



**21SE03 - REFORMING THE SWEDISH PUBLIC EMPLOYMENT  
SERVICE**  
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**Output 1: Note on options to strengthen  
employment services and activation  
programmes in Sweden**

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Additional information on the project is available at <https://www.oecd.org/els/emp/reforming-swedish-PES.htm>.

The views and opinions expressed here are entirely those of the author(s) and do not reflect the official opinion of the European Commission

# 1. Summary assessment of the planned reform of Sweden's Public Employment Service (Arbetsförmedlingen)

**The Swedish labour market is characterised by high labour force participation – among the highest in the European Union and OECD – and any past and future reforms to the Swedish labour market system are driven by the vision to ensure that all people of working age can actively take part in working life.** The Swedish public employment service (PES), Arbetsförmedlingen, contributes to these outcomes as a modern PES, servicing its customers through state-of-the-art online services, call centres and physical presence in local offices. Since 2014, Arbetsförmedlingen has been progressively engaging in larger-scale contracting of job brokerage and counselling services. Such contracting is to be scaled-up with the proposed reform, with the focus of Arbetsförmedlingen's mandate to shift towards monitoring providers and working with different stakeholders in guiding and implementing labour market policy.

**The proposed reform will have broader implications for the provision and organisation of employment services in Sweden.** Creating a market where employment services are largely contracted-out requires carefully considering many factors such as achieving a fair competition among contracted providers, ensuring the provision services at the local level, and creating a suitable outcome-based compensation model. These issues are to be discussed in detail in other outputs of this project, which began in July 2021 and is to continue through March 2023. The purpose of this note is to provide a summary assessment of the government's September 2021 reform proposal. It is based on fact-finding meetings and follow-up exchanges with numerous stakeholders in Sweden, desk based background research on Sweden, and the OECD's expertise in and ongoing work on contracted-out employment services in other countries.

**Arbetsförmedlingen has already made broad inroads into contracted-out employment services.** The implementation of the *Kundval Stöd och matchning* (STOM) and *rusta och matcha* programmes demonstrate its competence as a contracting authority able to successfully implement large-scale programmes. The successful rollout of the *rusta och matcha* programme is particularly impressive in light of its timing. It was implemented in March 2020, coinciding with the onset of the COVID-19 pandemic – a development that prompted other contracting authorities to delay (in the case of Ontario (Canada)) or cancel (in the case of Slovenia) their own implementations of contracted-out employment schemes. With its focus on outcome-based payments rewarding both employment and education outcomes, the *rusta och matcha* programme provides a useful starting point for the reformed system of employment services.

**A broader challenge faced by Arbetsförmedlingen is to change the focus of its efforts from one based on inputs, activities and outputs towards one that is focused on outcomes.** Such a paradigm shift would ideally be reflected in multiple aspects of the reformed market for employment services in Sweden, including in the legal basis on which the market is based, the eligibility criteria for becoming a

provider, the targeting of Arbetsförmedlingen's monitoring efforts, and the private providers' reporting requirements. Taking into account the reform objectives and the guiding principles outlined in proposal, the key points of the OECD's assessment can be summarised as follows.

***Apply a legal basis for the contracted-out employment services market that enables Arbetsförmedlingen to steer the development of the market***

Experiences with contracted-out employment services suggest that the efficiency gains and cost reductions from contracting can take time to emerge – but that the contracting authority can play an important role in expediting the process. The experience of Australia, for example, suggests that improved impacts were achieved only as the contracting authority developed its knowledge of the performance capacity of different private providers, excluded poor performers, and improved its ability to steer the programme through competition and more effective contract management.

Basing the market on the public procurement option – e.g., “dynamic purchasing systems” – instead of the Swedish system of freedom of choice, LOV, could give Arbetsförmedlingen more flexibility in monitoring providers and steering the market. For example, it could allow Arbetsförmedlingen to institute a temporary market cap for poorly-performing providers, or – in extreme cases – terminate a contract purely on the grounds of poor performance. Used in combination with lower barriers to entry, such a system could allow smaller or more specialised providers to enter market. It would also be in the interest of better-performing providers, further rewarding them with increased numbers of clients and, if combined with enhanced monitoring of poorly-performing providers, reflect well on the viability of the entire system.

***Consider combining lowering barriers to entry of new providers with enhanced and better-targeted monitoring***

One of the principal advantages of contracting is the ability to have better performing providers emerge over time, with less effective providers losing contracts or leaving the market. Importantly, just as judging the eventual success of a start-up company is difficult based on its business plan alone, it is difficult to identify in advance who the most effective providers will turn out to be.

In Sweden, sizable barriers to the entry of new providers arguably exist: the existence of contracting programmes since 2014 means that some providers are well-established, and the rejection rate of providers applying to be eligible under *rusta och matcha*, at around 60%, are relatively high for a system where clients choose providers. At the same time, consultations with stakeholders indicate that monitoring of providers could be strengthened and better targeted towards poorly performing providers. The focus of monitoring could shift from whether a provider is deemed systemically important to one based on other metrics, such as Star Ratings, client surveys and the extent to which providers are enforcing activation requirements.

***Revise legal obstacles to data sharing and establish IT infrastructure well in advance***

At present, considerable obstacles to efficient data exchange exist, partly due to a legal framework which has not been updated to reflect the increased responsibilities of private providers. Various stakeholders have expressed frustration with the existing systems, with problems ranging from the difficulty obtaining information on jobseekers to requirements that providers acquire proof of employment for their (former) clients to receive outcome-based payments.

While the government proposal contains plans for these issues to be resolved, it is important to recognise that they take time to successfully implement in practice. Ideally, there would also be a system in place to provide real-time information on provider performance and client outcomes – this would facilitate monitoring efforts, provide timely feedback to providers, and streamline the payment system to support provider cash flow.

***Realign Arbetsförmedlingen staff and resources to reflect new responsibilities as contracting authority***

With contracting, the transaction costs associated with the provision of employment services will increase. In any successful implementation, the goal is to minimise unnecessary transaction costs and have the benefits of market provision ultimately outweigh them. This requires the recruitment and continuous development of suitable numbers of skilled contract and performance managers who can engage in continuous dialogue with providers, establishing relationships to proactively address any challenges faced.

Consultations with STOM/*rusta och matcha* providers indicate that they often experience numerous challenges in their communications with Arbetsförmedlingen. These range from a difficulty finding the appropriate contact for specific questions about their clients to uncertainties in contract management, such as long and unpredictable wait times for applications to expand services to new delivery areas. These problems may partly reflect a lack of staff resources and organisational challenges stemming from the ongoing reorganisation of Arbetsförmedlingen. However, before any reform is enacted, there should be a concerted effort to ensure that Arbetsförmedlingen has the staff and resources to reflect its new importance as a contracting authority. Any such efforts should also be balanced with the need to ensure the provision of other services provided by Arbetsförmedlingen, especially at local and regional offices.<sup>1</sup>

***Rethink the role of the Arbetsförmedlingen counsellors to give them a more active role in helping jobseekers choose a provider...***

An important feature of the *rusta och matcha* system is that the jobseeker is to make the choice of provider. Consultations with stakeholders indicate that Arbetsförmedlingen counsellors go to extreme lengths to avoid influencing a jobseeker's choice – even in instances when the jobseeker requests the counsellor's recommendation, most will refuse to provide it. However, for many jobseekers, making an informed decision may be difficult based solely on providers' self-generated webpage presentations and Star Ratings (once they are available for *rusta och matcha* providers). Indeed, the experience from a pilot programme similar to *rusta och matcha* in Belgium (Flanders) in which counsellors helped jobseekers make an informed choice indicates that assistance from counsellors was found to be particularly useful for less-educated individuals, with a large majority of participants very happy with their eventual choice of provider.

Sweden should consider changing the role of Arbetsförmedlingen counsellors to help jobseekers make a better-informed choice of provider, taking into account the stated preferences of the jobseeker and the counsellor's knowledge of the various providers' comparative strengths. Maintaining the Arbetsförmedlingen counsellor as the jobseeker's Arbetsförmedlingen contact person could also help reinforce the accountability of private providers, with jobseekers who are unsatisfied with the services of their provider more likely to lodge a complaint or switch providers if they can go through a familiar contact person.

***... and give the contractors more autonomy in working with clients, possibly with small budgets for training***

While providers report that they have more flexibility to tailor activities to clients' needs in the *rusta och matcha* programme than in STOM, they nevertheless mentioned that they dedicate much of their time to administrative work. Current reporting requirements are burdensome to providers, and while some reporting is necessary from a monitoring perspective, it is not clear to what extent the information gathered

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<sup>1</sup>Other outputs of this project will focus specifically on the question of how to re-organise Arbetsförmedlingen's services at the local level. These will examine issues relating to supporting a local presence and ensuring coverage of employment services (Output 5), as well as on fostering cooperation with other local services, authorities and stakeholders including social economy actors (Output 6).

is useful to Arbetsförmedlingen for this purpose (in its present form, it also appears difficult to use for research purposes).

In addition to re-evaluating providers' reporting requirements in the reformed system, Sweden should consider introducing a small training budget (as in some other countries) to allow private providers to offer additional activities for clients.<sup>2</sup> Employer representatives from industry councils, *Branschråd*, mentioned that despite some examples of very fruitful cooperation with Arbetsförmedlingen, the PES could be more responsive to their proposals for skills training. Introducing an additional budget for training could alleviate the administrative burden of involving Arbetsförmedlingen in training decisions and make the provision of training more responsive to employers' needs, improving jobseekers labour market outcomes in the process. In addition, if the reformed system is to serve a broader set of target groups than is currently the case in STOM or *rusta och matcha*, it will need to incentivise providers to enrol their clients in shorter training programmes which in the current programme do not qualify as educational outcomes that trigger outcome payments.

**Designing and managing publicly-funded contracted-out employment schemes is a complex task.**

Some aspects are difficult to fully appreciate in advance: the process will invariably involve learning-by-doing. It takes time to acquire the necessary knowledge to manage the system, minimise any perverse incentives as well reap the potential innovation and efficiency benefits of private providers. Experiences from other OECD countries show that many of the gains from contracting may only emerge over time when the contracting authority is able to master the performance management of providers and harness competitive pressures to exclude poorer performers.

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<sup>2</sup> This may require introducing additional, dedicated funding for training alongside the existing programmes financed with ESF+ funds, which have more specific requirements on conditions for their use. This aspect will be examined in greater detail in future outputs of the project.

