

Social Cohesion Bulletin



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Outsourcing Employment Services: Lessons from OECD countries

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1. Introduction

Since at least 2000, the Greek Public Employment Service (PES) is undergoing a major organizational change, with the aim is to modernize the provision of employment services. In response to recommendations by the Commission, the new PES is implementing, among other, the preventative approach to unemployment and the use of personalized assistance. Along with the PES, the public body responsible for employment policy, OAED, is also undergoing organizational change, including the frequent reshaping of the active measures (ALMPs).

Up until the 1990s, both the design and the implementation of active labour market policies were largely done by one government organization, the Manpower Employment Organization (OAED). The latter had a range of activities, the most important of which fell under three headings: benefit provision, employment services and training. OAED had a highly centralized structure, while, with a few exceptions, held a monopoly in job brokerage. During the 1990s this situation changed considerably. Faced with rising unemployment and

record-level long term unemployment, extensive restructuring and an influx of undocumented immigrants, OAED came under pressure to respond to changes and become more effective. The modernization of the PES through the development of Centres for Employment Promotion (KPA) and the delivery of individualised services to the unemployed (as envisaged by Law 2434/1996), was one of the measures put forward at that time to cope with changes in labour market conditions. Since 1998, the state also partly abolished its monopoly on the provision of employment services and as a result, private employment offices were allowed to operate for specific categories of workers. Finally, thanks to EU resources, a number of governmental departments and agencies have increasingly become engaged in designing and delivering pro-active policies, mainly in the field of training, but also in the fields of counselling and advice, work experience, recruitment incentives, business start-ups, etc. As an end result, OAED continues to this day to be the main agency responsible for the integration of the unemployed, but there is now much more variety as regards active policies.

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On the modernisation of employment services, current efforts focus on a recent law (Law 3518/2006), envisaging the creation of 'one stop shops', plans to link the PES with the Citizens Service Centres (KEP), plans to create a Eures-type portal enabling the efficient matching of the demand and supply of labour, decentralisation arrangements and finally plans to improve the coverage and efficiency of active measures.

The plans to create a Eures-type portal for better matching of supply and demand for labour and the plans to commission work relating to ALMPs to accredited institutions, represent a historic opportunity for Greece to develop modern and efficient employment services. There is little doubt that the opening-up of employment services to other public and semi-public institutions and organisations, as well as to firms of the private sector, can only hold gains for both the unemployed and the employers.

In developing collaboration ties with other mediating structures, it is evident that a new regulatory framework, providing a common code of practice, setting rules for collaboration and exploiting synergies, is clearly needed. Given also that the development of these services constitute a new experience for Greece, it is vital that the experience of other member states which have already reformed their respective employment services (such as Germany, the UK and the Netherlands), is taken in account.

The objective of this paper is to explore and present examples of collaboration between public and private mediation services that show promising practise. It is structured in four sections, including the introduction. Section two discusses a number of public-private partnerships in employment services and section three presents a number of options for policy design in the relevant area. The paper concludes with a number of policy proposals.

2. Public-private partnerships in employment services: an overview

By now, it is generally accepted that private placement agencies (PRES) should coexist with the PES, and ILO Convention No. 181, 1997 revised Convention No. 96, 1949 in this direction. This Convention balances the recognition of the productive role that can be played by PRES in the delivery of specific labour market services

with the need to ensure that basic rights of workers covered by this Convention are protected¹.

Private employment agencies are increasingly expanding the range of services offered, worldwide. Public employment services are also diversifying in their structures and in the range of services offered. In addition, there is a trend both in the public and private sectors to enhance effectiveness through partnerships with others.

In view of this new situation, governments must determine whether or not PRES can operate as businesses, and, if so, under what conditions will they operate. This is the regulatory role of government over the functioning of business, and it exists to a greater or lesser degree over most sectors of private economic activity. The fact that PRES are service businesses that are basically providing labour market services under increasingly flexible conditions raises new issues concerning the possible abuse of their clients. On the other hand, the private sector activities affect public employment service policy and program choices. This is a public policy decision that is influenced by factors such as the initiative and willingness of PES and PRES to cooperate, the social partners and local counterparts, such as local government, for example. The governments are keenly interested in the organization of good cooperation between the public and private employment agencies with an aim, in particular, to assure the respect of a number key principles, such as: free access of workers to labour market services, transparency of the whole placement process, free access of the clients to basic labour market information, and, finally, avoiding duplication of work and achieving economy of the public means.

Among the numerous possibilities for interactions between public and private employment agencies that are being developed in various countries, several categories of relationships are emerging. The purpose of this section is to identify these relationships between the two partners in order to establish a framework within which to review various current national practices.

Two broad categories of partnership are possible: commercial and noncommercial. In the first case public and private employment agencies cooperate in ways that do not involve the expenditure of funds in exchange for the services provided. The second case involves the decision to allocate public resources to private agencies - commercial for-profit or non-profit - to carry out any of a variety of employment services.

The ILO Private Employment Agencies Recommendation, No. 188 (1997), which supplements ILO Convention No. 181 on Private Employment Agencies (1997), gives broad guidance on how cooperation between public and private employment services can and should be carried out.

"Measures to promote cooperation between the public employment service and private employment agencies could include:

- pooling of information and use of common terminology so as to improve transparency of labour market functioning;
- exchanging vacancy notices;
- launching of joint projects, for example in training;
- concluding agreements between the public employment service and private employment agencies regarding the execution of certain activities, such as projects for the integration of the long-term unemployed;
- training of staff;
- consulting regularly with a view to improving professional practices."

The International Confederation of Temporary Work Businesses, better known as CIETT, proposes a similar list of areas of potential cooperation between PES and PRES:

- Pooling labor market information, including exchange of vacancies;
- Subcontracting certain projects by PES to PRES;
- Training the staff;
- Participation in Committees or Councils;
- Training workers.

The European Commission has identified three possible types of PES-PRES relationship: first, **cooperation** in the fields of information and basic matching services and in active brokerage and adjustment; second, **complementarity**, in particular labour market segments or in particular kinds of services; third, **competition** in providing services to employers with the possibility of fee-charging by PES⁽²⁾.

It should be noted that in recent years, several countries have gone further than just allowing public and private employment services to cooperate, by requiring the delivery of PES services to be contracted on a competitive basis⁽³⁾. The idea of "contestability" has gained ground in several areas of public management, notably in the health sector, with a view to ensuring that public money is spent in the most cost-effective way.

Initially, since a market price normally does not exist for a public service, there is no objective benchmark against which the cost-effectiveness of alternative methods of delivering the services can be compared. Currently, some governments are seeking to create such benchmarks, as a means of checking costs and improving outcomes for job seekers. Other governments are committed to safeguarding the public service concept for core employment services, but manage important specific services in a contestable way, indicating that the acceptability of contestability is a matter of degree. Training for the unemployed, in particular, is often purchased from a variety of outside providers, preferring those with the lowest costs and the best results.

Two countries have recently established the principle that providers can compete to provide general long-term case management or reintegration services for disadvantaged unemployed people. In Australia, job seekers who are expected to have particular difficulties in finding work are required to choose an "Intensive Assistance" provider, who may assist them for up to 21 months: these providers can choose their own strategies of service provision – such as job-search assistance and training – and are paid fees on the basis of employment outcomes achieved by their clients. The potential benefits of contestability were evident in the results of the second tender round in 1999, when – against a background of widely-varying performance in the first tender round – poorly-performing providers were replaced by better ones. The Netherlands is introducing contestability in a somewhat different way: the funds for employment services are handed over to bodies which pay unemployment benefits (in the Netherlands, this is often the municipality) and these bodies are no longer obliged to purchase employment services for their beneficiaries from the public agency. Under this arrangement, a direct link between placement work and the monitoring of eligibility for benefit is maintained, but many benefit agencies might settle into long term relationships with one employment service provider.

