% reduction was observed, and for period in incarceration, for which a 19% reduction was observed.

### Additional comments

While the programme is effective in placing individuals into employment, it appears that placed individuals went into lower quality jobs, as measured by their wages. Over a several year outcome period, inclusion in the programme was observed to have a 15% increase in time in employment, compared to a statistically insignificant 2% increase in income. In other words, the statistically significant and considerable increase in time in employment was not accompanied by a statistically significant increase in earnings. This may reflect the financial incentives of the private providers embedded in the payment contracts: providers have an incentives to place clients into sustained employment, regardless of the wage they may receive.

At present, contract performance payments do not take into account of local labour market conditions.

### Further reading

Ministry of Social Development (2018a), "Cost effectiveness of MSD employment assistance: Summary report for 2016/2017 financial year", Wellington, New Zealand, November 2018, <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/employment-assistance-effectiveness/ea-effectiveness-report-07022019.pdf>.

Ministry of Social Development (2018b), "Request for Proposals - Employment Service", Wellington, New Zealand, September 2018.

Ministry of Social Development (2020), "MSD and MYD contracted funding F20", available at <https://catalogue.data.govt.nz/dataset/msd-and-myd-contracted-funding-f20>.

## Sweden

In May 2019, the Swedish Government commissioned the Swedish public employment service (PES) *Arbetsförmedlingen* to prepare for a major reform of publicly funded employment services in Sweden. The centrepiece of the reform is to redefine the mission of Arbetsförmedlingen from the major provider of employment services towards contracting out the majority of such services to independent providers, in line with the Swedish Freedom of Choice Act. The reformed labour market authority will then oversee the contracting out to and managing of independent providers within the Swedish legal framework for public procurement.

Sweden has long-standing experience in contracting out employment services to independent providers including trial programmes between 2007 and 2009 (see Box A3) and the *Kundval Stöd och matchning* (STOM) programme, which ran from 2014 to 2021. A larger trial programme, called *Kundval Rusta och matcha* (KROM), started in spring 2020 in 32 municipalities and is being rolled out in the remaining 258 Swedish municipalities in 2021, replacing STOM wherever it is introduced. KROM provides an opportunity for further evaluating contracted out employment services in Sweden and will provide lessons for the planned reform.

Details for both KROM, STOM and a trial programme are presented here. KROM differs from STOM in a number of ways, including i) the use of a statistical profiling tool to refer jobseekers, ii) participants with a greater distance to the labour market on average, iii) a longer maximum duration (12 months in KROM instead of 9 in STOM), and iv) a greater focus on outcome-based fees.

### ***Kundval Rusta och matcha (“Client choice in preparing and matching”)***

In March 2020, *Kundval Rusta och matcha* (KROM) was introduced as a trial programme in six PES delivery areas, covering 32 municipalities of Sweden's 290 municipalities. Over the course of 2021, the programme is being rolled out in the remainder of Sweden.

#### Client groups

Referrals to KROM of jobseekers registered at the Swedish PES are based on a statistical profiling tool, which measures distance to the labour market and calculates the chance that the jobseeker will get a job within six months. Jobseekers with medium scores are referred to KROM, whereas jobseekers with a high or very low probability of finding a job are not referred to KROM. The final decision over referrals remains with PES counsellors, which may deviate from the profiling tool results in exceptional circumstances.<sup>8</sup> Over the course of 2020, both newly registered jobseekers as well as already registered jobseekers (“stock clients”) have been referred to KROM. The average monthly KROM caseload in 2020 was around 3 000. Participants' were aged 38 years on average, 60% were men, 40% only had primary school education, and 60% were born outside Europe (Bennmarker et al., 2021).

#### Market structure

For the purpose of KROM, Sweden has been divided into 72 delivery areas. The programme was rolled out in 6 delivery areas in March 2020 (covering 32 municipalities). In May 2021 another 14 delivery areas were added (covering 53 municipalities). Nine further delivery areas (covering 101 municipalities) will be added in September 2021 and 43 delivery areas (covering 104 municipalities) will be added in December 2021 to then cover all of Sweden. By June 2021, there were 54 unique providers for the KROM programme. 7 providers operated in 10-17 delivery areas, 11 providers operated in 6-10 delivery areas, 22 providers

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<sup>8</sup> A review by Bennmarker et al. (2021) suggests that in 2020, among the jobseekers profiled for KROM only around 65% started in practice on the programme.

operated in 2-5 delivery areas, while 14 providers operated only in one delivery area. By June 11 providers were working with a small number of subcontractors (1-5 subcontractors per prime contractor).

Client choice, in accordance with the Swedish Freedom of Choice Act, is an important element of KROM, requiring a minimum of two providers per delivery area. Clients can select a provider from a list of alternatives posted on the PES webpage. PES staff are not meant to influence clients' choice. Clients who do not make a choice within a week of referral to KROM are assigned to the supplier closest to their residential address. KROM participants are free to change their providers at any point during the participation in KROM, but providers are not obliged to accept participants with less than 60 days left on the programme. The freedom of client choice implies that providers are not guaranteed any referral volumes upon signing a contract with the PES for a delivery area.

#### Selection criteria

The Swedish Freedom of Choice act enables the application for contracts from a wide range of different providers. Potential providers applying for contracts in one of the delivery areas must meet a number of criteria, including financial and organisational requirements, prior experience in the provision of similar employment services, staff with certain skills, and the ability to serve clients without knowledge of the Swedish language (e.g. through multilingual staff, interpreters). The use of sub-contractors and details on sub-contractors must be specified in the application procedure, but can be changed over the course of the contract. Providers must be able to host at least 50 participants at any time in each delivery area they operate in. Above this minimum providers can choose to set a capacity ceiling, which can be adjusted over the time of the contract.