## 2. Key features of the reform and comparison with contracted-out employment services models in other countries

This section discusses the key features of the Swedish government’s reform proposal. It compares the proposed Swedish system with contracted-out employment services systems that also feature a strong outcome-based payment component in other OECD countries. Two important aspects of such schemes are also discussed in greater detail: whether the systems are based on mandated referrals or client choice, and the target groups of individuals placed with the providers.

### 2.1. Key features of the reform

Several key guiding principles are outlined in the government reform proposal from September 2021 (Ministry of Employment, 2021<sup>[11]</sup>):

- **Contracting out most job brokerage and counselling services.** Job brokerage and counselling activities are to be contracted-out to private providers. Nevertheless, consultations with various stakeholders indicate that certain groups of individuals – non-Swedish-language speakers, those with a disability and possibly other disadvantaged groups – are to be retained with Arbetsförmedlingen.<sup>3</sup> The most readily-employable jobseekers are to be offered self-service, online tools. Arbetsförmedlingen is to retain its function of providing “basic services and support to jobseekers, employers and the general public” (p. 42). These services may be provided either with a physical presence or via digital means (online or by telephone).
- **Highly outcome-based payment model.** Providers are to be given strong financial incentives for sustained employment or education outcomes. The prices paid to providers are to be differentiated based on a client’s employability in order to ensure providers do not focus their attention on only e.g. the most readily employable clients.

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<sup>3</sup> However, it is worth mentioning that the government’s reform proposal foresees that AF will “not support participants in brokerage activities, with such matching and employer contacts to be carried out by suppliers under contract” (p. 37). It does not explicitly mention that certain groups would continue to receive such services directly from AF staff – in fact, it mentions that such groups are to be given special attention when deciding on a choice of providers: “the authority must also ensure that jobseekers with special needs, for example due to a disability or lack of language skills in Sweden, are also given the opportunity to make an active and informed choice” (p. 59). At the same time, experiences with the *rusta och matcha* programme based on consultations with stakeholders suggest that the scale of contracting may be dictated largely by the funds made available for the programme.

- **Arbetsförmedlingen's increased responsibilities as a contracting authority.** Functions relating to procurement and monitoring of providers are to increase in importance. Arbetsförmedlingen is also to be responsible for developing and maintaining the required digital infrastructure for the exchange of information between various stakeholders including Arbetsförmedlingen, the private providers and jobseekers. Furthermore, it is to retain the role of deciding which jobseekers should be referred to private providers.
- **Consumer choice.** Jobseekers are to be given the “opportunity to influence the choice of provider as much as possible” (p. 58). Consumer choice is to be limited only based on considerations relating to quality, performance, control and cost-efficiency of services. Providers cannot refuse to accept certain jobseekers, although they may set upper limits for how many clients they can serve at once.
- **Ensuring a local presence.** Arbetsförmedlingen is to ensure equal access to basic services and support throughout the country. Arbetsförmedlingen may step in temporarily to ensure service continuity in cases where local presence is not available through contracted-out providers.
- **Arbetsförmedlingen's continued important role in guiding LM policy and working with different stakeholders.** Arbetsförmedlingen is to retain its important role in designing, coordinating and overseeing labour market policies, interacting with other stakeholders at the national, regional and local level. Arbetsförmedlingen shall also “continue to be responsible for providing support to employers, including in their recruitment work, and through counselling and support for employers who have employees with a disability resulting in a reduced capacity for work” (p. 44).

At the same time, **the reform proposal stops short of offering specific prescriptions on several important questions.**

1. In terms of the legal basis for setting up the market, it does not prescribe whether LOV (Act on systems of freedom of choice) or LOU (Act on public procurement) should be used. From a jobseeker's or counsellor's perspective, this distinction is important because it determines who will ultimately make the final choice of the provider. Under the system of consumer choice, LOV, it is the jobseeker, while under LOU, it is the counsellor. From the contracting authority's perspective, the distinction matters largely because it can influence the degree to which the market can be proactively managed by the contracting authority (for a further discussion of the topic of monitoring providers, see Section 4.1).
2. The government's reform proposal does not take a position on the types of providers that should be allowed to participate in the market (with the exception of municipalities, which are to be excluded). This is important because having a diverse market with many different types of providers can offer several benefits – including increased consumer choice, improved quality of service due to competition, and better local coverage – but it may also present the contracting authority with challenges relating to monitoring and procurement (for a further discussion on creating a market for employment services, see Section 3. ).

Given the absence of some specific parameters in the reform proposal, **this note adopts the assumption that the starting point for some of the finer points of reform will be the existing *rusta och matcha* programme**, which itself builds on experiences learned during the older STOM programme. The Ministry of Employment (2021<sup>[1]</sup>) proposal does not explicitly prescribe whether some of the key features of the *rusta och matcha* programme – as compared to contracted-out employment services schemes in other countries – are to be retained in the reformed system. These features include mandatory referrals into the programme based on Arbetsförmedlingen counsellors' discretion, relatively stringent criteria for becoming a provider under the system, and a different customer journey for jobseekers deemed to require training or upskilling (with *rusta och matcha* being reserved for individuals deemed to need only job counselling and brokerage services). Some elements of *rusta och matcha* will presumably need to be modified



following the reform – for example, individuals are referred to private providers in *rusta och matcha* for a limited duration, up to 12 months.

One important element of the current *rusta och matcha* programme, and one which will presumably be adopted in the future reform, is the **mandatory referral of jobseekers deemed to be suitable for participation by Arbetsförmedlingen counsellors**. Under *rusta och matcha*, the decision on *whether* an individual is placed into the *rusta och matcha* programme is ultimately decided by an Arbetsförmedlingen counsellor (although it also takes into account the suggestion of the profiling tool and additional information gleaned from discussions with the jobseeker). This is important because mandatory participation for individuals client choice-based schemes avoids the adverse selection problem that can be present with voluntary schemes. The experience of Italy presents an instructive example of the potential problems of giving individuals the choice of *whether* to opt-in to a programme of contracted-out employment services. Despite its strong potential to help jobseekers, it suffers from a low take-up rate on the part of participants. OECD (2019<sup>[2]</sup>) 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.

## 2.2. Consumer choice-based schemes vs mandated referrals

**In an international context, one of the defining features of the proposed reform is the important role of client choice – the setup chosen in slightly over half of the OECD countries with outcome-based payment schemes** reviewed by Langenbucher and Vodopivec (2022<sup>[3]</sup>) (for an overview, see Table 2.1). Client choice-based schemes have been most widely used in Australia and the Netherlands, where they have been in place since 1998 and the early 2000's, respectively. Other OECD countries with recent or ongoing client choice-based payment schemes include Belgium (Flanders), Italy, Korea, and New Zealand. Similar to Sweden, in many of these countries, the decision of *whether* to refer individuals to contractors is often made by the contracting authority, which may decide to provide services to individuals in-house (possibly, as in the case of the Netherlands, mostly through online channels). A notable exception includes Australia, which fully privatised its employment services in 1998 and where all registered jobseekers are referred to contracted providers for employment services.

**A key argument in favour of client choice-based schemes is that they introduce consumer choice:** clients are in principle able to receive services from the providers they think will offer the best quality services (Struyven, 2004<sup>[4]</sup>). This greatly simplifies the tendering process for the contracting authority. It relieves the contracting authority of some of the responsibility in choosing providers, and may enable clients to receive more tailor-made services. However, in order for the potential benefits of such consumer sovereignty to be realised, several conditions must hold. First, individuals must have a choice of different providers not only in theory, but also in practice. For example, they must not be constrained to a single provider in their geographic vicinity. This may be difficult to guarantee for remote areas or for clients with very specific needs. Second, consumers must have adequate information on the various providers in order to make an informed choice. This may include information on the precise services offered by different providers and their past performance. And finally, jobseekers must exercise their consumer sovereignty prudently, making an informed, conscientious choice of the optimal provider for them.

**An alternative approach to client choice-based schemes consists of mandated referrals to a specific provider** (Langenbucher and Vodopivec, 2022<sup>[3]</sup>). OECD countries with recent or ongoing mandated-referral programmes include Canada, France, Poland, the United Kingdom, and the United States. In such schemes, the contracting authority often adopts a “prime contractor” model (Freud, 2007<sup>[5]</sup>), where procurement is comprised of a small number of contracts being awarded to larger providers. In such a model, the size of the contracts may result in each prime contractor engaging the services of sub-contractors – in fact, subcontracting is often one of the criteria in the tendering process, with providers with

stronger ties to sub-contractors being favoured. Subcontracting may be done for all clients or only to handle the needs of specific client groups; it may include subcontractors from the non-profit or even the public sector. Prime contractors may also assume a coordinating role, working with a large number of public bodies responsible for different client groups.

**Both types of contracting models have benefits and drawbacks.** One of the key benefits of the prime contractor model is that it may decrease monitoring costs for the contracting authority, make it easier to ensure that any minimum service standards are being enforced, and easier to ensure that employment services are being consistently delivered. To the extent that there are synergies in the reporting and monitoring process for larger providers, a prime contractor model may also conceivably lower administrative costs of the system, with more resources available for front-line staff. However, such a system may make it more difficult to foster competition between providers or hedge against the risk of a single contractor failing, as well as making it more difficult to terminate a contract in the event of poor performance. This latter problem became clear in the case of the United Kingdom's *Work Programme*, which was introduced in 2010 (OECD, 2014<sup>[6]</sup>). During the first 22 months of contracts, all providers were technically in breach of rules due to underperformance and they all faced potential contract termination at the end of the second year. However, it was not until March 2014, several years into the contracts, that the UK agency administering the contracts finally announced the termination of one provider's *Work Programme* contract due to underperformance.