The author of this paper has adopted, as basic framework for the analysis to follow, that of cooperation, complementarity and competition in examining possible partnerships between public and private employment agencies. In order to put the framework into context however, it is useful to review the main functions of the PES. These have been described by, among other, Fay (1997), as follows⁽⁴⁾:

- First, the PES attempts to achieve an efficient allocation of resources through its job brokerage role (*i.e.* operation of a labour exchange). For example, less-skilled workers may not know where to search for work and firms in some sectors may have difficulty finding suitable staff. These informational imperfections can inhibit the timely matching of jobseekers to vacancies, resulting in less-than-optimal job search. Better job matches lead to both private and social gains, the former through increased lifetime earnings, and the latter through reduced costs associated with unemployment. There is also a positive externality in that quicker and better job matches will ultimately lower inflationary pressures.
- Second, the PES attempts to achieve an equitable distribution of the burden of unemployment. Certain groups are disadvantaged in the labour market and bear the brunt of unemployment. The PES attempts to achieve (vertical) equity by focusing relatively more effort on the most disadvantaged jobseekers. Furthermore, the use of active and passive labour market programmes can overcome liquidity constraints facing the unemployed who cannot afford to search for jobs or purchase (or borrow) to invest in activities such as training that may help their future job prospects.
- Third, the PES is a means of advancing the goals of government in the area of labour market policy (and more generally, economic policy). For example, given the market failure in the provision of private insurance for the unemployed, it is publicly provided. Although this therefore provides a social benefit, it also entails the adequate enforcement of the work-test to minimize government outlays which is sometimes seen as an important reason, in itself, to have a PES. Government objectives may also include training for displaced workers to help move them to new occupations, attempts to foster labour mobility etc.

2.1 Cooperation

The first form of partnership is cooperation in the exchange of information to facilitate job broking or labour exchange activities. It may also include the exchange of broader information on general labour market conditions.

This form of partnership appears to be the one that commercial, for-profit employment agencies are most likely to participate in. Although this cooperation is largely non-financial, both partners gain: private agencies boost revenues for private placements, and the result supports overall public sector employment goals at a minimal public cost.

In this section, three national examples of cooperative partnership through information exchange, in particular, are presented.

France

France runs 945 PES offices (ANPE is the French public employment service) manned by some 22,500 staff. It has two main functions: to improve labour market functioning and matching supply and demand in the labour market. However, ANPE does not administer unemployment benefits.

The following types of commercial private employment agencies are allowed: the Executive Placement Agency (Agence de Placement des Cadres), recruitment agencies ("headhunters"), and temporary work agencies (TWAs), which have been allowed since 1972.

Partnership agreements have been developed between the ANPE and temporary work agencies. Local public employment offices disseminate private agency job offers more widely by making them available to all their customers. In addition, private agencies benefit from ANPE services which assist them in the search and pre-selection of candidates. The TWAs and the local employment offices also exchange information pertaining to the local labour market, the temporary labour market and special public employment measures, so as to tailor their respective services better to the needs of jobseekers. This is particularly true for disadvantaged groups of workers such as the long-term unemployed, youth, and persons with disabilities. In France, information sharing between public and private employment agencies is a widespread form of partnership.

Sweden

In Sweden there are 325 public employment service offices with some 10,360 staff. The public service monopoly on placement was abolished in 1993. Since then, the sector of Temporary Work Businesses (TWB) and Staffing Services (SS) has expanded rapidly. Corporate needs for more flexible working arrangements are among the reasons for such growth. TWBs have moved into the

niche that was not traditionally filled by the PES. However, the PES now also operates a Temporary Worker Bank, which is divided into a number of pools for different occupational groups and different regions. SPUR (the Swedish Association of Temporary Work Businesses and Staffing Services) divides the services its members provide in the labour market into the following categories:

- Staff rental (81 per cent of enterprises);
- Contract hire (12 per cent of enterprises);
- Recruitment (7 per cent of enterprises).

A Swedish Employment Service Working Group was established to investigate the issues of relations between public and private employment services. It developed the following guidelines for various situations:

1. Staffing enterprises wish to hire personnel for renting out. More than 90 per cent of activities in this sector are concerned with the renting out of employees. When staffing enterprises, in contact with the PES, appear as employers and hire personnel, they are to be regarded as just another employer and are to receive services on the same terms as other enterprises.
2. Staffing enterprises wish to come into contact with people for recruiting arrangements. This applies to barely ten per cent of activities. In this context the PES must work with a jobseeker focus and be guided by the PES' basic assignment to promote an efficient labour market. The PES makes the private agency job vacancies available to jobseekers by entering them into the nation-wide computer employment database under an appropriate heading. The PES does not need to know which enterprise is ultimately hiring the personnel; it refers applicants to the private agencies.
3. Staffing enterprises look for personnel for future needs. PES should inform jobseekers of the possibility of also looking for work through staffing industry enterprises.

Relations between public and private employment services in Sweden are clearly cooperative, based upon the assumption that all job vacancies in the labour market should be filled as quickly as possible.

United States

A federal Act (29 U.S.C. 49 et seq.) requires states and provides funding to establish and maintain public employment services, including labour exchange, employability assessment, re-employment services, job

search workshops, and referral to jobs, free to jobseekers. In the USA, there are 1.300 local offices (2000) and a total staff 17.399. However, taking into account the additional functions of labour market program administration, unemployment insurance administration and labour market information development and dissemination, the total budget of the workforce investment system is \$10.5 billion annually.

In the USA, the public employment service's overall relationship with private placement agencies has over the years evolved from a competitive, mistrusting relationship to the one where such firms are considered valuable clients. Cooperation is the usual pattern, although in different states and localities the extent of such relationship will vary.

Private placement firms have become just another employer. The relationship has been compared to the relationship between a "wholesaler" of services and a "retailer" of services. The PES is the "wholesaler" that provides resumes and talent to private placement firms who are the "retailers" - who have the direct personal contact with customers. Private placement firms search the PES' America's Talent Bank, list job orders through the PES America's Job Bank, and actively recruit in PES offices or at PES organized job fairs. Moreover, the PES views any work experience (even on a temporary basis) as an opportunity to enhance employability and has therefore cultivated strong relationships with temporary employment agencies.

A special partnership to enhance the sharing of labour exchange information was forged by the US Department of Labour and its electronic job exchange, America's Job Bank (AJB), and the private Internet company Monster.com. AJB is the largest government Internet job bank and Monster.com is the largest private Internet job bank. As part of the partnership, Monster.com will adopt, use and promote (as a standard) the Standard Occupational Classification (SOC) taxonomy, the government's occupational classification system. Monster.com plans to deploy SOC internationally in its web-based products. Where appropriate, Monster.com may recommend formal changes to the SOC through the SOC Policy Committee. The two will adopt, use and exchange information on job vacancies. The Department of Labor and Monster will cross-reference each other's job listings, exponentially increasing the opportunities for jobseekers. It is believed that the combination of these two very large data sources will generate invaluable real time labour market information.

2.2 Complementarity

The second form of partnership, based upon complementarity and operations in the different sectors or involving different categories of jobseekers, involves the contracting out or outsourcing of government employment services, most often labour market programme activities, to private contractors - both commercial for-profit and non-profit private agencies. Public sector funds are expended to accomplish public policy goals, but the service delivery agency is outside the public sector. In this form of partnership, however, the Ministry of Labour or the PES retains the dominant role as the planner and overall manager of the programmes.

Most important, the choice of services to be contracted out is made to find service providers who complement, not directly compete, with services provided by the public sector.

In this section, two examples of complementary partnerships between the PES and private employment agencies are presented. In both of these country examples the PES purchases employment services that complement its own offerings, although the methods for doing so vary.

Placement activities and contractual arrangements in Germany

Before discussing the new contractual arrangements, this section presents briefly the recent reforms in the German employment services⁽⁵⁾.

The German Federal Employment Agency (formerly called the Federal Employment “Office”), has always been a powerful national institution, integrating the main PES functions of placement, benefit payment and referral to labour market programmes. It is organized into ten regional directorates and 180 large local offices (each with 200 to 400 staff). Altogether, the Agency employs about 89.000 staff. Despite legal oversight by the Ministry of Labour and Social Affairs, the service is largely autonomous in its operational business and its resource allocation for active programmes and has been characterized by strong influence of the social partners in its supervisory bodies.