#### Payment model

KROM has a differential payment model with three payment groups and participants are assigned to the groups based on the results of the statistical profiling tool, which also determines eligibility for KROM. Participants in Group A are relatively closer to the labour market than participants assigned to Group B. Participants in Group C are assessed to be furthest from the labour market. The payment model consists of three different payment types (Table A4 provides an overview):

- Basic payment: paid as a daily allowance based on a five-day week. It is paid monthly in arrears, if the provider meets the requirements for joint planning and periodic reporting.
- Performance compensation: paid for employment or education/training outcomes, if the participants takes up employment or eligible education and training<sup>9</sup> lasting at least four months within two months after the end of the placement period.<sup>10</sup> Performance pay is available at two rates: i) 100% can be paid for full-time employment (or the working time arrangement according to the participant's availability requirements) or full-time education and training (or up to 75% of the participant's availability requirements); ii) 50% can be paid for part-time employment, which covers at least half of the participant's availability requirements.
- Speed premium: For work or education and training outcomes achieved before the end of the current six-months participation period, providers receive the remaining daily basic payments as a speed premium. This is intended to avoid a situation where providers would have had an incentive to maximise daily fees at the expense of earlier employment matches. Participants stay for a maximum of two six-months periods with a provider. For placements achieved within

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<sup>9</sup> Eligible education and training can be at the basic, secondary or post-secondary level, or alternative special education and must be eligible for funding through the Swedish Board of Student Finance (CSN).

<sup>10</sup> Several jobs or trainings can be aggregated, if they together satisfy the conditions for performance compensation. Training and employment outcomes cannot be aggregated. In case of interruptions, the maximum duration of the break is two weeks.

the first of the two six-month placement periods, providers are paid an extra premium (equal to the total basic payments of the second period).

For participants placed in Group B, the PES trials two different compensation models. In three areas the alternative model B-2 offers higher basic compensation, but lower performance fees than in the other three delivery areas (model B-1).

**Table A4. KROM payment model**

Payment Group	A	B-1 <sup>a</sup>	B-2 <sup>b</sup>	C
Basic payment for twelve-month period	SEK 14 520	SEK 16 368	SEK 19 800	SEK 23 760
Performance fee	SEK 20 300	SEK 32 400	SEK 25 000	SEK 38 000
Speed premium (replaces basic payment for those placed before end of 12 months)	SEK 14 520	SEK 16 368	SEK 19 800	SEK 23 760
<b>Maximum amount of fees per participant</b>	<b>SEK 34 820</b>	<b>SEK 48 768</b>	<b>SEK 44 800</b>	<b>SEK 61 760</b>

Note:

- a. Applies to delivery areas Lidköping, Blekinge and Västerås.
- b. Applies to delivery areas Oskarshamn, Trollhättan and Umeå.
- c. Based on the assumption of 22 payable days per months.

Source: Arbetsförmedlingen (2020a), "Upphandling Kundval Rusta och matcha" ("Procurement of Kundval Rusta och matcha"), <https://arbetsformedlingen.se/download/18.47a458fb16df81b9133fa4d/1582809142470/forfragningsunderlag-kundval-rusta-och-matcha.pdf> (accessed on 3 June 2021).

#### Service requirements

Following the choice of provider, participants must start within ten days with their provider. Participants can be placed in KROM for a maximum of two periods of six months each. Providers must establish an individual action plan for each client and have individual development meetings of at least 30 minutes with each participant at least once every two weeks (in-person meeting once a month, other meetings can be digital). Every week, the provider must plan at least one activity for each client, which can cover assessment of the participant's skills and competences; study and career guidance; contacts with employers or other relevant actors; shorter training programmes including digital skills training; health promotion measures; language courses etc. In addition to the mandatory interventions, providers can engage the participants in additional activities. KROM participants can also take part in certain other programmes such as internships or preparatory training offered by the PES.

Furthermore, the providers have documentation and reporting requirements. In addition to the individual action plan, the "joint planning report" sets out the provider's support plan for each participant, monthly "periodic reports" for each participant are meant to enable monitoring and evaluation of the provider, and a "final report" describing "what worked and what has not worked" and proposed next steps for the jobseeker. "Informative reports" are used to request additional support from the PES (e.g. referral to other programmes) and "deviation reports" are used report back on participants' absence and unmet obligations.

#### Outcomes

In the first year of the KROM programme (March 2020 to April 2021) there were 10 789 unique participant starts.

### ***Kundval Stöd och matchning (“Client choice in support and matching”)***

The Arbetsförmedlingens *Kundval Stöd och matchning* (STOM) programme was introduced in 2014 to complement existing PES provision through contracting out services to independent providers. Stated aims were finding innovative methods to break jobseekers' unemployment cycle through integrating them into employment or education and training; making use of providers' specific knowledge of industries and the target groups; and augment the network of employers hiring or offering work experience to PES-registered jobseekers.

#### *Client groups*

Disadvantaged jobseekers (e.g. unemployed with pre-secondary education only, born abroad, with disabilities resulting in reduced capacity for work, aged 55-64 years) were referred to contracted provision under STOM through four different “tracks”. The tracks differed with respect to the maximum possible duration (180 or 270 days), the payment schedule and the activities for the participants.

#### *Market structure*

Client choice, in accordance with the Swedish Freedom of Choice Act, meant that jobseekers could select a provider from a list of alternatives. This in turn meant that there were no guaranteed referral numbers for the providers. For the purpose of STOM Sweden was divided into 72 delivery areas, which matched the Swedish Agency for Economic and Regional Growth classification of regions. The number of suppliers in STOM has varied over time. In November 2019, there were 158 suppliers across Sweden, while the maximum was 186 unique suppliers in July 2018. The number of suppliers per delivery area differed across the country and many suppliers operated in more than one delivery area. In more metropolitan areas more than 30 suppliers operated at the same time, other areas still had between 15-30 suppliers, while in some areas only 1-3 suppliers were active. The five biggest suppliers served 22-42% of the STOM participants over time, while the 32 suppliers with only one contract served fewer than 10 participants per month (National Audit Office of Sweden, (2020)). In total there were, however, six delivery areas with no suppliers.

#### *Payment model*

The payment model included a basic compensation and a performance based compensation. Clients were referred to providers for an initial period of 90 days, which could be extended by one (Track 1 and 2) or two (Track 3 and 4) additional 90 day periods. The basic compensation (calculated in daily rates) was paid monthly in arrears. Providers received the remaining basic compensation as speed premium, for participants placed into employment or education and training before the end of the current attachment period. Performance fees were paid for employment outcomes of at least 4 months or education and training outcomes of at least 20 weeks.

- Track 1 “Basic support and matching”: Basic compensation of SEK 6 500 for 90 days and performance fees of SEK 12 000.
- Track 2 “Basic support and matching with linguistic support”: Basic compensation of SEK 13 000 for 90 days and performance fees of SEK 15 000.
- Track 3 “Enhanced Support and Matching”: Basic compensation of SEK 12 000 for 90 days and performance fees of SEK 16 000.
- Track 4 “Enhanced Support and Linguistic Support”: Basic compensation of SEK 18 200 for 90 days and performance fees of SEK 18 000.