Table 2.1. Overview of selected international contracted-out employment services schemes

Country, programme name and duration	Client choice model?	Client groups	Outcome-based fees (weight)	Maximum possible per-client payment
<b>Sweden</b>				
<i>rusta och matcha</i> (2020-ongoing)	Yes	Registered unemployed who are estimated to have medium-range probability of finding a job	70-80%	SEK 34 820 to SEK 61 760
STOM (2014-2021)	Yes	Disadvantaged jobseekers, e.g. unemployed with pre-secondary education only, born abroad, with disabilities resulting in reduced capacity for work, aged 55-64 years	50-65%	SEK 18 500 to SEK 36 200
<b>Other OECD countries</b>				
Australia: <i>jobactive</i> (2015-2022)	Yes	All registered jobseekers	89% (fees as of August 2021 for Stream B)	AUD 5 013
Belgium (Flanders): <i>TIBB4</i> (2021-present)	Yes	Jobseekers who would benefit from additional job-search support	60%	n.a.
Canada (Ontario): <i>Employment Services Transformation</i> (2021-present)	No	All registered jobseekers including those receiving social assistance, unemployment benefits or those with a disability	40-60%	CAD 344 to CAD 3 230
France: <i>Private Placement Operators scheme</i> (2007-2008)	No	Long-term unemployed receiving unemployment benefits without additional barriers to employment	70%	EUR 3 000 to EUR 3 947
Ireland: <i>JobPath</i> (2015-2021)	No	Long-term registered unemployed	65% or more	Not publicly available
Italy (Veneto): <i>Jobseeker's Allowance</i> (2017-ongoing)	Yes	All registered unemployed aged over 30	over 90%	EUR 250 to EUR 5 000
Korea: <i>National Employment Support Programme</i> (2018-ongoing)	Yes	Low-income households, young people, micro-business owners and other vulnerable groups	58-73%	KRW 300 000 to KRW 1.8 million
Netherlands: <i>Reintegration markets &amp; Open House</i> contracting (2004-present)	Yes	Certain unemployed individuals on a sickness benefit or disability benefit	Varies (initially approximately 40-50%)	n.a.
New Zealand: <i>Employment Placement or Assistance Initiative</i> contracts (2019-2024)	Yes	Jobseekers with a disability or a health condition	73-78%	NZD 2 964 to NZD 9 360
United Kingdom: <i>Restart</i> (2021-ongoing)	No	Jobseekers who have spent between 12 and 18 months claiming the universal credit (cash transfer)	Approximately 70-80%	Not publicly available
United Kingdom: <i>Work Programme</i> (2011-2018)	No	Long term unemployed and other disadvantaged jobseekers in receipt of various income replacement benefits	89-100%	GBP 3 700-13 720 (depending on payment group)
United States (New York City): <i>CareerCompass</i> and <i>CareerAdvance</i> , 2016-present	No	All jobseekers aged 25 and over receiving (or applying for) social assistance benefits	30-40%	n.a. (only aggregate payments are specified)
United States (Wisconsin): <i>Wisconsin Works</i> (2013-present)	No	Social assistance benefits recipients	Approximately 60%	USD 5 000

Source: compiled from Langenbacher and Vodopivec (2022<sub>[7]</sub>).

### 2.3. Target groups to be placed with private providers

Assuming the types of jobseekers referred to private providers remains similar to those in *rusta och matcha*, **Sweden's proposed reform stands out from other contracted-out employment services schemes in terms of the target groups.** Under *rusta och matcha*, readily employable jobseekers as well as those judged to be too far from the labour market are not eligible to participate. This stands in contrast to programmes typically offered in other OECD countries.<sup>4</sup> These either contract-out the service provision for all (or most) individuals receiving unemployment and social assistance benefits (programmes in Australia and many in the United States; the *Work Programme* in the UK), or target particularly disadvantaged groups who are subject to more specialised or intensive support from private providers. Examples of such specific target groups in other countries include (Langenbucher and Vodopivec, 2022<sup>[7]</sup>):

- Belgium (Flanders) – *TIBB4* programme: individuals who would benefit from additional assistance with job-search (due to a lack of motivation or job-application skills, poor knowledge of the labour market, unrealistic job targets)
- Ireland – *JobPath* programme: long-term unemployed registered with PES;
- Korea – *National Employment Support Programme*: low-income households, young people, micro-business owners and other vulnerable groups (e.g. North Korean defectors);
- The Netherlands – *UVW Open huis* contracting: (i) unemployed individuals on a sickness benefit, (ii) certain disability benefit recipients, and (iii) unemployment benefit recipients who have been sick or with disabilities for 2 years and are ineligible for the disability benefit;
- New Zealand – *Employment Placement and Assistance Initiative* contracts: (i) individuals with disabilities who do not qualify for vocational rehabilitation and (ii) those with a health condition.

Consultations with stakeholders during September-October 2021 suggests that the rationale for the target groups in the recent Swedish programmes may partly stem from negative experiences with contracted-out employment services in the past. The *Etableringslotsar* programme, which ran from 2010 to 2015, was a programme designed to help helping immigrants establish themselves in the Swedish labour market through a network of dedicated support counsellors that were contracted-out to private providers. A 2013 survey conducted among participants broadly found that they were satisfied with the programme, with 81 percent of respondents indicating they were fairly or very satisfied with the service (Riksrevisionen, 2014<sup>[8]</sup>). However, the programme was also criticised for poor monitoring of providers, leading to poor quality of service provision amongst some providers.

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<sup>4</sup> A notable exception is the new UK *Restart* programme which began in July 2021 and targets unemployment benefit (Universal Credit) claimants who have been out of work for 12-18 months.

# 3. Creating a market for employment services: Fostering a diverse and level playing field

In employment services, private contractors may experiment with a variety of different strategies and service delivery methods to help place their clients into sustained employment. Given the specific needs of their individual clients – including various barriers to becoming and remaining employed – the effectiveness a provider’s approach can also be difficult to accurately assess in advance. For this reason, fostering competition between the employment-service providers is an important mechanism for ensuring that contractors provide useful and effective services to their clients.

This section describes the various considerations that should be taken into account when creating a market for employment services in Sweden. It discusses the parameters of used in the existing employment services schemes in Sweden and compares them with those implemented in other OECD countries.

## 3.1. Barriers to entry for new providers in *rusta och matcha*, STOM and the reformed system

The **existence of the *rusta och matcha* and STOM programmes have allowed certain providers to become established and created realities that may impede the entry of new providers.** To the extent that the existing private providers have developed knowledge and expertise of working within the Swedish system, as well as established relationships with subcontractors or employers, such incumbents will hold a certain advantage over potential new entrants. The STOM programme was first introduced in 2014 and was subsequently rolled-out over all of Sweden, with as many as 186 different STOM providers operating concurrently (Langenbacher and Vodopivec, 2022<sup>[7]</sup>).<sup>5</sup> The *rusta och matcha* programme, first introduced in March 2020, had 54 unique providers across 20 delivery areas in June 2021; in addition, 11 private providers were sub-contracting some of their work to subcontractors (with 1-5 subcontractors per prime contractor). In both STOM and *rusta och matcha*, the largest 10 providers serve roughly half of the market participants.

**Potential providers in both *rusta och matcha* and STOM must fulfil a number of qualitative criteria** that include their past experience in providing similar types of services, the qualifications of their staff, and their physical presence. Staff who are to counsel jobseekers are required to satisfy one of two criteria:

- (i) a one year post-secondary education in a broadly-defined relevant field with 3 years relevant professional experience in last 5 years, or

<sup>5</sup> The maximum number of different suppliers in STOM was achieved in July 2018. Note that of the 72 delivery areas constructed for STOM/*rusta och matcha* in Sweden, there were 6 areas without any suppliers in STOM or *rusta och matcha* in May 2021.

- (ii) a (roughly) 2-year higher education in a broadly-defined related field and 2 years of relevant work experience in the last 5 years.

In terms of the requirements, one of the most onerous ones mentioned in the consultations conducted by the OECD was the requirement to maintain a physical presence (in-person office hours) in each service area for at least 16 hours per week. This requirement was cited by many *rusta och matcha* providers as the most binding one limiting their presence in regions where client volumes were not expected to be sufficient.<sup>6</sup>

The **criteria for providers in *rusta och matcha*, compared to the predecessor programme STOM, are generally more strict than in *rusta och matcha*.**<sup>7</sup> According to an analysis from early 2021, 60 percent of applications by prospective *rusta och matcha* providers were rejected, higher than under the STOM programme (Svenskt Näringsliv, 2021<sup>[9]</sup>). According to Arbetsförmedlingen staff, the most common reason for providers not fulfilling the *rusta och matcha* criteria is a lack of sufficient prior experience in counselling. In STOM, prospective suppliers needed to demonstrate past experience with one reference assignment in which they offered job-matching services to long-term unemployed individuals in need of enhanced job search support. In *rusta och matcha*, in addition to the one reference experience in job-matching required under STOM, providers also need to demonstrate a separate reference experience in providing in-depth counselling to help individuals overcome various barriers to employment or training. Arbetsförmedlingen staff indicate that the latter requirement has apparently been more difficult for providers to demonstrate in practice.

**Arbetsförmedlingen's approach to contracted-out employment services should focus more on outcomes and less on inputs, activities and outputs** (Table 3.1). Although the payment model in *rusta och matcha* is strongly focussed on outcomes, in many other aspects, Arbetsförmedlingen places excessive focus on other aspects which should not be goals in themselves. For example, the eligibility criteria, with their focus on the qualifications of staff and past experience, may unduly favour incumbent providers without necessarily ensuring a higher quality of services.

**Table 3.1. Ultimate focus of employment services should be on outcomes, not on inputs, activities or outputs**

Results-chain in contracted-out employment services (non-exhaustive list)

Inputs	Activities	Outputs	Outcomes
<ul style="list-style-type: none"> <li>○ The previous experience of the providers and their network of subcontractors in job-matching and intensive-counselling services</li> <li>○ Private provider staff profiles and experience</li> <li>○ Physical presence (offices) in each service delivery area</li> </ul>	<ul style="list-style-type: none"> <li>○ Private provider's meetings and other engagement with jobseekers (including monitoring jobseekers' adherence to activation requirements)</li> <li>○ Short training programmes (e.g. digital skills training)</li> <li>○ Provider's staff in-person office hours</li> <li>○ Engagement with subcontractors or employers</li> </ul>	<ul style="list-style-type: none"> <li>○ Reports filed by providers (individual action plan for each new client, joint planning report, monthly periodic reports, deviation reports, informative reports)</li> <li>○ Job applications submitted by jobseeker</li> <li>○ Interviews attended by jobseeker</li> <li>○ Job offers received</li> </ul>	<ul style="list-style-type: none"> <li>○ Entry into education programmes or employment</li> <li>○ Sustained employment or completed educational programmes</li> <li>○ Improved attitude to job search and work</li> <li>○ Improved motivation and self-confidence</li> <li>○ Realistic expectations of jobseeker about labour</li> </ul>

<sup>6</sup> Note that these were the binding restrictions highlighted by the (mostly larger) existing providers – for smaller potential providers, bigger constraints could arise due to e.g. the pricing model or the legal framework.

<sup>7</sup> By contrast, in one important aspect, the criteria in *rusta och matcha* are less strict than in STOM – STOM required providers to have a dedicated guidance counsellor to fulfil this specific task, a requirement which is not present in *rusta och matcha*.