As part of a drive to decentralize decision-making and allow more flexible use of funds, in 1998 active measures were merged into a single “reintegration budget”, while leaving it to the discretion of regional and local offices to determine their own particular policy mix. Major reforms continued after 2001, implying a shift towards “activating” labour market policy, and stressing the principle of mutual

obligation. This process started with the *Job-Aktiv Act*, followed by four “Acts for modern labour market services” (the Hartz I to IV acts), which tried to implement the far-reaching proposals of the Hartz-Commission set up by the federal government in 2002. The new focus on activation was accompanied by a stricter cost-benefit calculation for active programmes, with a subsequent reduction in training programme expenditure and public sector job creation schemes.

The redesign of the Federal Employment Agency is still ongoing, with the aim of transforming it into a service provider with private management structures. More personnel has been shifted to placement and counselling functions, so as to improve on staff/client ratios – of the currently 70.000 staff in local offices, over 40% can now be broadly considered as working in the area of placement and counselling. Target agreements between the different layers of the PES have largely replaced previously strict budget lines. PES intervention strategies are increasingly based on jobseeker profiling. Integration agreements set down the activities expected from jobseekers, with a focus on “mutual obligation”.

Elements of contestability have also been introduced. Several types of contractual arrangements with private providers have been developed, more as complementary options for the reintegration of the unemployed than as a full alternative to the public provision of employment services. Major tools are the training voucher, the placement voucher, the so-called personal service (*i.e.* temporary work) agencies and the contracting out of certain placement and reintegration measures.

In the past, Germany had two labour market activation and benefit systems, one administered by the PES for unemployment insurance and unemployment assistance recipients (UI and UA), and one administered by local authorities’ social assistance offices (SA). This resulted in an overly fragmented delivery system. The “Hartz IV” act brought together the services for UA and employable SA recipients (*i.e.* mainly the long-term unemployed), who now receive the same type of assistance (the so-called unemployment benefit II). For the long-term unemployed, the reform generally implies less generous benefits and more restrictive suitable-job requirements. After public debate as to whether this group of clients should be served by either the employment office or local authorities, it was decided to create a new institutional infrastructure composed of entities, *i.e.* “joint associations” or “consortia” (ARGE), using staff and funding from both administrative layers.

Turning to the new contractual arrangements, the laws for “modern labour market services” (Hartz I to IV, 2003-2005) introduced several types of contractual arrangements with private providers. They were passed with the proviso that the new labour market policy elements ought to be regularly evaluated and, to allow incorporation of evaluation results, a number of provisions were introduced with an expiration date.

In January 2006, the federal government published the first evaluation results commissioned from over 20 research institutes. They refer to the Hartz I to III Acts, and do not cover the merging of the two benefit streams “unemployment assistance” and “social assistance” under the Hartz IV Act. These are *interim* results, characterized by the government as “work in progress”.

The evaluation results cover numerous labour market policy features, such as job subsidies to private employers, support for business start-ups, public sector job creation, and “mini-jobs”. However, the text below only refers to those results of most relevance for the present paper, namely the re-organization of placement activities and contractual arrangements with private providers

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

With respect to the new contractual arrangements, the assessment finds that reintegration outcomes have so far remained below initial expectations. There are four central elements in the German strategy of contracting-out employment services. First, since 2002 private providers

can be contracted by the PES for placement of its clients, or for specific placement-related tasks (case management, profiling, job application techniques, etc.). After six months the unemployed have an entitlement to be referred to private placement agencies. Since 2004, contracts are regularly put up for tender, with regional PES purchasing centres deciding on bids based on quality and price. As in other countries, there has been a trial-and-error process with regard to tendering details, the relative weight of price and other factors, etc., with a tendency towards result-oriented pay structures and smaller batches. In 2004, relative to the average annual stock of unemployed, about 14% were contracted out to private providers. Quantitative evaluations of the major programme elements showed that participants, on average, did not find a job more rapidly.

Second, The Hartz Commission had proposed that employment agencies contract with temporary work agencies which would employ and hire out unemployed clients as temporary workers, with the ultimate aim of finding them regular employment. Again based on public tendering, all local agencies have since concluded contracts with “personal service agencies” (PSA), which have a total stock of 25.000 to 35.000 employees (higher targets were initially set, but never reached). PSAs receive both a basic payment per person-month and a success premium for placement in regular employment. Contrary to initial expectations, evaluation results show that within a given year the transition rate of PSA employees into regular employment was lower than that of a control group, mainly due to lock-in effects. Only from the ninth month onwards did re-employment rates exceed those of the control group. Following these disappointing results, the use of PSAs by employment agencies has been scaled down significantly.

Third, recent reforms introduced placement “vouchers”. These have been much used by agencies as an activation instrument. All clients can request them after six weeks (until 2004, three months) of unemployment, and use them to purchase services from private placement agencies. In case of success, the private agency which has made the placement receives EUR 2.000 (in two installments), while there are no up-front or service fees. This instrument has however not had the desired results, so far. In 2004, over 10% of the unemployed received vouchers, but the first installment was paid on only 8% of the vouchers distributed, and in only half of those cases did the employment relationship last over six months so that the second installment was paid. Private agencies tend

to view the success premium as too low for undertaking intensive placement efforts. There is also a problem of quality after the liberalization of the private placement market. Further, agencies need to prove that a placement was the result of their own efforts in order to claim any fee. There is little incentive for them to improve overall motivation, or assist or monitor the jobseeker's independent job search – since this would tend to result in entries to employment for which no fee can be claimed, or which occur via a different agency. Quantitative impact assessment show no improvements in exit from unemployment through use of a placement voucher.

Fourth, in line with the increased focus on reintegration rates, the number of training participants subsidized by the PES has strongly declined in recent years; in addition, the average duration of training measures has significantly decreased. In this context, the training voucher is a new instrument providing “client sovereignty” and freedom of choice. The voucher allows the unemployed to choose themselves which training provider to use when participating in a recommended type of measure. Local PES offices thus no longer have any direct influence on a client's choice of provider. However training organizations need to be recognized by certification agencies cooperating with the employment service and choice is limited to those providers and measures with potentially high reintegration rates (usually interpreted to mean training with a projected 70% rate of exit from unemployment six months after the end of the client participation period).

The interim evaluation of the new training regime based on vouchers and projected reintegration rates notes strong creaming effects, implying disadvantages for the less skilled. Although with the new training programmes, exit from unemployment occurs sooner after completion of a measure than without participation, the effects have not proven to be sustainable. Over the medium-term, voucher users did not take up regular, unsubsidized employment more often than a control group (although long-term effects that would imply a lesser importance for the “lock-in” factor remain to be analyzed).

In conclusion, when taken together, the four central elements of “privatized” employment services in the German reform strategy have produced relatively disappointing results, although it needs to be kept in mind that the reforms have not been operating long enough to draw definitive conclusions about their effectiveness.

Placement activities and contractual arrangements in the UK

With respect to recent reforms, following an earlier period when the links between the placement and benefit functions were effectively broken, from the second half of the 1980s the United Kingdom introduced a series of reforms that concentrated PES work on benefit claimants and strengthened its focus on rapid return to unsubsidized employment. These reforms included the introduction of Restart interviews with the long-term unemployed in 1986; the abolition of the tripartite Manpower Services Commission in 1988 and its replacement by an employment service more directly supervised by the government; the introduction of back-to-work agreements upon benefit application as well as fortnightly “signing” under the 1995 Jobseeker's Act; the offer of New Deals for Young People (1998) and for long-term unemployed adults (2000); and, more generally, stronger emphasis on reinforcing work incentives and monitoring job-search behavior – the “stricter benefit regime”.

The redefinition of unemployment benefit as Jobseekers' Allowance (JSA) from 1996 provided a specific legal framework for the new focus on intensified job search, and for applying common procedures in the management of unemployment insurance and social assistance beneficiaries. A performance targets regime geared to job entry and efficient service delivery was established from 1990 when the Employment Service was given a government Agency status. In this context, however, it should be noted that under the “stricter benefit regime” of the early 1990s many employed as well as unemployed persons moved to Incapacity Benefit (IB) and other types of non-employment benefits.