#### *Outcomes*

The number of STOM participants has varied over time, steadily increasing after its introduction in 2014 to reach a peak of 90 978 participants in 2017. In 2019, the number had reduced to 56 344. In 2019, 23% of jobseekers entered work after their initial participation period and 3% were in education and training. The share of participants in work or education and training has decreased over time. This is likely to be due to

the change in the composition of participants over time, with a decrease in the proportion of participants in track 1 and an increase of participants in track 3 (National Audit Office of Sweden, 2020).

### Box A3. Randomised experiments in Sweden to trial contracted-out employment services

Between 2007 and 2009, Sweden ran two randomised control experiments trialling the use of contracted provision for i) hard-to-place unemployed not in need of training and ii) long-term sick and temporary disabled in need of vocational rehabilitation. Some details on the trial for hard-to-place unemployed are provided here; for an evaluation of the other trial see Laun and Thoursie (2014).

The trial for hard-to-place jobseekers ran from July 2007 to January 2008 and was set up as a randomised control trial (RCT) where unemployed from three different target groups were randomly assigned either to a contracted provider or to standard PES provision.

#### Market structure

Three regional labour markets areas, with two providers selected per area for each of the three target groups.

#### Selection criteria

The tendering proceeded in two phases. In the first phase, providers were scored on qualitative criteria, including their prior experience and the qualifications of their counsellors. Providers meeting a certain quality threshold were invited to submit a full bid. The final score was determined through a combination of price (40%) and quality (60%).

#### Payment model

At the end of the trial, approximately one third of total payments to providers were likely based on outcomes.<sup>1</sup> The attachment fee, paid upon referral, amounted to 40% of the maximum payment per client; 30% of the maximum fee was payable if the client became employed; the final 30% was payable if the client remained employed for three months. The maximum payment per client amount varied across clients groups and providers (given the price competition in the tender) and ranged from SEK 12 200 to SEK 42 000.

#### Service requirements

No minimum service requirements were specified. Client surveys indicate that individuals placed with the private providers received considerably more intensive services than PES clients (e.g. 83% met their caseworkers on a weekly basis, compared to 35% for those at the PES). According to the surveys, clients perceived these meetings to be helpful: they reported receiving more information to improve the quality of their job search by adopting an appropriate job-search strategy, receiving information on vacancies and help in finding a job.

#### Outcomes

While Bennmarker et al. (2013) find no statistically-significant positive effects in general, statistically significant positive effects were found for one of the three target groups: migrants. For this group, the results were immediate and persistent: those at private providers worked, on average 0.42 months more during the first quarter after randomisation than if had they been at the PES, which corresponds to a 119% improvement compared to the control group. Immigrants placed with private providers had outflows from unemployment into employment that remained statistically significant until up to six months after referral; during months three to six after the referral, they were 20 percentage points more likely to be in employment than the control group. Weakly negative effects were found for another target group (younger unemployed).

#### Additional comments

Precisely measuring the effects of the contracting experiment was hindered by the fact that referrals to private providers were not mandatory but subject to the consent of each referred client. This resulted in low take-up rates: only 28% of individuals who were given the option decided to switch from the PES to the private placement agencies. The relatively small sample – with 669 individuals recruited to the private providers – and the need for using an instrumental approach for estimating average treatment effects on the treated resulted in poor statistical power. Any estimated positive or negative effects on employment probability would have had to have been quite large – generally, in excess of 10 percentage points – to have been statistically significant.

Note: 1. Calculated based on estimates from Bennmarker et al. (2012). This share is calculated based on the share of individuals placed with the private service providers who entered employment at 1-3 months (31.8%) combined with the parameters of the maximum payments per client.

Source: Bennmarker, H., E. Grönqvist and B. Öckert (2013), "Effects of contracting out employment services: Evidence from a randomized experiment", *Journal of Public Economics*, Vol. 98, pp. 68-84, <http://dx.doi.org/10.1016/j.jpubeco.2012.12.002>; Bennmarker, H., E. Grönqvist and B. Öckert (2012), "Effects of contracting out employment services: Evidence from a randomized experiment", *Department of Economics Working Paper*, No. 2012:19, University of Uppsala; and Laun, L. and P.S. Thoursie (2014), "Does privatisation of vocational rehabilitation improve labour market opportunities? Evidence from a field experiment in Sweden", *Journal of Health Economics*, Vol. 34, pp. 59-72, <http://dx.doi.org/10.1016/j.jhealeco.2013.12.002>.

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## United Kingdom

The United Kingdom (UK) has a long history of contracting-out employment services for jobseekers to independent providers for a range of different client groups. The first performance-based contracts were introduced already in the late 1980s. A major change to the British quasi-market for employment services were the *New Deal* programmes<sup>11</sup> from 1997, which were implemented through a mix of public, private and voluntary sector provision with more than 900 providers across the UK. The British PES was the contracting authority, but models and contracts varied across regions and groups. A deviation of the mandatory *New Deal* programmes was introduced in 2000 in 15 deprived areas with high unemployment through the *Employment Zones* programme. *Employment Zones* had a higher proportion of result-based fees and introduced provider competition in some areas (see Box A4). In addition to programmes for jobseekers, outcome-based contracted provision for claimants of incapacity benefits was introduced in 2007 through the provider-led version of *Pathways to Work* (OECD, 2014).<sup>12</sup>

A new commission strategy in 2008 aimed to overhaul the system of contracted-out employment services to develop more strategic relationships with providers. The central elements were a prime provider model with large and long contracts, competition between providers, mainly outcome-based funding with a focus on sustained outcomes, and minimal service prescription through a “black box” delivery model. In 2011, the UK Government introduced a new contracted-out scheme – the *Work Programme*, which was the first national implementation of the new commissioning strategy. Introduced in response to high numbers of long-term unemployed following the global financial crisis (GFC), the *Work Programme* replaced over 20 previous welfare-to-work programmes (including the *New Deal*, *Employment Zones* and *Pathways to Work* programmes) serving a much wider customer base than any previous programme, including jobseekers, claimants of incapacity benefits and some other inactive benefits (OECD, 2014). The *Work Programme* accepted new participants until March 2017 and was not renewed in its entirety against the background of a lower unemployment rate than before the GFC. Another contracted programme, the *Work and Health Programme*, which is not discussed in this Annex, was introduced in England and Wales from end-2017. It is a voluntary<sup>13</sup> programme predominantly targeted at people with a disability, long-term unemployed and certain priority groups, and is run as a randomised control trial design. In December 2019, a further voluntary programme – *Intensive Personalised Employment Support* – for people with a disability and complex barriers to employment was launched in England and Wales. In summer 2021, the UK launched a new programme of contracted provision of employment services for the long-term unemployed. The new *Restart* programme will accept referrals over a three-year period. This Annex provides details on the *Work Programme*, *Restart* and the *Employment Zones* programmes. National Audit Office (2021) provides a helpful overview on all current contracted-out employment support programmes by the Department for Work and Pensions (DWP).