It is interesting to contrast the criteria set out for *rusta och matcha* providers with recent research examining the relative importance of various PES counsellor attributes and jobseeker-engagement strategies in Sweden. Using detailed administrative data on both caseworkers and job seekers, Cederlöf, Söderström and Vikström (2021<sup>[10]</sup>) find that counsellor experience (of at least 2 years) matters, as does matching the characteristics of jobseekers and counsellors by gender and sectors of prior employment.<sup>8</sup> On the other hand, factors such as education and cognitive ability of the counsellor are not found to have a systematic effect, and there is no systematic benefit to having counsellors with 4 or more years of relevant experience. This analysis highlights the complexities involved in the effective provision of employment services and shows that many of the factors which determine the effectiveness of a provider are difficult to prescribe in advance. Given this uncertainty, it also underscores the relevance of placing greater weight on providers' outcomes.

While in principle all eligible providers are to be welcome to participate in Sweden's reformed market for employment services, **consultations with many stakeholders indicate a preference for a smaller number of larger providers in the reformed contracting system.** This reflects a number of different factors, including the negative experiences with the use of smaller providers in the *Etableringslotsar* programme, the greater difficulty in monitoring a greater number of providers, and perceived economies of scale in the provision of services.<sup>9</sup> While deciding on what types of providers to include in the market is a complex question, there is a case to be made for including smaller providers as well, particularly in instances where a market is still being developed. This would ideally be combined with system in which monitoring of providers would be better targeted and strengthened (for further discussion of this issue, see Section 4. ).

**Disentangling the relationship between employment-services provider size upon entry into a given market and their subsequent effectiveness is difficult.** Some long-existing markets for employment services are characterised by a smaller number of relatively large providers (e.g. Australia, the UK), while others have a varied market that includes large players in addition to smaller ones (e.g. the Netherlands). Nevertheless, there are several arguments in favour of including smaller providers as well. In examining the experience of contracted-out employment services in the Netherlands, a review by the European Commission (2012<sup>[11]</sup>) argues that PES counsellors there generally preferred smaller providers because of their less bureaucratic nature and perceived higher success rate on the more limited number of referred clients. Given the lack of empirical evidence on the relationship between size and productivity in employment services, it is instructive to note the weaker relationship in the service sector in general. In OECD countries, the economies of scale that are an established feature in manufacturing appear to be considerably less prominent in the service sector (Berlingieri, Calligaris and Criscuolo, 2018<sup>[12]</sup>)

**An additional argument in favour of including smaller providers is that the Swedish “Star Rating” system works as intended to provide information on providers, including smaller ones.** A 2020 Swedish Audit Office review of STOM's rating system found that it provides jobseekers with useful information on the effectiveness of providers, with higher-rated providers attracting more clients (Riksrevisionen, 2020<sup>[13]</sup>). Furthermore, a participant who chose a provider with the highest rating (4 stars) could expect an average of 30 percentage points higher probability of achieving a successful outcome with

<sup>8</sup> The data analysed covers the period from 2003-2010 and thus includes the period prior to Arbetsförmedlingen's founding in 2008 (until then, the public employment services were overseen by the Swedish Labour Market Board, Arbetsmarknadsverket).

<sup>9</sup> At the same time, many social economy actors have also expressed an interest in expanding their partnerships with Arbetsförmedlingen and municipalities, and voiced concern that their role as providers of employment support measures may be significantly reduced as a consequence of the reformed system.

that provider compared to if they chose a provider with the lowest rating (1 star).<sup>10</sup> Reassuringly, the review also shows that an improved rating leads to more clients choosing a provider.

### ***International comparison of criteria for becoming a provider in client choice-based systems***

#### **Countries that have adopted client choice-type approaches to contracted-out employment services have adopted a variety of criteria for providers to offer their services on the publicly-funded market.**

These reflect the differing target client groups and the varying importance of contractors in total service provision. In Australia, for example, all publicly funded employment services are provided by contractors, with the government being willing to devote considerable resources to ensuring that the market functions well.<sup>11</sup> In Italy, by contrast, the contracted-out employment services serve as an (optional) extension of the services offered by the regional PES, so the contracting authorities tend to opt for a less heavy-handed approach to regulating the market.<sup>12</sup>

Selection criteria for providers to participate in large employment services markets include the following:

- Australia (*jobactive*). For the 2015 *jobactive* tender, past performance carried a weight of 30 percent (Department of Education, Skills and Employment, 2014<sup>[14]</sup>), as providers typically had a long history of delivering employment services. Another 10 percent related to the governance – demonstrating that the provider “has the structure, management and systems as well as the skills and capacity and resources to deliver the actions” (p. 139). The other factors varied depending on the precise contract being sought. For the “Employment Provider” contracts, the additional criteria included the service delivery proposal (30 percent) and meeting the needs of employers (30 percent). In addition to the criteria for entering the market, Australia engages in a process known as “business reallocation”, whereby the contracting authority has the discretion to reduce an employment service provider’s market share in a service region (possibly to zero).
- Italy (Reintegration voucher - *assegno di ricollocazione*). 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<sup>[2]</sup>). 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.

<sup>10</sup> Successful outcomes here are defined as those triggering an outcome-based payment to the provider in STOM (Riksrevisionen, 2020<sup>[13]</sup>): four months employment, one semester of full-time upper secondary education study, or twenty weeks of full-time studies in post-secondary education.

<sup>11</sup> With its planned New Employment Services Model, due to be launched in mid-2022, Australia is shifting back towards the provision of some government provided services. This is intended to enable job-ready and digitally literate jobseekers to self-manage their unemployment spell through a digital platform (Langenbucher and Vodopivec, 2022<sup>[7]</sup>).

<sup>12</sup> Italy’s programme is also notable in that public entities may participate as providers in the market for employment services – an approach also adopted, for example, in the US state of Wisconsin (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). Sweden has at present ruled out the participation of municipalities, but it may want to also consider allowing branches or divisions within Arbetsförmedlingen to compete as providers in the market. Empirical evidence from an experiment in France supports this idea: a trial comparing contracted out provision of employment services with more intensive support from the PES found that the PES could provide considerably more cost effective services (Behaghel, Crépon and Gurgand, 2014<sup>[21]</sup>).



- In the Netherlands, both the PES and the municipalities organise their own markets of employment services (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). Accredited providers are selected based on minimal requirements which are not centrally determined. This results in thousands of different private providers – most of them, one-person providers – providing services to clients via vouchers from the PES (in the case of unemployment benefit recipients) or the municipalities (in the case of social assistance recipients).

### 3.2. Payment model

In contracted-out employment services schemes with an outcome-based payment model, the **outcome-based fees are usually contingent on sustained employment outcomes**.<sup>13</sup> Rewarding only the conclusion of a job match clearly carries the risk of undesirable outcomes such as very short-term contracts or even fraudulent behaviour (e.g. one-day contracts to fulfil the notion of an outcome). A common requirement is that the participants stop claiming out-of-work benefits, although some programmes may also reward employment outcomes associated with part-time unemployment benefits.

**Programmes in some countries only pay a single outcome-based fee after a minimum period, while others make staggered payments.** The optimal length of the outcome measurement and payment of outcome-based fees is a matter of judgement and practicality. OECD (2005<sup>[15]</sup>) argues for a period of more than two years, as the pay-off of investments into employment services may only amortise then. However, this is difficult to administer and may also make it difficult for not-for-profit actors to participate in the market. Most countries stop paying outcome fees after a much shorter period. A number of schemes pay results-based fees at different employment durations, which may go up to 12 months as in the Irish *JobPath* programme or two years for some payment groups in the UK *Work Programme*.

**Rusta och matcha pays a single outcome fee**, after four months. In contrast to most other programmes in OECD countries, it rewards educational outcomes in addition to those pertaining to employment. Outcomes are paid if the participants takes up employment or eligible education and training<sup>14</sup> lasting at least four months within two months after the end of the placement period. Several jobs or trainings can be aggregated, if they together satisfy the conditions for performance compensation. However, training and employment outcomes cannot be aggregated. In case of interruptions, the maximum duration of the break is two weeks.

**In order to support more sustained employment outcomes, Sweden should consider increasing the time until payments are triggered for employment outcomes.** This may be with staggered payments triggered at different durations of employment. There is a particularly strong case for increasing this duration to at least 6 months, which corresponds to the maximum probationary period for individuals on permanent employment contracts. This may also offer providers an additional incentive to offer in-work support to their (former) clients. Additional aspects to consider in terms of the pricing model – including how educational outcomes are rewarded – will be examined in greater detail in the upcoming stages of the project.

**One common challenge faced by providers is the requirement to provide direct evidence of participants continued employment**, as not all countries link their unemployment and employment registers to enable automatic tracking of employment outcomes. This challenge is also currently present in the Swedish programmes: providers must demonstrate that their (former) clients have achieved the sustained outcomes required to trigger payments. Several stakeholders have questioned the legal basis

<sup>13</sup> Issues related to the payment model will be discussed in greater detail in a future output of this project (Output 4).

<sup>14</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).

for the providers to request such information from their (former) clients.<sup>15</sup> As will be discussed in Section 3.3, obtaining a legal basis for automatically receiving such data is one of the most urgent challenges of the reform.

### *Differentiation between client groups*

One important consideration in designing the payment and contracting model concerns the **heterogeneity of client groups involved**. Given that the scale of contracting under the reformed system in Sweden is to be expanded considerably, providers will serve a wide range of participants. Such a heterogeneous group of jobseekers placed may vary considerably with respect to labour market barriers, meaning the interventions required to place them into employment or education may also vary considerably. These factors underscore the importance carefully determining the total potential fees as well as the weight of service and results-based fees.

**Segmenting jobseekers into groups is often achieved through a statistical profiling model**, which is used to allocate jobseekers across a small number of categories. Allocations to categories are based upon an empirical model which predicts the claimant's probability of becoming long-term unemployed as a function of a large set of variables. A growing number of OECD and EU countries use this kind of profiling to segment jobseekers into different service streams also within the public provision of employment services (Desiere, Langenbucher and Struyven, 2019<sup>[16]</sup>), including Sweden.

***Rusta och matcha* has a differential payment model with three payment groups**. Participants are assigned to the groups based on the results of the statistical profiling tool, which also determines eligibility for *rusta och matcha*. 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 3.2 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 participant takes up employment or eligible education and training<sup>16</sup> lasting at least four months within two months after the end of the placement period.<sup>17</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 attachment 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-month periods with a provider. For placements achieved within the first of the two six-month

<sup>15</sup> Nevertheless, it seems that at least the outcomes provided by the private providers correspond relatively well to the Tax Agency's monthly data. An audit by the Swedish Audit Office found a perfect correspondence in over 95% of cases (Riksrevisionen, 2020<sup>[13]</sup>).