The government's 1997 welfare-to-work programme followed on from the new approach and intensified efforts to reduce all types of benefit dependency. An important precondition for streamlining the public employment service was the merger in 2001 of the Department for Education and Employment and the Department for Social Security to constitute the new Department for Work and Pensions. Following the merger, the hitherto partly-separated placement and benefit administration functions – the Employment Service and the Benefits Agency – were combined as Jobcentre Plus (JCP), a one-stop-shop for both employment services and income support for both inactive and unemployed clients of working age. All local units were expected to have adopted this type of organization by late 2006.

The JCP is thus the “single work-focused gateway” to the system of income-replacement benefits and employment services for people of working age. In 2001/02, the JCP inherited 1.500 offices and 90.000 staff, coming from two different administrative cultures and traditions. Currently, there are 132 JCP district offices and 1.100 local offices. The network is supposed to shrink further to 1.000 local offices and 70.000 staff over the next few years. JCP currently services about 800.000 persons on JSA (unemployment benefit) and the same again on lone-parent benefits, as well as 2.5 million persons on IB (incapacity benefit). Staff efforts have concentrated on JSA recipients and the New Deal programmes for unemployed youths and adults, while caseloads per staff member have been high with respect to inactive clients.

Since 1998 many of the active measures are offered under the “New Deal” designation. New Deal programmes address specific target groups: for those on JSA and aged under 50, participation is obligatory after certain duration of unemployment (six months for youths and 18 months for adults). By contrast, participation in the New Deals for clients aged 50 and over, the Disabled, Lone Parents and Partners is voluntary.

The United Kingdom does not plan to outsource the full range of employment services or have the private sector replace public employment service provision. Nevertheless, contracting out has become an important feature of PES services. First, JCP contracts with private and voluntary sector “partner” organizations that deliver a variety of specialized services, such as CV preparation or interview training. Second, New Deal programme options are outsourced to private and voluntary sector organizations determined through regional-level tendering. Third, Employment Zones, which were introduced in 2000 to 15 areas with high levels of long-term unemployment, are the most radical component of the outsourcing strategy. In such zones, New-Deal eligible clients unemployed for 18 months are assigned to private providers contracted with DWP, who have a high degree of flexibility as to their choice of reintegration measures. In some areas private providers can also work with lone parents although for them participation remains voluntary. According to one account of contractual arrangements with private, voluntary and public sector providers, JCP in 2002 had contracts with over 1.000 organisations to deliver employment programmes, a market worth some GBP 1 billion.

With respect to new contractual arrangements, contracting-out arrangements have been introduced into

New Deal programmes for unemployment benefit (JSA) recipients who are principally entrusted to Jobcentre Plus. In 2002, a number of private-sector led New Deals were set up. In this model, private providers need to closely follow the stages of the public New Deal model (motivational training, “Gateway” and “Options”). However in 13 deprived areas with high unemployment, the New Deals for JSA recipients after 18 months of unemployment are replaced by Employment Zones (EZs), which give providers more discretion in designing their interventions when compared to standard New Deal programmes. EZ providers service annually 30.000 clients referred by the Jobcentre Plus network, both adult long-term unemployed and youths (aged 18 to 24), who have already finished a first period of New Deal for Young People and been unemployed for a further six months (and thus would, in non-EZ areas, enter the New Deal for a second time). Some “early entrants”, with certain labour market handicaps, are also referred to New Deal providers. Among other features of EZs are:

- The current contract period started in 2003 and will last up to 2009/10. Under this contract there are two kinds of EZ: i) single-provider zones; and ii) multi-provider zones where up to three providers operate. In the latter, each provider is awarded a fixed market share and clients are randomly assigned across providers. The Department for Work and Pensions is responsible for setting up the contracts, referring typically between 1.000 and 7.000 clients to a given provider over the contract period.
- The case management involves job search, job placement and if necessary other intensive assistance. It has three stages, totaling a maximum of 12 months. In Stage 1 (up to four weeks) the provider interviews the jobseeker to identify any obstacles to reintegration. If the provider decides to take on the client (which is usually the case), an action plan is established and the client passes to Stage 2. Lasting a maximum of 26 weeks, Stage 2 contains intensive job placement efforts by the provider who also administers and pays out the unemployment benefit to the client in this period. Stage 3 is a 22-week follow-on period, where the provider can continue working with the clients (although they have returned to JCP) and can still claim the outcome fee in case of placement.
- Providers can stop their payment of benefit in cases of insufficient client co-operation, but then clients

can reapply to Jobcentre Plus for benefit, which will be paid unless and until the employment service decides to apply a sanction. However, Jobcentre Plus typically soon refers the client back to the EZ provider, so that providers in the longer term still have to pay up to 26 weeks of benefit.

- In multi-provider zones, providers receive three types of payment, as shown below:

- * A fixed fee of GBP 400 for Stage 1;
- * GBP 1.200 (varying slightly by locality) for Stage 2. This amount covers the average cost of paying Jobseeker's Allowance over a 26-week period, given that the average client claims for only 22 weeks. When a client remains unemployed for 26 weeks, actual costs exceed GBP 1.400 so the provider suffers a net loss under this heading. But when a client is placed early in Stage 2, the provider keeps the remaining amount as profit;

- * Upon entry to work, there is a first fee of GBP 400, and then of GBP 3.600 after 13 weeks in employment.

One quantitative evaluation of this programme found that about a year after each person first became eligible for referral, 34% of EZ participants had experienced a spell of work at some time, compared to 24% in the comparison group that entered Jobcentre Plus New Deals. After about two years, the 10 percentage point difference had faded to 4 percentage points, but was still at 8 percentage points when the comparison was restricted to jobs of more than 16 hours per week (the type of job that attracted an outcome payment for EZ providers).

A second quantitative evaluation compared employment outcomes in EZ areas with similar areas where the Jobcentre's New Deal operated, and concluded that "the EZ programme had a small positive impact on the programme target group, relative to their situation when supported by mainstream JCP services".

Table 1
Income for a provider in UK multiple-provider Employment Zones, 2005

	Placement after a few days in Stage 2		Placement after 21 weeks in Stage 2		Placement after 26 weeks in Stage 2	
	GBP	%	GBP	%	GBP	%
Stage 1	400	7	400	9	400	10
Stage 2	1 200	21	0	0	-230 ^a	-6
Placement fee	400	7	400	9	400	10
13-week outcome fee	3 600	64	3 600	82	3 600	86
Total	5 600	100	4 400	100	4 170	100

^a This fee, which is supposed to cover the average cost of paying Jobseeker's Allowance, becomes negative, if placement has not occurred after 21 weeks. Calculations are based on a weekly benefit level of GBP 57 in 2005.

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

2.3 Competition

In the competitive form of partnership, government employment services are outsourced on a "level playing field" of competition to private commercial employment agencies, private non-profit agencies, public employment services and perhaps other public institutions (for training programmes, for example). This procedure is described as contestability by the OECD. Because of the necessity for objective analysis of rival bids for service from the public service and from non-public providers, this competitive approach demands management from a public institution somewhat separated from the public entities competing for services. This entity can be established at the national level.

The separation of funding and delivery of public employment services is creating variations of this model of partnership. First, funding and decision-making about the delivery of employment services is being decentralized to sub-national levels in more and more countries. Instead of a monolithic programme of employment services throughout a country, decisions on the mix of services and possible service deliverers are being delegated. The objective is to provide services that are more customer-friendly and better adapted to local labour market conditions. Vastly improved ICT capabilities have made it possible to manage and control the more complex management tasks that are necessitated by this approach.

At the same time, the separation of funding and delivery of employment services has created the possibility that other public institutions can allocate funds to address employment issues. These other public institutions, which may be local governments, social assistance agencies, or unemployment benefit authorities, generally have two characteristics in common: 1) they have clients who are in need of employment services; and 2) they have funds but not necessarily the service delivery capacity to meet these client needs. So other public authorities, who do not have the traditional service delivery capacity of the public employment service, are becoming major purchasers of employment services, with the Public Employment Service, along with private non-profit and commercial for-profit agencies, as competitors.