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<sup>11</sup> A range of different programmes were subsumed under the “New Deal” label, including programmes such as the *New Deal for Young People* and *New Deal 25 plus*, which were mandatory programmes targeted at long-term unemployed benefit recipients. Other important programmes included the *New Deal 50 plus*, the *New Deal for Lone Parents* and the *New Deal for Disabled People*, which were voluntary programmes.

<sup>12</sup> The provider-led version of *Pathways to Work* was introduced in 60% of all PES districts. In the remaining districts clients continued to receive PES provision.

<sup>13</sup> Participation the *Work and Health Programme* is mandatory for the very long-term unemployed (people out of work claiming unemployment benefits for 24 months or more).

## ***Work Programme***

Between June 2011 and March 2017, long-term unemployed and other disadvantaged jobseekers in receipt of various income replacement benefits in Great Britain were referred to contracted employment service providers under the *Work Programme* scheme, while short-term unemployed continued to receive employment services from the PES.<sup>14</sup>

### *Client groups*

The *Work Programme* had a differential payment model with nine payment groups to serve the wide range of participants including claimants of unemployment, incapacity and other income-replacement benefits. The differential payment model was designed to encourage providers to work with all participants including those who are less likely to move into work, in order to minimise the risk of parking. Referrals to the nine payment groups were based on age, the benefit being claimed and the conditionality group, with certain separate payment groups such as an early referral group for jobseekers identified at risk of long-term unemployment (e.g. jobseekers returning to the PES after a short period in employment) and a separate category for prison leavers. The payment groups differed with respect to the point of referral, the period after which job-outcome payments were paid and the duration of sustainment fees. The majority of participants were subject to full work-search conditionality, but around one-sixth of participants were not. Participants with “work-preparation” conditionality could be required to prepare for work, but could not be required to take up a suitable job offer or sanctioned for a failure to do so. Participants with “keeping-in-touch” requirements had to attend interviews, but any participation in work-preparation measures (e.g. training course) was on a voluntary basis. Out of the 1.95 million people referred to the programme, 81% were recipients of unemployment benefits with full work-search conditionality, while the remainder were recipients of incapacity benefits (keeping-in-touch or work-preparation conditionality).

Participants received up to two years of pre-employment support from the date of referral. Support continued beyond the two years if the participant found employment qualifying for payment of job-outcome or sustainment fees. *Work Programme* participation stopped after two years (participant not placed) or when the maximum number of sustainment payments had been made. This is substantially longer than in previous programmes in the UK and internationally.

### *Market structure*

The *Work Programme* commissioning model divided Great Britain into 18 large contract package areas (CPA). Two or three prime provider contracts were available in each CPA, resulting in a total of 40 individual contracts (4x3 + 14x2). The 40 contracts were held by 18 prime providers, with most prime providers holding more than one contract in different CPAs. During the *Work Programme* tender, prime providers were responsible for identifying potential sub-contractors and forming their own supply chains. The contracting authority DWP did not impose particular sub-contracting arrangements but required that the level of community involvement was commensurate with the needs of participants. Prime providers had developed different supply chain models, with 14 primes also delivering end-to-end services themselves (“delivery primes”) and four primes acting as “managing primes”, with no own end-to-end services. The 18 primes worked with over 800 sub-contractors.

### *Selection criteria*

The *Work Programme* procurement was a two-stage process. Potential prime providers first bid to join the Department's Employment-Related Support Services (ERSS) framework. Prime providers included in the ERSS framework then were invited to take part in contract tender. To qualify for the framework, potential providers had to demonstrate i) a track record of delivering large and complex contracts, ii) the capacity to

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<sup>14</sup> The *Work Programme* applied to Great Britain (i.e. England, Scotland and Wales) only, but not Northern Ireland.

deliver across the region(s) for which they had bid, and iii) the financial strength to deliver primarily payment-by-result contracts (including a minimum GBP 20 million per annum turnover).

In the second stage, the Department assessed bids in terms of cost and quality, based on a scoring system that gave equal weight to both. Quality related to how providers planned to assist participants; their approach to supply chain management; the resources applied; and an implementation plan. The cost assessment was determined by the discount offered on the job-outcome fees offered by the Department. One point was available for every percentage point discount offered up to 20 percentage points, and then one point for every further 2 percentage points of discount offered.

Furthermore, the Department analysed each bid to test whether it was economically sustainable against different scenarios, including bidders' promised performance levels and those assumed by the Department (National Audit Office, 2012).

#### Payment model

The *Work Programme* payment model had a high proportion of result-based fees. Different payment groups were meant to reflect a jobseeker's relative level of difficulty in finding employment. A small "attachment fee" of GBP 300-600 per participant was paid once a jobseeker started with a provider. Following the programme's launch in 2011, attachment fees were progressively reduced and eventually phased out: attachment fees reduced to 75% in the second year, 50% in the third year and no attachment fees were paid from year four onwards, making the payment model a pure payment-by-result mechanism.

Three different types of outcome fees were available: job-outcome payments, sustainment fees and incentive payments. Job outcome payments were made after participants spent three or six months (depending on the payment group) of either continuous or cumulative spells in employment. From year three, job-outcome payments were reduced by 10 percentage points in three payment groups. Following the job outcome payment, providers were able to claim sustainment fees for participants' sustained employment every four weeks over a period of 1-2 years. Sustainment fees accounted for 57% to 76% of providers' *potential* income for participants who started the *Work Programme* in 2011. From year four onwards incentive payments for each additional job outcome were payable to providers delivering high performance (i.e. jobs outcomes 30% above the non-intervention outcome level) in the three payment groups were job-outcome payments were reduced. Placing a strong focus on sustained employment outcomes, the payment model encouraged providers to ensure job retention, which is associated with a number of longer-term benefits, including increased employment stability, skill acquisition, earnings growth, and career advancement.