<sup>16</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.

<sup>17</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.

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 *rusta och matcha* scheme is currently trialling two different payment schedules with different weights of the service and outcome-based fees. 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). The total potential compensation is 8% lower than in the areas with higher outcome-based fees. This compensation model, designed in collaboration with researchers from IFAU, is intended to test the relative efficacy of the differing payment models.

**Table 3.2. *Rusta och matcha* 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 (for placements within first twelve months) – replaces basic payment	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 25 November 2021).

**Countries have adopted a variety of different strategies to account for the varying difficulty of placing individuals into employment.** In Australia, both service and outcome-based fees increase for participants placed later in the unemployment spell. For participants placed into employment between 6 and 12 months, service fees (administration fee and employment fund contribution) amount to 25% of the total fees (assuming the participants remains employed for at least 26 weeks). For participants placed between 36-42 months, service fees amount to 32%. In Italy, the national voucher for employment services makes payments on a continuous sliding scale, depending on the precise projected probability of remaining unemployed as assessed by a profiling model. Another important aspect for schemes with a large variation in regional labour market outcomes is to vary fees by location. Under the *jobactive* scheme, Australia increases fees by 25% in service delivery areas defined as "regional".

Instead of creating payment groups with a fixed price per participant within one payment group, **an alternative approach is to use so-called "target accelerator" or "escalator" payment models.** Within such models, providers are paid higher fees as the total percentage of participants in each payment group reaching sustained employment increases. Such an approach is being adopted in the UK's new *Restart* programme, which began accepting clients in July 2021 (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). In this scheme, 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). For every subsequent individual placed into employment after the first 21%, the outcome-based payments are set at 140% of the base rate – thus rewarding providers who "dig deeper" into their assigned caseload.

### *Creating incentives for training*

**In *rusta och matcha*, the provider must plan at least one activity for each client every week, which can also include a training component.** This can cover an 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. However, these activities are not additionally funded by Arbetsförmedlingen, but may be used for short interventions that improve clients' employability. In practice, this means they are limited to short-term programmes generally lasting several days and never more than several weeks.

**If the reformed system in Sweden is to serve a broader set of target groups than is currently the case in STOM or *rusta och matcha*, it will need to incentivise providers to enrol their clients into training programmes** which do not qualify as educational outcomes that trigger outcome payments. This would help fill gaps in the supply of labour in the Swedish labour market and could be tailored to the needs of employers at the local level (for a more discussion on this topic, see Section 5.2). Sweden should consider introducing a small training budget (as in Australia, the Netherlands and Italy) to allow private providers to offer additional activities for clients. Alternatively, it may want to institute a “stop-the-clock” mechanism whereby an individual can enter into a training programme (of 1-3 months). The experiences of the below countries may be instructive in this regard.

**Australia's next iteration of its contracted-out employment services scheme will modify the incentives for providers to offer training to their clients** (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). Scheduled to be launched mid-2022, Australia began trialling the *New Employment Services Model* in two regions – Adelaide South in South Australia and Mid North Coast in New South Wales – from July 2019. A new fee-type 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 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.

**A recently implemented pilot programme in Ontario (Canada) also gives providers a discretionary budget** which can be used for other expenses in addition to training (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). Ontario's Employment Services Transformation, which was launched in January 2021, provides an “employment-related financial supports for jobseekers and employers” to be disbursed to jobseekers or employers to help clients move into employment. 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 job seekers include transportation, work clothing or uniforms, tools and special equipment, and emergency or infrequent childcare. Examples of employment-related financial supports to employers include accommodation 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.

**Schemes in Italy and the Netherlands incorporate fee-for-service training programmes within a contracted-out employment services model** (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). The *Jobseeker's Allowance* scheme in the province of Veneto (Italy) allocates a fixed amount of EUR 1 770 to individuals participating in the voluntary scheme, with enrolment in training programme being based on the mutual agreement on the appropriateness of the training by the individual and the provider (Table 3.3). Training services include a variety of options, such as language or computer training, courses for obtaining work equipment qualification, or training for professional development. In the Netherlands, framework

agreements specify process and performance requirements according to a predefined and approved list (MobilityLab, 2012<sup>[11]</sup>). The framework enables providers to run a broad range of services of which most have fixed prices, with only job placement payments being dependent on outcomes.

**Table 3.3. Example of training voucher within an outcome-based payment scheme - Jobseeker's Allowance in Veneto, Italy**

	Band A	Band B	Band C
Attachment fee (maximum possible)	EUR 266	EUR 494	EUR 1 026
Training voucher	EUR 1 770	EUR 1 770	EUR 1 770
Variable component	EUR 1 500	EUR 2 000	EUR 3 000
<b>Total</b>	<b>EUR 3 536</b>	<b>EUR 4 264</b>	<b>EUR 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. Client bands are determined based on estimated barriers to employment.

Source: (Langenbucher and Vodopivec, 2022<sup>[7]</sup>).

**An alternative approach to creating incentives for training is to mandate specific proportions of clients that are to undergo training.** In the United States, the New York City *Career Advance* programme mandates specific minimum shares of referred individuals who are to undergo different types of training (NYC Human Resource Administration, 2016<sup>[17]</sup>). Among clients placed to private providers for counselling and job-brokerage services, contracts stipulate that at least 19% are to receive some form of training or upskilling services. Roughly half of this is to involve “bridge training”, which is intended to prepare individuals with low educational attainment and limited skills for entry into higher education, occupational skills training, or career-track jobs. The other two forms are training, both of which also have prescribed minimum participation rates, are (i) vocational training and (ii) internships or volunteering engagements.

### 3.3. Timeline for implementation of reform and establishing information exchange

Given the complexities involved in setting up a market for contracted-out employment services, **the implementation timeline of the reform is worth careful consideration.** Important steps in this procedure include consultations with potential providers, designing the tendering procedure, allowing for bids to be submitted and assessed, and preparations for launching service delivery, such as establishing the requisite IT infrastructure for information exchange. If the timelines currently anticipated in the reform proposal are too short, the process will favour established providers at the expense of new market entrants. This may impede providers’ ability to devise innovative service delivery solutions or build extended supply chains with specialists (Mansour and Johnson, 2006<sup>[18]</sup>). A short timeline for implementation may also induce a slow ramp-up of performance, leading to poor outcomes for clients referred in the initial rounds, as was observed in the initial rollout of the UK *Work Programme* (Langenbucher and Vodopivec, 2022<sup>[3]</sup>).

**The Swedish Government proposal foresees that the proposed reform and the launch of the new employment services market is to take effect by the end of 2022** (Ministry of Employment, 2021<sup>[11]</sup>). Establishing the new market foreseen in the proposal requires legislative changes. A draft bill is to be sent to Sweden’s Council on Legislation in early 2022, the draft bill is to go to parliament in spring 2022, and the proposed changes are to take effect in the second half of 2022. In tandem with this process is the adoption of the relevant government ordinances and the budget bill needed finance the new programme.

**Many of the important necessary legislative changes refer to establishing a legal basis for the exchange of information** between Arbetsförmedlingen, the private providers, and other relevant public institutions and stakeholders. Currently, a provider may access relevant individual data held by

Arbetsförmedlingen only if the individual consents to the authority disclosing such information (Ministry of Employment, 2021<sup>[11]</sup>). There are other examples of legal restrictions of questionable merit: providers who cannot, for example, engage in direct referrals of their clients to potential employers – instead, they need to suggest to their clients that they contact the employer themselves.

**One of the most urgent legislative changes is establishing a legal basis for Arbetsförmedlingen to receive monthly income data** at the individual level from the tax agency to verify employment outcomes and calculate Star Ratings. Such a system could be used to automate the process of making payments to providers. Such a feature has been included, for example, in the recently-implemented UK Restart employment services programme, with payment decisions to contractors based exclusively on the real time earnings information data supplied by the tax authorities (Langenbacher and Vodopivec, 2022<sup>[7]</sup>). Furthermore, it could be also useful to provide timely feedback to providers on their performance relative to their peers. Such a benchmarking tool, updated on a daily basis, is employed by the Dutch PES for use with contractors in its *Open Huis* programme.

**Another problem related to data exchange faced by *rusta och matcha* providers is ascertaining precise eligibility of their clients for wage subsidy programmes.** Consultations with *rusta och matcha* providers indicate that while most *rusta och matcha* clients are in principle eligible for subsidies, precisely determining the subsidy amount and receiving confirmation of employer eligibility now typically takes several weeks (they note that in the past, ascertaining eligibility was almost instantaneous). This may reflect ongoing challenges related to Arbetsförmedlingen's reorganisation, but it may be worth considering whether an automated solution could be deployed. Such a tool is being developed by Spanish PES, which is working on a self-service portal that will allow jobseekers to identify for themselves, in real time, which forms of publicly financed training are currently available to them. This will require linking various administrative databases and coupling them with the current eligibility criteria of ongoing training programmes.

**Several sensible adjustments could also be made to improve the accuracy of the profiling tool which is used to classify jobseekers and determine payments** (Benmarker et al., 2021<sup>[19]</sup>). The profiling tool uses machine learning methods to calculate the probability of different labour market outcomes, taking into account some 30 variables from Arbetsförmedlingen databases. It is designed to profile jobseekers at the time of enrolment, but in *rusta och matcha* the tool is also used to profile jobseekers who are already registered with Arbetsförmedlingen. A refined version of the tool could account for duration of unemployment directly. The accuracy of the tool could be further improved by incorporating data from the tax register. This would be particularly useful for improving the accuracy of predictions for individuals without recent unemployment spells.

# 4. Performance management

While carefully designing a market for contracted-out employment services is an important precondition for its eventual success, performance management is the critical next step. Managing contracts requires balancing two competing objectives: promoting innovation and flexibility amongst the providers while regulating processes and reporting requirements to limit the scope for contract gaming. Experiences with contracting in many countries – including Sweden’s own experience with the *Etableringslotsar* programme – underscore the importance of performance management. Contracted providers should be regularly monitored to ensure that they are providing a satisfactory baseline performance through site visits, payment claims verifications and monitoring client complaints. Furthermore, contracting authorities would ideally have a toolkit of escalating contract enforcement mechanisms at their disposal, ranging from verbal warnings about poor performance to financial penalties and early termination of contracts in the most egregious cases.