As a result, the PES is often being pulled in two directions. On the one hand, in some countries it is withdrawing somewhat as the monolithic provider of all public employment services, but is retaining or enlarging its role as the overall coordinator of publicly-funded employment services in the country. On the other hand,

the PES may no longer have an overall manager role but is increasingly dependent upon successfully bidding to provide employment services that are funded and managed overall by other public entities – as in Australia and the Netherlands. And in some countries, the PES can be found to play both roles.

Activation strategies in the Netherlands

The Netherlands, together with Australia, are among the countries that are implementing a policy model that stresses private provision of reintegration services for most recipients of social transfer payments⁽⁶⁾. Since 2000 for unemployment insurance, and since 2002 for social assistance, placement and reintegration services for clients who are not expected to find work within six months are in principle contracted out to private providers. The government's expectations are that, by enhancing competition, the effectiveness and efficiency of services will improve.

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

The 2002 SUWI Act (implementation structure for work and income) constitutes the latest link in the chain of structural reforms, which have radically changed the institutional set-up of social security, job brokerage and labour reintegration. The main aim of the act was to overcome institutional redundancy and improve preconditions for activating all types of benefit recipients. It also required the new social insurance agency (UWV) and (more gradually) the 486 Dutch municipalities to

contract out placement and reintegration measures for most types of clients.

The Ministry (SZW) retains a supervisory role, in particular through its Work and Income Inspectorate (responsible for monitoring employment offices and benefit agencies), and through target agreements that it concludes with its main partners, the CWI and UWV. The CWI is the client's first contact point and represents the remaining public employment service. Thus, the delivery structure is not entirely privatized: 131 CWI offices with 4.500 full-time equivalent staff (of which about two-thirds deal with employment services proper) handle initial registration; make a preliminary assessment of clients' entitlement to benefits; provide free universal job-matching services; and participate in controlling clients' job-search obligations. The CWI also shapes the future trajectory of the newly registered clients through profiling (evaluating their distance from the labour market). In its gatekeeper capacity, it refers clients at risk of long-term unemployment to the appropriate authority for a reintegration pathway, *i.e.* to UWV (if they are entitled to unemployment or disability insurance) or to municipalities (if entitled to social assistance). By contrast, clients classified in the lowest risk segment receive only CWI's basic services.

UWV and municipalities are responsible for granting benefits and for transferring their clients to private providers. The UWV – with its 19.000 full-time equivalent staff servicing about 300.000 unemployed and over 900.000 disabled, it is a much larger organization than the CWI – is required to contract out reintegration to such providers, while municipalities rely to a larger extent on longstanding “preferred providers”, partly from the public sector. In addition, municipalities have chosen to provide reintegration services to a certain extent themselves. Until 2005, they could do this up to a maximum of 30% of their respective budget; as from January 2006, their obligation to tender for reintegration services has been completely abolished.

The 2004 Work and Social Assistance Act give municipalities' full responsibility for activating and reintegrating their 340.000 social assistance clients, and no longer exclude any client groups from reintegration. They receive lump-sum payments from the national government, based on socio-economic parameters that take into account the demographic and regional labour market situation. There are two financing components: for benefit payments and reintegration measures. The new model creates

incentives for reducing caseloads since saved money originally earmarked for benefit can be transferred to other budget lines. Municipalities now also have more discretion in choosing the type of measure for activating their beneficiaries. The fact that previous concepts of “suitable jobs” were widely abolished has facilitated their use of “work-first” policies – which, in turn, is leading a certain number of applicants to drop their claims.

Private and non-profit providers bid for contracts with UWV and municipalities. They are organized in a branch association, Borea, which acts as a pressure group vis-à-vis the national government as concerns the design of contract parameters and which also grants a quality seal. In 2004, 72 providers had joined Borea, representing over 60% of total market volume (membership is not compulsory). The employment services “quasi-market” has already gone through several tender rounds and is continuously being adjusted in an effort to promote competition, improve the transparency of procedures and reduce creaming effects and other inequities in provision. In sum, recent reforms have followed the principle of giving work priority over income, by stressing client activation and enhancing competition in employment service provision through widespread market-type mechanisms. They have reinforced the role of the government in the (remaining) PES; streamlined social insurance provision; and given broader autonomy to local authorities in determining their reintegration policies.

The Dutch reintegration market developed in several steps. Importantly, at first the public employment service became the provider from whom municipalities and social insurance organizations purchased services. The obligation to buy from the PES was then lifted in 2000 and replaced by a fully-fledged tendering system where reintegration programmes are purchased from private providers. Since that time, the UWV contracts have evolved considerably, in terms of, payment structures, criteria for selection among bidders, the extent of customer choice, and the degree of freedom for providers to choose procedures and programmes. In addition, the role of longer-term training within the system is being constantly reviewed.

As outlined above, the UWV was obliged to contract out all reintegration programmes to providers from 2000, while municipalities from 2002 were required to contract out 70% of their reintegration budget. However the requirement for municipalities was removed in January 2006. Although many officials in welfare administrations complain about high transaction costs and believe that they

could do a better job than outside providers, it is likely that municipalities will continue to rely on outside provision for a large proportion of their reintegration services.

While UWV manages contracts centrally, it divides the market up by labour market region and by target group (currently five for unemployed clients and 17 for recipients of disability benefit). Selection of bidders is usually based on four main criteria: *i*) past experience of provider within the local labour market; *ii*) price; *iii*) offered placement rate; and *iv*) proposed placement methods. Even though there is no sophisticated “star rating” as in Australia (see next section), ranking provider experience in one contract round can serve as the basis for extending some contracts into the next round. Of prime importance in this respect will be whether a provider has reached or surpassed his own proposed placement rates.

Considering all types of contracts, Dutch providers get on average EUR 4.000 to 5.000 for successful placement and reintegration services. Over the past two years, the UWV – as well as some municipalities – have tended to increase the share of “no cure-no pay” contracts, particularly for short-term unemployed clients from the Phase 2 profiling group. For the long-term unemployed and other hard-to-place groups in Phases 3 and 4, the principle of “no cure-less pay” applies. In the former type of cases no income is received until placement is achieved. Two months after placement into a job of at least six months duration, the UWV pays the provider an outcome fee with separate components for the set-up and execution of the reintegration plan, as well as for the placement itself. There can also be a placement bonus for placements of longer or indefinite duration and a speed bonus for customers that have been placed within a specific amount of time after the reintegration plan has been authorized by UWV (with the amount of time depending on jobseeker characteristics). The amount of the fee components is subject to competitive bidding. To ease provider cash-flow problems the UWV can, upon request, provide a cash advance of 20% on the contracted fee.

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

reintegration budgets are spent on long-term jobs in the public sector and on sheltered employment.

The Australian model

Over the past few years, the Australian government has cut back on government involvement in the delivery of employment services by making more use of market forces and the private sector. It has halved its spending on employment programmes, retaining only the most cost-effective ones. And it has introduced measures that impose “work for the dole” obligations on younger adults claiming unemployment benefits.

Under the new Australian model, government involvement in employment services is channeled through a recently created organization called Centrelink, which processes claims and payments for benefits such as age pensions, disability and unemployment assistance and coordinates the referral of job seekers to appropriate job-search agencies. Actual job matching and employment assistance tasks are devolved to the Australian Job Network, created in 1998 and involving some 200 private or non-profit organizations.

The rationale underlying the 1998 reform is that competition encourages a high level of service and that fees paid to Job Network organisations provide a supply-side incentive to match jobs to job-seekers. A differential fee structure applies, with the highest fees being paid for those who are most at risk and hardest to place in a job. Fees are paid on the achievement of outcomes and are generally available when a job-seeker gains employment that removes their reliance on income support for a sustained period. Service providers must not refuse clients, which limit their ability to “cream” job-seekers.

In parallel, a “Mutual Obligation” principle, introduced in 1998, requires unemployed people to take up some activity such as part-time work, voluntary work or training in return for unemployment assistance. When first launched, Mutual Obligation resulted in a significant decrease in entries to long-term unemployment for the youth age group concerned, and it has won strong public approval. It has recently been extended to include people aged up to 49.