#### Service requirements

An essential feature of the *Work Programme* was the "black box" approach to service delivery, i.e. there were few mandatory service components and providers were free to decide which interventions to offer to clients in order to help them into, and to sustain, employment. The British Government chose this delivery model, as it believed that providers are best placed to know what works for clients and therefore did not prescribe minimum service standards. Providers, however, were asked to detail some minimum services in their tender bids. These minimum service levels were made public so that clients were be able to judge whether providers delivered what they had promised. Providers would be in breach of contract if they failed to deliver these minimum service levels, as verified through checks and inspections.

#### Outcomes

Over 1.950 million people were referred to the *Work Programme* between June 2011 and March 2017 (out of which 1.916 million actually started). 630 000 participants achieved Job Outcomes, i.e. 32% of all clients referred to the programme. For participants where job outcome payments were paid, 76% of the potential sustainment fees were achieved. A counterfactual impact evaluation for Payment Group 2 participants (unemployment benefit recipients aged 25 years and over) joining in 2017 (i.e. the last three month of the

programme) found that *Work Programme* participants spent less time in receipt of out-of-work benefits and more time in employment (Kay and Marlow, 2020) than the comparison group that received regular PES services.<sup>15</sup>

Over the course of the implementation, different qualitative evaluations were carried out to provide more insights into the participant experience. Similar to previous programmes in the UK, providers employed a “work-first” approach rather than on human-capital based or “train-first” approach. The majority of participants rated the type and level of support received through the programme as helpful in overcoming their barriers and moving closer to work. However, some groups, such as participants with disabilities or health conditions, older and better-qualified participants were less likely to report the interventions as helpful or felt they did not receive enough support (Meager, N. et al., 2014).

An important difference to previous employment programmes was the long period for which providers could claim sustainment fees, giving a clear incentive to provide in-work support. The qualitative research showed that on average, half of the participants in work while on the *Work Programme* received in-work support. In-work support included advice from a personal adviser, help and support with benefits and financial advice, and contact with the employer to support the participant. Providers emphasised a need of in-work support for those who had been out of work for longer periods. In contrast, 30-39% of participants entering work avoided or refused the in-work support, possibly because they felt stigmatised by being on the *Work Programme* or wanted to feel that they had moved on from unemployment (Meager, N. et al., 2014). The provider research, however, also highlighted the administrative burden of providing evidence for sustainment payments and issues with the validation process (Foster, S. et al., 2014).

#### Cost-effectiveness

A cost-benefit analysis conducted on the basis of the results of the impact evaluation mentioned above showed that for the two-year period observed in the evaluation, the programme already generated net benefits for the participants, the public finances and society as a whole (Kay and Marlow, 2020).

#### Additional comments

OECD (2014) highlighted that the *Work Programme* payment model may not have given providers enough incentives to reach more jobseekers who are less connected with the labour market. This could have been achieved through better segmentation of clients and increased funding levels for the hardest to help. Furthermore, setting more minimum service levels in exchange for a service fee may have helped prevent parking of the hardest-to-help.

#### ***Restart***

*Restart* was launched in July 2021 across England and Wales. It will run for three years, targeting long-term unemployed (12 to 18 months unemployed) recipients of means-tested unemployment benefits (*Universal Credit*). In total, DWP expects to refer one million jobseekers to *Restart* over the three-year period. Different to the *Work Programme*, there are no different payment groups for *Restart*.

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<sup>15</sup> Kay and Marlow (2020) highlight that there are a number of factors that limit the external validity of the impact evaluation. The evaluation was based on a relatively small cohort of *Work Programme* participants at the end of the programme. One the one hand, the programme then possibly was the most mature and effective, but on the other hand, services may have already started being wound down. The labour market situation also changed significantly over the course of the programme. Unemployment was peaking around the time of the programme rollout, while it was below the pre-GFC trough when the last cohorts joined the programme. Furthermore, over the course of the programme *Universal Credit* was rolled out.

### Market structure

England and Wales are divided into 12 Contract Package Areas (CPAs), which match the CPAs for other contracted-out provision.<sup>16</sup> Similar to the *Work and Health* and *Intensive Personalised Employment Support* programmes, there is just one provider per CPA. In total, DWP contracted with eight different prime providers, with four holding contracts in two CPAs.<sup>17</sup> End-to-end service delivery across the different CPAs is roughly split half-and-half between the prime providers' own offices and their sub-contractors. Around four-fifth of the supply chain are private companies, around 6% come from the voluntary sector, around 7% from the public sector, and around 8% are employee-owned companies. Seventeen percent of the providers are small- and medium-sized enterprises (SMEs).

### Selection criteria

Prime providers bidding for *Restart* had to be included in DWP's Commercial Agreement for Employment and Health Related Services framework (CAEHRs). CAEHRs has been designed to facilitate the procurement of employment and health related services in Great Britain over five years (2020-2025) and gives providers included in the framework agreement the possibility to bid for various contracts over the period.

In the tender for *Restart*, qualitative criteria carried a weight of 65% and the financial and performance offer carried a weight of 35%. The minimum acceptable performance offer was achieving job outcomes for 25% of the participant starts (up to a stated maximum of 34%).<sup>18</sup> An important innovation in the assessment of the provider quality was a new approach to assessing the local delivery capacity of providers. Instead of uniform question across all CPAs, DWP worked with local actors such as local enterprise partnerships and councils to design CPA-specific questions. The local area representatives then also supported the bid assessment in their areas.

### Payment model

The *Restart* payment model consists of both upfront delivery fees and result-based fees. The delivery fees paid to providers depend on the providers (and their sub-contractors) staffing levels, which payments being frontloaded. Overall, the delivery fees are estimated to equate to 30% of the estimated total contract value.<sup>19</sup> Information on the outcome fees is not in the public domain and fees depend on the providers' performance and cost offer. Outcome fees include an accelerator mechanism: While outcome-based payments for the first 21% of individuals who are placed into employment are paid a base rate (with the level being bid upon during the tendering process), subsequent employment outcomes are rewarded at 140% of the base rate – thus rewarding providers who "dig deeper" into their assigned caseload.