This section discusses the role of the contracting authority in managing the performance of providers. Two specific topics are discussed in greater detail: monitoring of providers performance and enforcing activation requirements of jobseekers placed with private providers.

## 4.1. Ensuring satisfactory monitoring of providers

Given that the existing monitoring mechanisms in *rusta och matcha* are likely the starting point for any future implementation of contracted-out employment services in Sweden, it is instructive to examine the current reporting and monitoring arrangements under the *rusta och matcha* programme.

**The *rusta och matcha* programme has several reporting requirements.** These entail the following:

- an individual action plan for each new client, detailing the activities to be undertaken by the participant including target occupations/jobs and specific short-term activities (this is to be made available to Arbetsförmedlingen upon request);
- a joint planning report setting out the provider’s support plan for each new participant;
- monthly periodic reports for each client summarizing the activities carried out including, on a daily basis, time spent interacting with the client (specifying face-to-face and otherwise), the types of support provided, and the types of activities the client has been undertaking;
- deviation reports are to be submitted to report back on participants’ absence and unmet obligations;
- informative reports are used to request additional support from the PES (e.g. referral to other programmes); and
- a final report describing “what worked and what has not worked” and proposed next steps for the jobseeker.

In addition to these reports, jobseekers are required to file monthly activity reports with Arbetsförmedlingen (see below); providers do not have access to these reports.

One of the purposes of these reporting requirements is **ensuring adherence to minimum service requirements**. 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. The goal of these requirements is to avoid having participants who are "parked" by providers. In addition to the mandatory interventions, providers can engage the participants in additional activities. *Rusta och matcha* participants can also take part in certain other programmes such as internships or preparatory training offered by the PES.

Consultations with **private providers indicate that they perceive the reporting requirements to be excessively burdensome**, particularly in light of the fact that they are paid based largely on outcomes. A parallel problem is that the reports appear to be inconsistently filed by various providers, making their usefulness questionable. Analysing data from the reports supplied by the providers, Bennmarker et al. (2021<sup>[19]</sup>) note that "we cannot determine in the data whether the supplier reported time separately for each activity, or reported the total time for the contact repeatedly. The data structure indicates that different suppliers have chosen different ways of reporting time." (p. 67) This means that the data are also not particularly useful for mapping the different service delivery approaches of the various providers – mapping the scope of individual development meetings and different types of individually adapted activities – and, thus, for research purposes that would, for example, evaluate the effectiveness of various providers' approaches.

The monitoring of employment services providers is conducted by the Supplier Follow-up Unit within Arbetsförmedlingen. The unit is tasked with monitoring all service providers contracted by Arbetsförmedlingen: in addition to those providing employment services within the STOM or *rusta och matcha* programmes, this includes providers of vocational training, rehabilitation services, preparatory courses, and language training. **Arbetsförmedlingen's monitoring model consists of three types of monitoring:**

1. **Proactive monitoring of strategically important providers.** On a twice-annual basis, Arbetsförmedlingen conducts a market analysis to determine the most strategically important providers. Suppliers are divided into three groups: important, moderately important and others (Riksrevisionen, 2020<sup>[13]</sup>). The breakdown is based on how many participants each supplier has and how much compensation the Public Employment Service pays to them. Providers in STOM or *rusta och matcha* are not examined separately, but rather the exercise is conducted with respect to all the services procured. Business critical and moderately critical suppliers are followed up through regular dialogue: 1-2 times a year at national level and in varying numbers at regional level. They are also disproportionately large providers with contracts in many different service areas across Sweden. Suppliers belonging to the other group, which in November 2019 accounted for 84 % of all STOM suppliers, are not subject to any dialogue at the national level.
2. **Proactive monitoring based on financial indicators.** Arbetsförmedlingen continuously monitors a large number of financial parameters and other relevant information from various sources in order to identify possible deviations and problem areas that should trigger in-depth financial review of the supplier.
3. **Reactive monitoring.** In deciding which providers to monitor in greater detail, Arbetsförmedlingen also take inputs from the complaint-managing system, which jobseekers can use to report complaints about the quality of suppliers' services directly to Arbetsförmedlingen.

Arbetsförmedlingen focusing its monitoring efforts on providers deemed strategically important is understandable given its limited resources. At the same time, the end result may be that larger providers are monitored considerably more intensively than smaller ones even though they account for a smaller



number of complaints in relative terms (Riksrevisionen, 2020<sub>[13]</sub>).<sup>18</sup> For example, the Swedish National Audit Office's calculations show that the strategically-important suppliers had about 43% of all STOM participants in June 2019, but only accounted for around 24% of all complaints received in January-June 2019.

**Arbetsförmedlingen should consider adopting a monitoring and enforcement approach that focuses more on outcomes rather inputs and outputs.** During the consultations with the OECD, several stakeholders stressed that, although the payment model in *rusta och matcha* is strongly outcome-based, much of the focus of Arbetsförmedlingen's monitoring efforts is not (for a further discussion of the results chain in the case of contracted-out employment services, see Section 3.1). The results of the Star Ratings system could be used to identify under-performing providers for which in-depth, targeted audits would be most warranted (this is also in line with the recommendations in Riksrevisionen (2020<sub>[13]</sub>)). When adopted in conjunction with a public-procurement method that allows for providers to be excluded from the market based on poor performance, this could improve the focus of the monitoring and allow a wider array of options to Arbetsförmedlingen for enforcement. Such a modified "penalty staircase" could augment the existing one used by Arbetsförmedlingen, with several levels:

1. **Dialogue or letter of warning.** After identifying under-performing providers, Arbetsförmedlingen could first engage in dialogue and attempt to understand the reasons for any observed under-performance (or, perhaps, clarify a shortcoming of the ratings system). If such dialogue is unsuccessful, it could then send a formal letter of warning.
2. **Temporary ceiling on number of referred clients.** As the next step, Arbetsförmedlingen could mandate a maximum number of referred clients until performance improves.<sup>19</sup> This would serve multiple purposes: it would cap the market share of poorly performing providers, help providers resolve any operational issues that may be related to taking on too many clients at once, and give providers a financial incentive to improve their performance. The financial incentives would work through two channels: first, through an implicit promise to be able to receive more clients once performance improves, and second, because even for a given number of total concurrent clients, placing clients into employment would allow them to receive new clients.
3. **Termination of contracts for sustained poor performance.** As a last resort, providers could be excluded from a service delivery area in which they continue to perform poorly.

The mechanisms under points (2) and (3) above would be **mimicking the strategy adopted by Australia in its contracted-out employment services scheme: purposefully increasing the market share of more effective providers.** During Australia's 2003 *Job Network* tender round, for example, the best 60% of providers had their contracts automatically rolled over, leaving the bottom 40% to compete with new entrants to the market (Davidson and Whiteford, 2012<sub>[20]</sub>). Furthermore, it would provide another hedge against the possible existence of providers with a viable business strategy entailing enticing large number of clients (through extensive outreach efforts) and then providing the bare minimum required services<sup>20</sup>. A form of the latter problem was possibly a factor in a relatively unsuccessful contracted-out employment

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<sup>18</sup> In its 2020 report, the Swedish National Audit Office found that the proactive monitoring in the form of national dialogues covers a very small proportion, around 16 per cent, of all STOM suppliers, and also a relatively small proportion of STOM participants. The proportions of providers monitored are higher for other services procured. In response to the report, Arbetsförmedlingen has been working on testing and exploring new possibilities for how to conduct the monitoring.

<sup>19</sup> Note that that in *rusta och matcha*, a provider may voluntarily set an upper limit on the number of participants to be accepted; by contrast, this proposed ceiling would be imposed by AF.

<sup>20</sup> This potential problem was also mentioned explicitly in conversations with *rusta och matcha* providers, who said it was in fact in their collective interest to avoid having such providers in the market: it would reflect badly on the entire system, adversely affecting its political viability.

services pilot programme in France (Behaghel, Crépon and Gurgand, 2014<sup>[21]</sup>): in this programme, the attachment fees may have given private providers incentives to maximise enrolment, thus enrolling jobseekers for whom the more intense counselling offered was ineffective.

Based on the OECD's understanding of the Swedish legal framework, the sanctioning mechanisms under points (2) and (3) above would only be available within the regular public procurement framework and not within the freedom of choice system, LOV. LOV requires that the contracting authority establish objective criteria for providers to offer their services to clients in the (government-funded) market – as long as they fulfil this criteria, they cannot be prevented from offering their services to clients. It is doubtful that criteria based on multivariate regression analyses of providers' performance, such as the Star Ratings, would be considered objective enough to satisfy this legal distinction. However, this question would best be answered with a thorough review by competent Swedish legal experts.

## 4.2. Enforcing activation requirements of jobseekers placed with private providers

**Unemployment and social assistance benefits in OECD countries are associated with a set of activation requirements which have the ultimate goal of getting individuals into employment**, with sanctions for non-compliance (Immervoll and Knotz, 2018<sup>[22]</sup>). These can include work-search requirements for recipients of unemployment benefits or work-preparation requirements for recipients of incapacity benefits. They may also involve requiring jobseekers to be willing to accept “suitable” jobs or making benefit payments conditional on participation in active labour market policies. A critical aspect of enforcing activation requirements involves monitoring jobseekers and imposing sanctions when appropriate.

**More stringent enforcement of activation requirements can increase the rate at which jobseekers transition into employment or off unemployment benefits**, although there can be trade-offs in terms of job quality. The evidence base for Sweden is quite broad in this respect.<sup>21</sup> Interesting take-aways from the research for Sweden include the finding that different groups of individuals may respond differently to more stringent activation requirements. In addition, the effects of a credible threat of imposing sanctions may have more significant behavioural effects than the sanctions themselves. Taken together, these imply that activation requirements can play an important role in getting jobseekers into employment – but that counsellors should ideally take into account each individual's circumstances to apply them prudently.