Both job-seekers and employers have generally been happy with Job Network, and unemployment in Australia has fallen considerably since 1998. A first stage evaluation in early 2000 concluded that the Job Network has been implemented well, but that there are issues relating to equity of access, particularly for indigenous job-seekers,

and the balance of service quality and flexible delivery. At the same time, incentives to job search have been intensified via the introduction of the Mutual Obligation initiative, which represents a major change in activity-tested income support. The initiative seeks to promote more active job search by the unemployed and participation in activities which improve work skills and habits. If job-seekers fail to undertake an agreed activity, they may be subject to penalties, which may include reduction or loss of benefit payments.

An OECD report on the Australian model, completed in 2001, has also identified some problem areas⁽⁷⁾. Payments to service providers, for example, do not always sufficiently reward those who achieve high rates of employment outcomes for their clients. Procedures for requiring job-seekers to attend Job Network services are cumbersome, resulting in benefit sanctions and administrative costs which may be avoidable. And under the current arrangements, individual case management, carried out by Job Network, is conducted largely separately from the activity, managed by Centrelink of referring job-seekers to other labour market programmes, contrary to the OECD's habitual recommendation that these functions should be integrated.

The OECD report points to the difficulty in distinguishing the impact on unemployment of active labour market policy measures from that of other factors. While Job Network has cut down on costs compared to previous labour market programmes, the actual results in terms of raising the exit rates of benefit recipients from unemployment into jobs are not so different from those achieved under the Working Nation initiative of the previous government. Until recently, at least, the programmes did not seem to be having much impact on core long-term unemployment overall.

To sum-up, the introduction of competitive case management in Australia, suggests that a number of areas must be examined carefully when competition is introduced or expanded:

- Introducing competition in the delivery of services is not an easy process. The appropriate market conditions must be in place, or at least be possible, and an adequate regulatory framework must be set up to oversee the process. Moreover, measures to introduce competition can easily get quite complex, making the regulatory framework much more difficult to implement. Furthermore, making sure that the regulatory burden does not involve significant transactions costs for all participants, *e.g.* jobseekers, firms and government, is important to promoting the sustainability of the new arrangements.
- The appropriate skills must exist within the public sector (PES) or be acquired to oversee the competitive arrangements.
- If competition is desired, but a continued public sector role is necessary or desired, it is very important that a level playing field be created between the public and private sectors. This will usually require a change in purchaser/provider arrangements to ensure that there is a clear separation of the purchaser role (public sector) and provider role (public and/or private sectors).
- Even when the private sector delivers labour market programmes, the PES should maintain an important role in providing support to jobseekers before they are referred to external providers, and potentially afterwards too. Therefore, links between the PES and the private sector must be carefully considered.
- Initiatives to increase contestability, such as contracting out, will be subject to a learning curve before operating effectively.
- The quality of the service provided is important and may restrict how contracting out takes place, for example conditions may have to be attached to the contract to ensure that "quality" services are provided. Contracting out should, however, lead to more transparency in the actual costs to place a jobseeker.

3. Policy options for outsourcing and contracting-out

By now, it should be evident that public-private partnerships in employment services can take many forms. In designing a particular form of partnership however, a number of choices must be made. The subject of this section is to discuss the benefits and risks involved in making such choices⁽⁸⁾.

In the past, OECD countries have typically assumed that the PES must take on the placement role for the most disadvantaged jobseekers because there is no private market interest in seeking to place them in jobs, and that this can best be achieved by cost-free placement services available to all jobseekers so that the long-term

unemployed have a reasonable chance at competing for job vacancies. This argument has been extended to justify a monopoly on vacancies in some countries to ensure that the long-term unemployed had a reasonable chance at competing for jobs. And the fact that where private employment agencies do operate, they only tend to cover part of the market has also been seen as consistent with this view. Nevertheless, these arguments can be challenged. The government could, for example, stimulate such a market through payments of fees to private employment agencies to place disadvantaged jobseekers as opposed to solely funding the PES to place them. In the Netherlands, for example, the PES itself has paid a subsidy to temporary work agencies which take the long-term unemployed on their payroll. It may therefore be possible for the government to achieve both equity and efficiency goals without having a monopoly on either the design or delivery of placement services or indeed labour market programmes.

Recently, many OECD countries have taken steps to increase competition in areas that have been typically dominated by public monopolies. The goal is to improve the production and delivery of publicly provided goods and services. As part of this effort, many countries have begun to examine more closely how the PES operates, and how the efficiency of the services it provides, notably to the unemployed could be improved. To make the PES more responsive to the needs of labour markets, many countries have introduced market signals to make the PES contestable in some of its activities in order to improve its effectiveness. This has involved i) liberalization of rules and regulations governing private employment agencies; ii) the use of market-type mechanisms (MTMs) such as

contracting-out; and iii) organizational reforms, for example separating purchasers and providers of public services.

Part of the re-examination of the services that governments provide usually begins with an analysis of purchaser/provider arrangements, *i.e.* the management set-up to ensure that a service is provided in an efficient and effective manner. In broad terms, a purchaser is the agent who decides what will be produced, and the provider is the agent who delivers the agreed outputs or outcomes. For many public services, the government is both a purchaser and provider, *i.e.* it decides how much of a service it wishes to purchase and then provides it too. It is evident however that the decision to provide a public good or service need not imply a decision to produce it, and decisions about who produces may be separated from decisions about "how much", "for whom" and "what" to produce.

There are many possible benefits and costs associated with any change in purchaser/provider arrangements, and these are outlined in Box 1. Probably the most important benefit is the possibility to facilitate competition. For example, moving beyond the government as the sole provider can introduce competition into the provision of a service as the private or the community sectors become involved. But to avoid a loss in accountability, there must be some mechanism to ensure that service providers are responsive to the needs of the purchaser. This is typically done through contracting arrangements set up between the purchaser and provider. Therefore, changes in purchaser/provider arrangements may also stimulate, or require the use of market-type mechanisms such as contracting out.

Box 1

Costs and benefits from changing purchaser/provider arrangements

Benefits

These arrangements *can*:

- Improve working relationships and clarify responsibilities
- Minimize conflicts of interest
- Facilitate contestability and competition
- Enhance accountability
- Increase managerial autonomy
- Improve client responsiveness
- Reduce client "capture"
- Assist managers to prioritize activities

Concerns

These arrangements *can*:

- Reduce communication and co-ordination
- Heighten the focus on inputs rather than outputs
- Be based on inappropriate contracts (*e.g.*, too general or, alternatively, too inflexible)
- Produce high transaction and compliance costs
- Result in a loss of in-house expertise
- Blur lines of accountability
- Disrupt staff

Source: Fay (1997)

Market type mechanisms (MTMs) can take various forms but the form most often discussed with respect to the PES is contracting out of active labour market programmes and it is this form that is discussed below.

Contracting out refers to the use of a competitive bidding process to help decide who should have the right to produce or deliver goods and services. This is an alternative to monopoly in house provision, where a public sector agency is sheltered from competition from other public or private sector organizations. It can therefore help to make sheltered markets contestable.

Contracting out, on the surface, therefore seems an obvious way to improve the provision of a public service. There are, however, a number of critical determining factors. Indeed, with the use of contracting out increasing in virtually all Member countries, the OECD has developed "Best Practice Guidelines" that identify the key success factors for achieving the benefits of contracting out government services. Box 2 outlines these important factors.

Box 2

Best-practice guidelines for contracting out – summary

- Secure top management involvement to generate support and guidance for the initiative to succeed;
- Focus on staff issues: Keep staff informed as well as relevant trade unions;
- Ensure valid comparisons between in-house and external bids; In particular, carry out a thorough costing of the activity to serve as a benchmark, including direct and indirect costs such as depreciation and cost of capital;
- Treat in-house bids the same in all respects as outside bids. If the public sector is allowed to bid for contracts, then careful consideration to "playing-field" conditions is important, e.g. whether the public sector by virtue of its size or influence has unfair advantages over the private sector;
- Foster competitive markets; Contracting out practices can play a major role in the development of markets for the relevant services;
- Specify service requirements in terms of outcomes or outputs, not inputs;
- Monitor performance and foster co-operative relationships;
- Develop and maintain the necessary skills required for contract management.