Outcome-based fees are paid to providers once the participant accumulated earnings that are equal to or exceed the equivalent of someone working for 16 hours per week for 26 weeks, earning the *National Living Wage*.<sup>20</sup> Providers do not have to claim outcome payments from DWP. Outcome payments are triggered

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<sup>16</sup> *Restart* introduces more consistency in this respect, as some previous programmes such as *Work Choice* and *Work Programme* had different CPA boundaries.

<sup>17</sup> Important reasons for moving to a single prime provider model are avoiding a duplication of infrastructures (e.g. client hand-over processes, provider monitoring) and an appreciation that market share shifts are difficult to implement and have little impact on provider performance and improvement of client services (OECD, 2014).

<sup>18</sup> The range from 25% to 34% was meant to guarantee an acceptable minimum performance, but also to refrain providers from giving unrealistic performance offers.

<sup>19</sup> 4% of the total delivery fees are paid in month 1; 1% per month in month 2-12; 0.50% per month in month 13-16; and 0.25% in month 37-48.

<sup>20</sup> This precise amount varies across individuals but amounted to GBP 3 707 for most jobseekers in December 2021.

automatically when employment outcomes have been achieved achievement, based on real time earnings information (RTI) data supplied by the British tax authority (Her Majesty's Revenue and Customs – HMRC).

#### Service requirements

Participants remain with providers for up to one year. Different to the *Work Programme*, *Restart* has a set of minimum service requirements that apply to all providers to ensure service consistency for all participants and avoid parking of participants. The programme starts with a “warm handover”, i.e. a three-way conference call between the potential participant, the PES counsellor and the provider counsellor. Within 15 days (but no later than 30 days) of the referral, participants have a face-to-face meeting with their provider. Thereafter participants have a minimum of fortnightly review meetings (which may be digital), and one in-person meeting at least every four weeks. Providers must complete and individual action plan with the participants within 8 weeks of the referral.

Participants should not be expected to travel by public transport for more than 90 minutes from their home address to the provider's premises when attending in-person meetings. For some participants, the maximum travel time, as agreed by the Jobcentre Plus work coach, may be below 90 minutes. Providers are expected to make reasonable adjustments to meet participants at a location that will meet the adjusted difference in travel time. Providers are responsible for funding their participant's travel costs to attend the *Restart* scheme. A quarterly survey of a random sample of programme participants will be used to measure participant satisfaction with *Restart*.

### Box A4. Employment Zones

In the 15 areas where *Employment Zones* operated, the programme at first targeted long-term unemployed benefit recipients aged 25 and over only. From 2003, also younger jobseekers were referred on a mandatory basis and lone parent benefit recipients on a voluntary basis. Whereas *Employment Zones* initially only had one provider per area, multi-provider models with up to three providers were introduced in four of the largest areas from 2003. At first, providers received a fixed market share for mandatory participants, but from 2007 participant choice for mandatory participants was introduced as a means of competition. Research suggests that the implementation of choice was difficult and that a considerable proportion of clients reported having had no awareness of choice at all. Where claimants made an active choice, this was often driven by location factors, but also by recommendations from PES staff, friends or family (Conolly et al., 2010).

#### **Payment model**

The payment model placed emphasis on both sustained outcomes and the speed of payment. The pre-employment attachment period with providers lasted up to 26 weeks. During this time, providers also administered and paid out jobseekers' unemployment benefits. In this respect the EZs were unique, since both in the United Kingdom and other OECD countries, the benefit payment function is not usually reallocated to the provider (Tergeist and Grubb, 2006). The upfront fee given to providers covered around 21 weeks of benefit payments. When participants were placed early, the provider kept the remaining amount as profit. In turn, providers suffered a loss if participants moved into employment after 21 weeks. While a small fee was available for the job placement, the majority of result-based fees were paid after the participants were employed for at least 13 weeks. Overall, over 90% of the maximum possible fees per client were outcome-based fees (OECD, 2014).

#### **Outcomes**

*Employment Zones* have been subjected to continuous evaluation, giving rise to a substantial body of research and evidence, which has been summarised by Griffiths and Durkin (2007). For mandatory customers, *Employment Zones* were more effective than comparative *New Deal* programmes with respect to the rate of jobseekers placed into work and remaining at least 13 weeks in employment. The better results of the *Employment Zones* programme were possibly driven by the combination operational flexibilities increasing the scope for innovation, and the financial incentives through highly performance-based fee structure, which placed the focus on achieving job placements lasting at least 13 weeks. Griffiths and Durkin (2007), however, note that the "[*Employment Zones*] better results appear to come at a price." Cost-benefit analysis suggested that *Employment Zones* cost more and offered less value for money than comparative *New Deal* programmes. The initial gains of job placements also were often short-lived, as *Employment Zones* participants aged 25 years and over were more likely to enter temporary, lower-paid and lower-skilled jobs than comparable *New Deal* participants were.

Source: Conolly, A. et al. (2010), "The operation of choice in Multiple Provider Employment Zones", *DWP Research Reports*, No. 650; Griffiths, R. and S. Durkin (2007), "Synthesising the evidence on Employment Zones", *DWP Research Reports*, No. 449; OECD (2014), *Connecting People with Jobs: Activation Policies in the United Kingdom*, OECD Publishing, <http://dx.doi.org/10.1787/9789264217188-en>; and Tergeist, P. and D. Grubb (2006), "Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom", *OECD Social, Employment and Migration Working Papers*, No. 42, OECD Publishing, Paris, <http://dx.doi.org/10.1787/341116536484>.

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## United States

The United States has a long history of using contracting for employment services, with outcomes-based payments schemes playing an increasingly prominent role as well. The Job Training Partnership Act, established in 1983, was a large-scale federal scheme that funded employment services and instituted certain minimum performance-based standards (Heckman et al., 1997). The programme was administered by individual states, which were given discretion in its implementation, and it was this programme that served as a basis for subsequent state-level implementations of outcome-based schemes in the U.S. Since then, the majority of employment services in the US have been contracted out (Martin, 2005). The examples of two outcome-based schemes, for the state of Wisconsin and New York City, are discussed below.