This section first discusses the challenges of monitoring and sanctioning more generally within the context of contracted-out employment services. It then discusses how although the existing jobseeker monitoring framework in Arbetsförmedlingen works quite well in general, the experiences with the *rusta och matcha*

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<sup>21</sup> Van den Berg and Vikström (2014<sup>[41]</sup>) report that the imposition of a sanction in Sweden increased the probability of exit to employment by 23 percent, but at the expense of lower hourly wages. Lombardi (2019<sup>[43]</sup>) examines the effects of Swedish reforms in 2013 and 2014 that strengthened activation requirements through increased monitoring and stricter sanctions. Whereas men and the long-term unemployed respond to the tighter monitoring and the threat of sanctions by finding jobs faster, women do not. Bennmarker, Skans and Vikman (2013<sup>[42]</sup>) found that a reduction in duration of unemployment benefits from 90 to 60 weeks, combined with the threat of participation a workfare programme, resulted in jobseekers intensifying their job search. On the other hand, one study in Sweden found a negligible effect of stricter activation requirements. In a randomized experiment, jobseekers were notified that unless they applied for a certain vacant job position, their benefits would be reduced or withdrawn (Engström, Hesselius and Holmlund, 2012<sup>[40]</sup>). The threat of referral follow up increased probability of sending an application by 4 percent on average – but without affecting unemployment duration.

programme show it could be improved when it comes to monitoring participants placed with private providers.

### ***Monitoring and sanctioning in the context of contracted-out employment services***

Even when countries contract-out job counselling and brokerage employment services, non-compliance **procedures such as warnings or sanctions for non-compliance still typically remain under the control of the relevant government authority**. Providers thus often have an obligation to inform participants about their responsibilities and obligations, but they typically cannot apply sanctions in the case of non-compliance. Instead, reporting procedures are used for providers to report participants' non-compliance back to the PES (or other relevant authority), which then applies warnings or sanctions. Such reporting mechanisms need to be established and can involve higher transactions costs in comparison to some publicly delivered systems, potentially resulting in weaker conditionality regimes.

Several **international examples provide interesting case-studies** on the difficulties in applying activation requirements when using contracted-out employment services. In a French pilot programme, the Private Placement Operators scheme, which was conducted in 2007, private providers were found to be less effective than comparable PES provision. Part of this may have been driven by the absence of a sanction threat, as private providers – different to the PES – were not explicitly in charge of monitoring and sanctioning participants and virtually no participant at the private provider was sanctioned (Behaghel, Crépon and Gurgand, 2014<sup>[21]</sup>). A different type of problem has emerged in the case of a national voucher-based scheme in Italy, where clients can decide on whether to remain with the regional PES instead of using the services of contracted providers. Here, the more intensive counselling offered by private providers than the PES may be seen by some jobseekers as increasing the probability of being sanctioned, leading to low take-up rates (OECD, 2019<sup>[2]</sup>).

The **difficulty of enforcing activation requirements is often exacerbated by the financial incentives faced by private providers**. Sanctioning clients who have not been meeting activation requirements often means the loss of clients for providers, either because clients are purged from registered unemployment or also – as in the case of client choice-based models such as the Swedish one – because clients may decide to switch providers following a lesser sanction. Such a loss of clients means that providers no longer receive attachment fees associated with these clients, and they also forgo any potential outcome-based fees if such clients do become employed (regardless of how unlikely that may be). From the perspective of private providers, the only financial incentives for sanctioning participants thus include any positive threat effect of sanctioning (see discussion above) and, possibly, the opportunity costs of providing services to unmotivated clients, in case of binding capacity constraints which mean providers cannot accept new clients. Note that such capacity constraints may be self-imposed – for example, due to a lack of staff to ensure service standards are adhered to – but they may also be imposed from the contracting authority. The latter approach was adopted in the case of a small-scale pilot programme in Switzerland (Cottier et al., 2015<sup>[23]</sup>): the private provider was allowed to have a maximum of 100 participants at once. This constraint, combined with a decreasing monthly flat rate attachment fee per jobseeker, gave the provider an incentive to both place the jobseeker rather quickly and (threaten to) trigger a benefit sanction process with the PES.

**In rare instances, the contracting authority has entrusted private providers with the authority to directly sanction jobseekers** deemed to be in breach of activation requirements. Such an approach was adopted in the *Activation Programme* running in Israel from 2005 to 2010 (Benish, 2014<sup>[24]</sup>), as well as the ongoing *W-2* programme in the US state of Wisconsin (Langenbucher and Vodopivec, 2022<sup>[7]</sup>).<sup>22</sup> In both instances, such arrangements have been subject to criticism. In the Israeli programme, providers were

<sup>22</sup> When the Wisconsin programme was first introduced in 1997, contractors had a direct financial incentive to lower the number of social benefit recipients, as they were allowed to retain a portion of the budgetary savings associated with the diminished caseloads (Heinrich and Choi, 2007<sup>[30]</sup>).

accused of disrespectful treatment of clients and unfair sanctioning practices, for which they were summoned to appear before the Israeli parliament. This was despite that fact that sanctioned jobseekers were given the right to appeal any sanctioning decisions in a similar manner to that applied to public agencies: they were entitled to appeal first to an administrative tribunal and then to labour courts which process welfare appeals in the Israeli system. In the case of Wisconsin's programme, racial disparities were found to exist in the sanctioning of social assistance recipients (State of Wisconsin, 2004<sup>[25]</sup>). 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 underscores the sensitivities that arise when delegating sanctioning powers to private entities.

### ***Assessment of existing monitoring framework in rusta och matcha***

Broadly speaking, **Arbetsförmedlingen's existing system of monitoring compliance with activation requirements appears to work well**. A recent review by the Swedish Unemployment Insurance Inspectorate (IAF, 2021<sup>[26]</sup>) finds that Arbetsförmedlingen has effectively automated the review of activity reports, which means that a large number of them can be reviewed in a short time. Furthermore, spot checks found that the criteria for automatic and risk-based review were found to be appropriate, with cases flagged for manual review accurately identifying instances of non-compliance with activation requirements.

In the *rusta och matcha* programme, the provider is to submit a "deviation report" whenever a jobseeker is not fulfilling activation requirements. Specifically, this includes being absent from counsellor meetings without a valid reason, not actively engaging in job search, or otherwise failing to engage with the provider. In such cases, providers are to notify Arbetsförmedlingen immediately: according to Arbetsförmedlingen's guidelines, a deviation report is to be prepared for each individual event and sent on the same day as the event occurs (IAF, 2021<sup>[26]</sup>). Since the end of 2019, Arbetsförmedlingen has a unit dedicated to monitoring activation requirements, the Examination and Control Unit (Swedish: *enheten Granskning och kontroll*). The unit monitors the monthly activity reports submitted directly by jobseekers, deviation reports submitted by private providers, as well as reports of possible breaches of activation requirements from Arbetsförmedlingen counsellors. Based on these inputs and possible follow-up information, it decides whether to contact the relevant unemployment insurance fund (in the case of unemployment benefit recipients) or another unit within Arbetsförmedlingen (in the case of other benefit recipients).

However, the review by the Swedish Unemployment Insurance Inspectorate indicates that ***rusta och matcha* providers are not adequately enforcing activation requirements**. According to Arbetsförmedlingen's guidelines for deviation reporting, a deviation report must be prepared for each individual event and sent on the same day as the event occurs. However, a review by the Swedish Unemployment Insurance Inspectorate finds that private providers sometimes aggregate several events that may affect a jobseeker's right to compensation in a deviation report (IAF, 2021<sup>[26]</sup>). The review also shows that private providers sometimes contact jobseekers before sending a deviation report, which risks leading to the private providers making an assessment before the deviation report is sent to Arbetsförmedlingen. In the view of the IAF, this is problematic because it in effect transfers discretionary sovereign powers to the private providers without any legal basis for doing so.

Part of the problem stems from **a lack of systematic monitoring by Arbetsförmedlingen of how private providers in *rusta och matcha* enforce activation requirements** and submit deviation reports (IAF, 2021<sup>[26]</sup>). Arbetsförmedlingen has developed protocols for how follow-ups to private providers' deviation reports are to be carried out, which include engaging in dialogue with providers to clarify the reporting requirements. However, the IAF (2021<sup>[26]</sup>) review found a lack of such systematic follow-up and monitoring of private providers deviation reporting in practice, both within the framework of Arbetsförmedlingen's supplier follow-up and within its other monitoring activities.

**One potential approach to addressing the challenge of inadequate monitoring would be to sharpen the focus of monitoring** based on a systematic review of how frequently different providers submit

deviation reports.<sup>23</sup> Consultations with stakeholders indicate that some private providers are more strict about enforcing activation requirements, recognising both their obligations to Arbetsförmedlingen to do so and the potential motivating effect that sanctions – or a credible threat of sanctions – can have on the behaviour of jobseekers. For this reason, Arbetsförmedlingen should consider systematically monitoring sanctioning rates across providers and use this as a basis for conducting more thorough follow-up checks. Such monitoring could take into account a multitude of factors, including the profiles of providers' clients, similar to the profiling tool used to profile jobseekers and the Star Ratings used to rate providers. Although sanctioning rates in themselves are a coarse measure of how well a provider enforces activation requirements – ideally, providers could motivate jobseekers based solely on positive feedback – examining sanctioning rates may nevertheless be useful in conducting more informed, proactive monitoring.

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<sup>23</sup> A complementary approach – dedicating more staff and resources to monitoring how private providers enforce activation requirements – is discussed in Section 5.1.

# 5. Realigning staff and resources at Arbetsförmedlingen to reflect its modified role

Arbetsförmedlingen will need to adapt its business model to reflect its shift in role from provider to purchaser and regulator. This may involve redefining the role of staff such as counsellors. It may also require hiring staff with different competencies, particularly for new tasks relating to procurement and contract management. Finally, it may involve rethinking the role Arbetsförmedlingen plays in designing and implementing labour market training policies in order to better respond to employers' rapidly changing skills needs. These shifts need to be implemented while balancing the need for Arbetsförmedlingen to ensure adequate service provision at the local level and to continue to provide individualised support for particularly vulnerable individuals.

## 5.1. Revised role of Arbetsförmedlingen staff (including counsellors)

One of the key challenges in implementing the reform will be **pivoting the focus of Arbetsförmedlingen front-line staff towards supporting and managing the work of the private contractors**. Feedback from private providers in the *rusta och matcha* programme suggests that they often found it difficult to get in touch with Arbetsförmedlingen staff or were unsure on how to approach Arbetsförmedlingen (Benmarker et al., 2021<sup>[19]</sup>). Providers are instructed that communication is to be done through formal channels, by filing e.g. deviation reports, but some providers indicate that they may resort to telephone or e-mail to receive more timely responses.

A related challenge relates to **having sufficient resources for the monitoring of the private providers**. An audit from the Swedish National Audit Office of the STOM programme found that a lack of resources to carry out parts of proactive follow-up, such as quality audits and unannounced visits, to the extent desired (Riksrevisionen, 2020<sup>[13]</sup>). Furthermore, interviews at the regional level indicated that Arbetsförmedlingen staff do not always have sufficient resources to make unannounced visits, for audits or complaint follow-up, to the extent desired or to follow up if complaints have been resolved.