Source: (OECD, 1997)

Although many of the points in Box 2 seem obvious, they raise a number of important implications:

- Competitive markets in the supply of the service are important. Where they do not exist, resource allocation is unlikely to be efficient and in fact may make provision worse if the purchaser becomes restricted to one external provider. But even where they do exist, there may be inadequate interest by outside suppliers. Outside interest will, among other factors, be a function of the detail required in the bid, the scope and duration of the contracts, and the complexity of the bidding process. Conversely, where no outside suppliers exist, this does not imply that there is no interest. It may take a change in various market elements to make provision worthwhile. And, possible competitors must also have both ease of entry to and exit from the market.
- Focusing on outcomes will allow the provider to decide how best to offer the service, but this entails

adequate monitoring of the contract to ensure that the conditions attached to it is carried out.

- Length of the contract is important. A longer length may lend stability to the provider and help a potential market develop. But too long a contract length may lead to non-competitive practices by preventing new entrants from entering the market. Finding a balance over the length of the contract is important.

According to Struyven (2004), as regards outsourcing and tendering, from a purely administrative/legal point of view, these are the same: a service for a third party is outsourced, and the legislation regarding government contracts is applicable. But there are characteristic differences related to these two concepts: In outsourcing, government intervention via the public provider remains significant. From a management perspective, this government body is making a "make or buy" consideration, resulting in a detailed programme that is expected from a third party. In tendering, the government

has chosen in principle to make room for external providers, while its own role shifts towards that of principal and towards those tasks that are not left to the market (such as providing benefits and intake). In other words, outsourcing is about control of the market, while tendering is to a certain extent about control by the market. Of the country examples reviewed in Section 2, Australia and the Netherlands clearly implement the tendering model. In the UK, a combination of models is being used: the PES is required to contract out some programmes (*e.g.* New Deal), and the Department of Work and Pensions is responsible for the tender system used for other programmes (*e.g.* Employment Zones).

With respect to tendering, various methods of awarding a contract exist, ranging from public tendering to a negotiation procedure without publication. In this frame, it is first of all possible to choose whether or not to work with a phased procedure. In a single-step procedure, every interested party has the opportunity to submit a tender. In a two-phase procedure, interested parties are first invited to make initial submissions (expressions of interest). Eligible parties are identified, based on previously established criteria, and these pre-selected parties are then requested to submit a detailed tender.

A second element that is decisive in the choice of tendering procedure is the award criterion. One possibility is to make a choice on the basis of one and only one criterion, *i.e.* price. However, if the tendering authority wants the desired quality at the lowest price, the specifications must be able to describe the expected outcome extremely accurately. A second possibility is to use multiple criteria. In this case, price usually still plays an important role, but alongside other criteria which are more closely related to the quality or creativity of the tender and/or the speed of completion of the contract.

A third element in the choice of tendering procedure is the threshold amount. In Greece as in all EU countries, the Services Directive and the principles of the EC Treaty regarding threshold amounts and degree of openness apply.

According to Struyven, the choice of a more far-reaching form of market competition based on a tender system involves political as well as technical issues. During development into an operational model, many new questions arise, each of them calling for new choices such as how to describe contracts, how to define the outcome to be achieved, how to avoid market competition being curtailed in advance and make sure that quality improves,

in particular for the difficult target groups? These are what we can refer to as the design choices that have to be made. Design choices must implement the policy goals in a consistent manner.

The governments have dual objectives during tendering: achieving the policy goals (relating to the “comprehensive curative” and preventive approaches, sustainable integration, underprivileged groups, bottleneck vacancies) and achieving the principles of market competition based on easy entry, competition and transparency. The many goals result in dilemmas in the design of the tender. These include the trade-off between the proven experience of providers and low costs of entry to the reintegration market; the trade-off between transparency of service quality and a focus only on the final outcome; the trade-off between differentiating contracts and the need for mutual comparison of performance (benchmarking), etc.

With respect to referral of jobseekers, every process starts with intake and assessment. The PES is responsible for the referral of a sufficient number of clients to the contracted providers. The principal is also responsible for ensuring that clients are not incorrectly referred. The quality of the intake processes needs to guarantee this.

Various considerations play a part in the referral of clients. From the provider’s point of view, the issues are whether they can choose among clients (either by deciding themselves whether to accept referred clients, or by self-recruitment) and/or whether a guaranteed number of clients will be referred to them, ensuring that their contracted capacity is filled. From the client’s point of view, the issue is the jobseeker’s freedom to choose a particular provider. From the PES perspective, the issues include responsibility for the intake and referral process and for any incorrectly-referred clients. These issues are taken up, in turn.

If the provider can choose which jobseekers are eligible for a trajectory, it is more likely that the most employable clients will be creamed off, particularly if the payment structure gives weight to the ultimate placement result. If the provider has no choice at all, it is likely that the provider will make less effort for the less promising clients, who then become “parked”. This can be counteracted by allowing the possibility of referring back and re-assessing clients.

Freedom of choice for the jobseeker is an important goal. If jobseekers can choose they will feel more involved and take a more responsible attitude. In order to make

freedom of choice possible, it is not enough simply to give several providers a contract for the same type of client. In addition, jobseekers have to be adequately informed about the services and the performance of providers. Moreover, the possibility can be provided in principle for jobseekers to switch providers. This also creates a basis for more competition between providers. However, if clients can switch providers frequently, providers will not be able to impose requirements on clients for attendance at interview, participation in training, etc., and employment services (training, etc.) may generate employment outcomes after clients have moved on to another provider. To minimize these problems, it may be necessary to oblige jobseekers to make a relatively long-term commitment.

Whatever the freedom available to the provider regarding taking in candidates, the provider is dependent on the PES initial intake process. The PES must ensure that sufficient candidates are referred and that these referrals are made correctly and on time. The fact that inflow of clients takes place through one single (in this case public) gateway undoubtedly has several advantages: greater cost efficiency due to the advantages of scale; better guarantee of an independent intake; the possibility of referral on to the complete range of labour market programmes; more equal treatment because inconsistencies between different organisations are avoided. Independent intake and equal treatment are preconditions for the comparative measurement of placement performance, because when providers can choose their own intake or receive clients through unrelated gateways there is no guarantee that their client groups will be comparable.

In practice however, the management of intake and assessment may be difficult, particularly for certain target groups. In some cases, a standardized and brief intake procedure without intensive personal contact will not be enough. Sometimes, the jobseeker classification instruments used are also found wanting. A general intake instrument is not intended to provide a highly-accurate individual diagnosis, but rather to screen referrals to a suitable trajectory or programme. It may therefore be expected that the majority of jobseekers will be correctly referred to a provider, taking into consideration the range of services this provider is contracted to offer. However, significant errors will occur in some individual cases.

Referral problems can be imagined at three levels:

- Firstly, it may be that the referral does not match the trajectory offered by the provider. We can think, for example, of a jobseeker who first needs literacy

course before being able to start specific training. This is a problem resulting directly from the nature of the instruments (literacy is not specifically screened) and the brevity of the PES intake procedure.

- Second, the referral may no longer correspond to the needs of the jobseeker. After all, it is possible that the jobseeker is no longer looking for work or has already taken steps himself to rectify certain problems. This problem is the result of a lag between the time of intake and the actual start of the trajectory with the provider.
- A third form of incorrect referral can be that the PES is deliberately referring jobseekers wrongly, for example to help the provider achieve sufficient numbers or to get rid of difficult cases.

It should be evident that these problems can never be entirely ruled out. A tender process will therefore have to make allowances for the problem of incorrect referrals. This does not mean that no further efforts can be made in the meantime to refine the instruments used in order to increase their predictive value. However, the risk of an inappropriate referral is still present. For this reason, it is recommended that the possibility of referring candidates back be envisaged. This can take various forms, from referral back under strictly limited conditions to a flexible formula of referral back.

The definition of outcomes and the pricing and payment structure are key elements in designing a tender. The choices available with respect to the formulation of outcomes, pricing and payment structure are directly related to the extent to which competition is sought on the basis of performance and the weight of price in the tender selection process.

Defining outcomes is an important aspect of a tender model, particularly if the option of less process steering and more outcome steering is chosen. Strong incentives are preferably targeted at the outcome. Regardless of the specific model of tendering, three aspects need to be mentioned relating to the definition of outcomes: the types of outcome to be counted, measurement and benchmarking.