### ***State of Wisconsin, Wisconsin Works (W-2), 1997-present***

In 1997, the state of Wisconsin decided to allow any public or private entity to bid to administer its main social assistance benefit programme (Heinrich and Choi, 2007). In addition to managing services such as subsidized employment or counselling, they were also entrusted with determining eligibility for the social benefits and applying sanctions in the case of non-compliance. The private providers are thus also the initial contact point for individuals wishing to obtain social assistance benefits and, prior to 2013, were also responsible for making the payments of the social assistance benefits. Initially, contracts were awarded for two-year periods; since 2013, this has been considerably extended.

#### *Client groups*

Low-income unemployed individuals who meet specific conditions (mostly, parents of children under the age of 18). Individuals may or may not be receiving social assistance benefits, depending on whether they have exhausted their lifetime entitlement of 60 months.

#### *Market structure*

One provider per geographical area. In the 2013 tendering round, the state was divided into 10 geographical areas, 4 of which were in the largest city, Milwaukee. Previous tender rounds had smaller geographical areas for which contracts could be awarded. In the first iteration of the W-2 programme, separate contracts could have been awarded in each of the state's 72 counties (although many of these counties in fact opted-out of soliciting contracted-out services in the first tender round).

In the 2013 tendering round, 10 contracts were awarded to 8 different providers. Of these, 4 were not-for-profit private providers and 4 were for-profit providers. The for-profit providers all have operations in other US states; two also have provided contracted-out employment services in other countries. Tenders could also be submitted by public entities; in 2013, one county-level public entity also submitted a bid but it was not selected.

#### *Selection criteria*

A majority of the criteria (70%) were based on qualitative indicators, with the rest based on components related to price and outcomes promised:

- Among the **qualitative criteria**, a total of 10 percentage points of the criteria were related to past performance with similar types of programmes (not necessarily in the State of Wisconsin), with 60 percentage points based on the proposals for the specific contract being bid upon. The latter qualitative included each bidder's proposed service delivery model, approach to helping jobseekers (with separate questions on specific groups, such as refugees and disabled individuals), and

having a carefully thought-out budget proposal. This breakdown had the effect of lowering barriers to entry, as both incumbent and new providers could submit competitive bids.

- The **quantitative criteria** were designed in an attempt to take into account cost criteria which bidders could apply through a combination of lower-priced bids and/or increasing promised placement rates. Subject to a maximum annual budget for each geographic region, tenderers could submit bids with lower-priced outcome-based payments, promise to potentially modify their client placement rates from the reference values, or a combination of both, in order to make their bids competitive.

#### Payment model

Roughly 60% of payments are outcome-based in practice (Wisconsin Legislative Fiscal Bureau, 2017). For the 2013 tender documentation, roughly half of payments are outcome-based, with the share of foreseen outcome-based payments to increase each subsequent year of the initial 6 year contracts. The precise details of the split are as follows:

- The payment structure includes a **monthly attachment fee** (termed a “monthly capitated amount”) that was subject bidding and included in the selection criteria. The reference amounts for the attachment fees were specified in the Request for Proposal documentation and ranged from USD 132 in the urban Milwaukee region up to USD 245 in the less-densely populated rural regions (which also contain considerably smaller total numbers of clients). Tenders could deviate from the reference levels by up to 50%.
- Several types of **outcome-based payments** are included, four of which are based on individual-level employment outcomes. The following individual-level payments are triggered for placements into unsubsidized employment: job placements after (i) 31 days and (ii) 93 days of sustained employment, respectively; (iii) job placements of individuals who have received at least 2 years of social assistance benefits, and (iv) job placements into high-wage jobs, defined as being amongst the 15% of top paying jobs amongst (former) benefit recipients. According to the reference values in the tender documentation (which were also subject to the bidding process), these outcome-based payments had a maximum theoretical upper limit of USD 5 000. Additional outcome-based payments are made contingent on meeting quarterly minimum standards of client engagement in training or work, which in turn are a condition set by the US federal government for states to receive funding related to TANF, a federally funded social assistance programme. Specifically, TANF requires that 50% of each state’s TANF families with an adult recipient include a member who is either working or engaged in welfare-to-work activities.

#### Service requirements

Providers are required to meet at least once per month with each client, and compile an Individual Action Plan at least every 6 months.

#### Outcomes

During the first couple of years after its initial deployment in 1997, due to a combination of strict enforcement of benefit conditionality and strict work requirements, it was effective in reducing the number of social assistance recipients in the State of Wisconsin (Mead, 2004). Between 1994 and 2001, the state of Wisconsin achieved the third largest reduction in welfare recipients amongst the 50 US states (and the largest reduction amongst states with large shares of recipients in urban areas).<sup>21</sup> By 2001, it also had the second-highest share of social assistance recipients who were in work or training.

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<sup>21</sup> The number of social assistance benefit recipients in the US reached an all-time high in 1994, and as such is a useful reference year for comparisons of declines (Mead, 2004).

### Additional comments

The programme has undergone considerable changes since it was first implemented, in several important respects. Perhaps most prominently, the focus of the programme has shifted from (short-term) reductions in the number of social benefit recipients towards more of an emphasis on placing individuals into sustained employment. When the programme was first introduced in 1997, contractors had a direct financial incentive to lower the number of social benefit recipient caseloads, as they were allowed to retain a portion of the budgetary savings associated with the diminished caseloads (Heinrich and Choi, 2007). The combination of these incentives and the lack of service requirements also arguably resulted in a strong incentive to reduce costs, with a focus on processing clients quickly. Additional changes include progressively longer contracts as the programme matured (2-year contracts beginning in 1997, 4-year contracts beginning in 2006, and 6-year contracts since 2013) and a consolidation in the tender lots, with a corresponding decrease in the number of contracts awarded.

One additional finding that has arisen from the extensive literature examining the Wisconsin Works programme is that racial disparities existed in the sanctioning of social assistance recipients (Wisconsin Department of Workforce Development, 2004). Black recipients were found to be subject to higher penalties than whites, both in aggregate and after controlling for a variety of other characteristics. This finding underscore the sensitivities that arise when delegating sanctioning powers to private entities.

The programme also contains budget caps with ceilings for the annual payments for each contract area, independent of realized outcomes. These ceilings facilitate budgeting expenditures on employment services for the state authorities.

### Further reading

Heinrich, C. and Y. Choi (2007), "Performance-Based Contracting in Social Welfare Programs", *The American Review of Public Administration*, Vol. 37/4, pp. 409-435, <http://dx.doi.org/10.1177/0275074006297553>.