**Some of these problems may be temporary**, reflecting organisational challenges stemming from the ongoing reformation of Arbetsförmedlingen. This is supported by findings from interviews conducted by Benmarker et al. (2021<sup>[19]</sup>) of private contractors who worked in both the STOM and *rusta och matcha* programmes: several contractors indicated that there was closer and better collaboration with Arbetsförmedlingen under the older programme. The problems may be partly resolved during the course of the reforms, after legislative changes relating to data privacy restrictions are adopted. Together with new IT solutions, they may enable private providers to automatically access more information on their clients, reducing the need for personal interactions with Arbetsförmedlingen staff to more exceptional circumstances.

**Nevertheless, it is important to recognise the potential for the twin challenges of supporting and managing the work of the private contractors to intensify if the underlying issues are not resolved.** This is particularly given that the scale of contracting is to increase. The contracting authority should recognise that the success of any contracting model hinges crucially on establishing both the accountability of poorly-performing providers and the right conditions for the success of those who are performing well.

Another important question relates to **the role of Arbetsförmedlingen counsellors in relation to jobseekers who are to be placed with private providers.** In the current programmes, jobseekers must be interviewed by a counsellor before being deemed suitable for referral into the STOM or *rusta och matcha* programmes, with the results of the profiling tool also playing an important role in the process. In line with Arbetsförmedlingen's internal guidelines, the jobseeker must be informed that he or she must primarily make an active choice and that Arbetsförmedlingen counsellors may not make any recommendations about a supplier to a jobseeker (Benmarker et al., 2021<sup>[19]</sup>). Arbetsförmedlingen counsellors go to extreme lengths to avoid influencing a jobseeker's choice – even in instances when the jobseeker requests the counsellor's recommendation, most will refuse to provide it. However, for many jobseekers, making an informed decision may be difficult based on solely on providers' self-generated webpage presentations and Star Ratings (once they are available for *rusta och matcha* providers).

**The experiences of programmes similar to STOM/*rusta och matcha* which also incorporate client choice in other countries indicate that counsellors can play a helpful role in guiding jobseekers' choice of providers.** A pilot programme in Belgium (Flanders), launched in early 2021, gives counsellors an important role in helping their clients make an informed choice (Langenbucher and Vodopivec, 2022<sup>[7]</sup>). Survey data indicates that assistance from counsellors was found to be particularly useful for less-educated individuals and immigrants, with a large majority of participants very happy with their eventual choice of provider. Similarly, in a long-running programme for certain benefit recipients in the Netherlands, PES counsellors have a key role in placing clients with private providers (MobilityLab, 2012<sup>[11]</sup>). Over time, the PES counsellors can acquire expert knowledge about the performance of individual private providers, remaining in contact with their clients and following their progress.

**In Sweden, Arbetsförmedlingen counsellors could conceivably play a similarly supportive role** in helping jobseekers make a better-informed choice of provider. Having the Arbetsförmedlingen counsellor remain the jobseeker's contact person at Arbetsförmedlingen could also help reinforce the accountability of private providers, with jobseekers who are unsatisfied with the services of their provider more likely to exercise to lodge a complaint or switch providers if they can go through a familiar contact person.

## 5.2. Responding to employers' skills needs

One important question that the reform of Arbetsförmedlingen needs to address is **how to incorporate inclusion into training programmes into the reformed system of employment services system.** As discussed in Section 3.2, in the current system with the *rusta och matcha* programme, Arbetsförmedlingen caseworkers decide whether to enrol individuals to self-directed job search, to *rusta och matcha* providers, or to labour-market training programmes (*arbetsmarknadsutbildning*), with the latter being jointly decided with jobseekers.

**Arbetsförmedlingen offers a wide array of labour market training programmes through various contracted providers** (OECD, 2016<sup>[27]</sup>). These programmes can be a helpful tool to adjust workers skills to the changing needs of the local labour market. However, the timelines for procuring these services are often very protracted, meaning that they may not be responsive to the rapidly-changing needs of local labour markets. While local stakeholders can request special training programmes to address their specific needs, the process to approve such requests can be burdensome, with the possibility of delays due to legal obstruction. Such delays discourage employers from seeking tailored support from Arbetsförmedlingen to address their specific, local skills needs. Consultations with employer

representatives from industry councils, *Branschråd*, indicate that Arbetsförmedlingen could be more receptive to implementing their proposals for specific skills training. Although they cited some examples of excellent cooperation, they also noted difficulties with understanding the process of whether their proposed training initiatives would in fact be adopted by Arbetsförmedlingen. Their general sense was that if they were given the option of developing training programmes directly with the private providers in *rusta och matcha*, they could develop and implement many more successful training programmes.

**In practice, many of the funds available for training remain unspent.** Part of the challenge is that funds available to Arbetsförmedlingen are often earmarked for specific purposes. This means that funds remain unspent at the local level because they cannot be flexibly redirected towards other purposes or to initiatives (OECD, 2016<sup>[27]</sup>). The challenge is also related to the processes involved in administering the training programmes, which has led expenditures and enrolment on labour market training programmes to fall considerably short of those planned – in October 2021, the number entrants into labour market training was 49% below the level anticipated earlier in the year.<sup>24</sup> An Arbetsförmedlingen report (Arbetsförmedlingen, 2021<sup>[28]</sup>) notes that “the process for identifying labour market training needs to deciding on suitable candidates is staff-intensive, and Arbetsförmedlingen has lowered the level of ambition for the year in this expenditure forecast. The agency is therefore carrying out development work to make the process more efficient” (p.23).

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<sup>24</sup> The statistic is calculated based on the number of realised outcomes in October, 7 338 (Arbetsförmedlingen, 2021<sup>[47]</sup>), compared to the number anticipated earlier in the year (Arbetsförmedlingen, 2021<sup>[46]</sup>).



## 6. Lessons from international experiences

As the preceding discussion highlights, **contracting-out employment services involves making a multitude of important design choices at each stage of the design and implementation phases** – and even a well-designed scheme will need to be adjusted based on lessons learned following its implementation. While the considerations discussed here may help guide an implementation, the complex institutional and time-specific factors are difficult to fully capture in advance: the process will invariably involve learning-by-doing.

Given the complexity of the tendering procedure, **an ideal timetable would be to allocate as much as a full year from the beginning of the tendering procedure until when contractors are to begin receiving clients** (for an example of a detailed example timeline, see Mansour and Johnson (2006<sup>[18]</sup>)). Such a protracted timetable was used, for example, in the UK *New Deal* tendering process, which occurred between December 2001 and November 2002, as well as during Ontario's tendering procedure for its *Employment Services Transformation* pilot programme, which was initiated in April 2019 and commenced in January 2021. Such a timeline can allow contracting authorities to allocate a certain amount of time during the tendering process for clarifications from potential bidders, and can allow for subsequent corrections to be issued during the tender.

Countries' experiences with contracted-out employment services provide some **examples of possible risks**:

- In the case of a pilot programme in Belgium, the request for tenders neglected to specify whether the bidding price per referred client – which constituted 20% of the award criteria – was to be inclusive of value-added tax (Cockx and Baert, 2015<sup>[29]</sup>). This was an important detail because, whereas for-profit organisations were liable for a 21% VAT rate, VAT was not applicable to most non-profit organisations. The end result was that not-for-profit organisations were awarded contracts with considerably higher potential net payments per client, of EUR 3 058, compared to EUR 2 595 for the others.
- OECD experience with a [planned pilot programme in Slovenia](#) which was to trial outcome-based payments revealed that legal experts should have been consulted early on in the design process. The existing legal framework permitted outcome-based payment models for certain types of publicly-financed services. However, employment services were eventually found to fall in a category of services requiring a concession-type contract, which would have required a fee-for-service payment scheme.
- A related question that also arose during the planned pilot programme in Slovenia concerns the legal basis for providing in-work support. Ensuring sustained employment outcomes implies that provider should be able to offer in-work services to the newly employed participants. Such in-work services may be contractually agreed with the contracting authority or delivered in the providers own interest to ensure the participants remain in employment, which triggers further payments of outcome based fees. As PES typically provide pre-employment support, the legislation may not foresee in-work support provided through the PES (or its contracted providers).

- A lack of interest amongst potential providers may result in a failed tendering process. OECD experience in Bulgaria indicates that this can be a problem in practice: in response to request for tenders for employment services, with the contracts to contain largely outcome-based fees, no applications were submitted in response to requests published three different times, in 2017, 2018 and 2019. The reasons why these requests for tenders in Bulgaria were unsuccessful are unfortunately not clear. The issue of a lack of provider interest may be relevant for contracted-out employment services in Sweden's less densely-populated service areas.
- Poorly-designed contracts may impose financial risks on the contracting authority. Contracts that do not foresee contingencies over a longer time horizon may lead the contracting authority to incur considerable unanticipated costs over the duration of the contract period. Such a scenario arguably occurred when the US state of Wisconsin first employed a contracted-out employment services scheme in the late 1990s. Generous financial rewards for declines in the number of social assistance recipients, combined with strong economic and employment growth, resulted in high profits for the contractors (Heinrich and Choi, 2007<sup>[30]</sup>).

These experiences underscore **the importance of taking steps to mitigate the risks inherent in the contracting process**. Some possible solutions include the following:

- **Engaging in a dialogue with potential providers early on can ensure that the contractual terms are viable and that providers will enter the market.** In the United Kingdom's recent *Restart* programme, for example, the tendering timeline included a commercial dialogue phase, where potential providers could submit a draft tender. The contracting authority did not score these submissions, instead using them as the basis for engaging in dialogues with the potential providers. After incorporating the lessons learnt, the contracting authority then issued a Request for Tenders, for which providers were invited to submit a "best and final offer".
- **Consulting with a wide array of legal experts can flag any potential legal challenges well in advance.** This may give the contracting authority sufficient time to modify the programme's parameters or even make necessary changes to relevant legislation or regulations.
- **Financial risks can be mitigated by introducing profit caps and mandating open-book accounting.** In the United States, many contracting authorities, including New York City's, routinely stipulate that contractors are allowed to earn a maximum 15% profit margin over the term of their contracts (NYC Human Resources Administration, 2011<sup>[31]</sup>). Any profits in excess of the 15% limit are to be paid back to the contracting authority. Furthermore, for-profit contractors are required to reinvest any profits in excess of 10% and up to the 15% limit into the organization by the completion of the contract.

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