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### ***New York City (NYC), CareerCompass and CareerAdvance, 2016-present***

New York City (NYC) has a long tradition of contracting-out employment services. In the 1990s, approximately 100 different agencies/contractors provided services under the Job Training Partnership Act. The provision of services was consolidated in 1999 with the introduction of a "prime contractor" model of contracting, where the prime contractor who was awarded the contract was able to subcontract services to other providers. The prime contractors were selected via negotiations with existing providers instead of through a public tender. According to Desai et al. (2012), one reason for choosing "negotiated acquisition" as the procurement method, was the novelty of outsourcing such a complex set of services for the NYC Human Resource Administration (HRA). It also enabled the HRA to ensure provider capacity given the large scale of the contracts. In the next contracting period which began in 2006, a "request for tender" process was implemented.

As part of its efforts to provide more tailored interventions and support to specific target groups, NYC split its existing provision of employment services to recipients of social assistance benefits into several programmes in 2016. The main programmes include CareerCompass and CareerAdvance, which provide services to adults aged 25 and over.<sup>22</sup> CareerCompass is a programme designed to offer short-term services to clients after they seek social assistance benefits (including individuals whose eligibility is still being assessed). CareerAdvance is intended for clients who, upon referral from CareerCompass, are in need of training or other supports to help them find and maintain employment. In all cases, the entry point for individuals seeking such benefits is the HRA, which first conducts an assessment (also to determine whether clients have e.g. physical or mental health barriers to employment) in order to refer them to the appropriate services.

#### Client groups

All clients aged 25 and over who have applied for social assistance benefits (e.g. Cash Assistance or the Supplemental Nutrition Assistance Program) who are deemed fit for work.

#### Market structure

Within NYC there are five geographic service areas with several providers per service area for each programme. Contracted providers are required to provide services to every “Job Center” (NYC’s Public Employment Service local office) in their service area. For CareerCompass, 9 contracts were awarded to 7 different providers; for CareerAdvance, 13 contracts were awarded 5 different providers. Additional CareerAdvance contracts – not tied to one geographic service area – were awarded for special target groups such transgender individuals. The Request for Proposals strongly encouraged sub-contracting with community organisations and businesses, particularly those with experience in working with particularly vulnerable groups (e.g. non-English speaking immigrants, homeless clients).

#### Selection criteria

The selection criteria were based fully on scoring of qualitative aspects, as the prices to be paid were specified in advance in the Request for Proposals. For CareerCompass, the selection criteria placed the greatest weight on the quality of the proposed services to be provided to clients (30%). The second most important factor was the provider’s experience in providing employment services and the strength of its proposed partnerships with subcontractors (20%). Providers were, however, required to submit detailed financial proposals, including how they intend to finance their upfront costs.

For CareerAdvance, the criteria were similar, with the largest difference being that providers were required to demonstrate employment readiness, training, and placement services specifically tailored to sectors identified as experiencing strong demand. In all of NYC’s service areas, these included (i) healthcare/social assistance, (ii) food service/accommodation and retail/customer service, and (iii) maintenance and security; in addition, certain service areas also included sectors such as construction or warehousing.

#### Payment model

On average, approximately 30% of payments are outcomes-based and 70% are fixed. In the first contract year 100% of the payments were fixed. In subsequent years, maximum per client payments were 28% outcomes-based for CareerCompass and 37% outcomes-based for CareerAdvance. For CareerAdvance, outcomes-based payments were triggered based on sustained employment after 1, 6 and 12 months. During the COVID-19 pandemic, payments were converted to 100% fixed fees.

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<sup>22</sup> Another programme, *YouthPathways*, provides assessment, employment, and education services for young clients between the ages of 18 and 24.

### Service requirements

For *CareerCompass*, providers must carry out an individual assessment for all clients and complete an individual actual plan with the client within two weeks of the referral. In addition, clients should receive job-search orientation information, including education, employment and training opportunities. Furthermore, minimum thresholds are set for shares of referred clients engaging in supplementary activities: 56% of clients should participate in supplementary activities that include job search and job readiness; 28% of clients should engage in preparatory activities before their referral to *CareerAdvance* or other providers; and 16% of clients are expected to engage in self-directed job search.

For *CareerAdvance*, all clients must receive an initial counselling session, after which additional minimum service requirement thresholds apply: 80% of clients are expected to engage in job readiness and job placement assistance services, and 15% of clients are expected to participate in on-site vocational or other training (in addition to concurrent sector-specific internships or community service placements if appropriate). There is also a stipulation for the share of clients that can be referred to other programmes: 5% of clients may be placed in another HRA service engagement at any time during their enrolment in *CareerAdvance* (e.g. *Parks Opportunity Program*, *WeCARE*) or exit the HRA system.

### Outcomes

Placements into employment increased steadily from 2017 to 2019 before falling in 2020, when the COVID-19 pandemic began (see Table A5). The outcomes below refer only to immediate employment outcomes; clients may have other positive outcomes such as education or training that will also lead to employment that are not reflected in the table.

**Table A5. Participant numbers and outcomes, *CareerCompass* and *CareerAdvance*, 2017-2020**

	2017 (9 months)	2018	2019	2020 (3 months)
<b>Number of participants</b>				
- <b><i>CareerCompass</i> and <i>CareerAdvance</i></b>	34 293	45 732	48 721	17 845
- <b><i>CareerAdvance</i></b>	17 371	24 621	28 512	9 457
<b>Outcome statistics, <i>CareerAdvance</i></b>				
- <b>Verified Placements</b>	2 725	5 667	6 988	1 429
- <b>6-Month Retention Rate</b>	n.a.	48%	59%	60%
- <b>12-Month Retention Rate</b>	n.a.	31%	42%	50%

Note: Outcome statistics refer to verified (and paid) employment placement and retention contract milestones in *CareerAdvance*.

Source: NYC Department of Social Services.

Further reading

Desai, S., Garabedian, L., & Snyder, K. (2012), Performance-Based Contracts in New York City: Lessons Learned from Welfare-to-Work. Rockefeller Institute Brief, State University of New York. Retrieved from <https://rockinst.org/wp-content/uploads/2018/02/Performance-Based-Contracts-in-New-York-City.pdf>

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NYC Human Resource Administration (2016b), "Request for Proposals: CareerAdvance Program."