As regards types of outcome, the following questions arise:

1. Is transfer to continued training or a subsequent step in a trajectory an outcome, or does outcome only imply outflow into employment?

2. Which types of employment, and what minimum duration, qualify as an employment outcome? For example, can voluntary work count as an employment outcome?

The measurement of outcomes is a second area requiring attention in the definition of outcomes. This relates to the operationalisation of the definition of outcomes and responsibility for measuring outcomes. This question is closely related to monitoring of referrals and implementation of trajectories. When providers are given long term contracts, there is an increased need for precise outcome measurement. A longer-term commitment means decreased competition, and outcome measurement can create additional performance incentives.

The benchmark (or target) is the third and last factor in the definition of net outcomes. Benchmarks can be varied by client group to combat creaming of the easier-to-please clients. The balance between competition and equity considerations is always a factor. The first question is whether absolute benchmarks that apply to all providers should be defined. If providers are allowed to specify their own benchmarks for outflows and transfers in their tender, these will be one of the criteria used for evaluating the tender. In a pure model of outcome financing, a contract specific benchmark is a logical option. Benchmark levels for outflow rates can vary in two ways: by type of outflow (the more permanent the employment, the lower the benchmark) and by target group (the “more difficult” the target group, the lower the benchmark) or a combination of the two.

With respect to pricing and payment structures, experience in some countries teaches us that strong incentives are needed to create adequate results. Explicit measurement of outcomes relative to benchmark levels is one way of doing this. Another way is through payment mechanisms. In its purest form, financing is based fully or partly on outcomes (“outcome is income”). In intermediate forms, financing can also be based on inputs and processes.

Starting with the idea that a certain degree of outcome financing is applied, a number of choices still have to be made about pricing and the payment structure. These choices are important not only for the outcome-orientation of the tendered trajectories or trajectory components, but also for the correct operation of the market. Pricing deals with the question of which criteria are used for pricing and who determines the price. Ideally the market should minimize the price paid for a given set of employment services. However, in practice prices do not

necessarily tend towards a lower price level under the influence of free market competition. At the same time, it may be argued that the value placed on employment outcomes (such as higher employment/lower unemployment) should be determined by the government, rather than the market.

In a fixed pricing system, fixed prices per unit or administrative prices are used. A system of free market operation and competition is, however, more difficult to reconcile with a fixed pricing system because competition on the basis of price is entirely absent. Another problem with fixed prices is how to choose the prices. In some cases the principal can observe the price structure in related markets. But there is a risk that prices are not correctly set, leading to a too-high or too-low overall level of spending on employment services. A middle road is to choose a semi-fixed system of pricing. This type of system can be a combination of criteria, recommended prices, brackets of minimum and maximum prices and a number of administrative prices, depending on the types of costs. Pricing can vary by target group and supply on the one hand and outflow possibilities on the other hand. Prices can initially be formulated based on experience of the public job brokerage body with its own operation or with outsourcing. One possible disadvantage of any mixed pricing system is that it can quickly become highly complex.

As regards payments, two major types of payment structure exist: no cure, less pay and no cure, no pay. Under “no cure, less pay”, the total fee paid is related partly to the number of clients serviced and partly to the number of clients who enter employment. Under “no cure, no pay”, the total fee paid is directly proportional to the number of clients who enter employment. The latter term may be misleading because positive rates of entry to employment arise even when a provider provides no services, or when the services provided have no impact. Pure outcome-based payments according to the principle of “no measurable impact on the entry-to-employment rate, no pay” have not so far been implemented.

Usually, the formulae used in practice correspond to a combination of input and outcome financing. This helps spread the risk between principal and provider. If the risk for the provider is too high, providers will withdraw or smaller providers will not participate. A logical consequence of full provider responsibility for outcomes is the application of full outcome financing. A negative effect of full outcome financing is creaming. With partial

outcome financing, the provider receives an initial (up front) payment for each client, plus interim and final outcome fees for each client who enters work. Moreover, a bonus can be envisaged if performance is better than expected. Payments can also be made for services actually rendered.

A tendering model with shared risks and responsibilities is logically characterized by a payment structure with partial outcome financing. Depending on referral and the difficulty of the target group – and depending on the outflow possibilities – the weight given to outcome financing can vary. It is possible to choose more far-reaching outcome financing if the target group inflow is guaranteed, if the jobseekers are easy to place in work and if the economy is healthy.

A second issue in the payment structure is the timing of payment. We are thinking here of pre-financing and financing upon placement, possibly phased. Pre-financing is particularly important for small or new providers. It can counter possible market shrinkage and cash flow problems among providers. Financing upon placement can be phased depending on the permanency of the placement (*e.g.* one installment after 6 months, another installment after 12 months).

When applied to a reintegration market for “difficult” target groups, a number of choices have to be made regarding partial outcome financing. Outcome fees can be differentiated according to the type of outflow and the target group. The choice is related to the definition of outflows and benchmark level for them. A strict definition will limit the volume of outflows. If a broad definition is used, differentiation by type of outflow is possible, to reward outflows into long-term employment. When benchmark levels of outflows are defined, a bonus/penalty system is a useful instrument. In the case of applying a penalty, the poor performance must be attributable to the provider in question, not to exogenous factors (*e.g.* failure to provide the guaranteed inflow, or poor outflow possibilities as a result of a changed economic situation). A bonus/penalty system can be appropriate in a system with partial outcome financing (no cure, less pay). An alternative to a bonus/penalty mechanism relating to the duration of placements is a “return obligation”. If the jobseeker quickly becomes unemployed again, the provider must continue to provide guidance. A return obligation creates a form of “permanent responsibility” for the provider during the follow-up phase.

Struyven concludes that the extent of market effectiveness and competition in a tendering system can be positively influenced by various forms of intervention:

- Avoiding having only one bidder,
- Working with free pricing rather than fixed prices,
- Increasing the opportunities for new providers, by removing barriers to entry (explicitly awarding some contracts to providers with limited experience),
- Ensuring that several providers have similar contracts, so that the advantages for the incumbent providers are limited,
- Limiting transaction costs for both submitter and principal, for instance using simpler tenders and contracts,
- Expanding the pool of qualified potential submitters,
- Giving the client a choice between various providers, and
- Leaving room for the provider to interpret the trajectory.

Finally, a system of market competition benefits stems from allowing jobseekers to choose between providers and participate in determining their individual trajectory. To achieve freedom of choice, it is firstly necessary to contract several providers for the same type of service. In addition, sufficient information is needed to make it a genuine option. Lastly, it is important for the jobseeker to have a real possibility to contribute to the definition of his own trajectory, and to have a right of appeal.

4. Concluding remarks

Since the early 1990s the tasks and the organization of job placement in Western Europe have been undergoing comprehensive changes. Private and community agencies are beginning to play a more important role in the area of job placement, which was dominated by public services for decades. Partly as a result of deregulation policies, the private sector in particular has experienced a boom, which appears to be continuing even today. In addition, the whole business of job placement has been affected by the rapid development of information and communication technologies. Especially the internet provides increased opportunities for improving transparency and job searches, either for jobs or for workers.

With respect to the institutional setting of matching services, there are generally, three regimes: monopoly, coexistence and market systems. The vast majority of the EU countries, Greece among them, now have coexistence models. In coexistence systems PES and private PES (pres) operate side by side.

In Greece, following changes in regulations, placement services can be offered today either by public (PES) or by private agencies (PRES).

The PES, as a public agency providing various labour market services (including ALMPs), is still the main provider for placement services. During the past few years, a major effort was made to raise the public image of the PES, to introduce the preventative and individualized approach to unemployment, to utilize new technologies and to improve the effectiveness and efficiency of ALMPs. This effort is still on-going.

As regards PRES, there is a wide variety of intermediaries. First, there is a large number of small firms covering special categories of the work force, such as tourist guides, building and technical construction workers, cleaning personnel, etc. The second category, comprising of a few multinational corporations, covers temporary work (TWA). The third category is the executive search agencies (headhunters), which are mainly concerned with filling vacancies for highly qualified employees (*e.g.* top executives). A fourth category covers numerous non-profit agencies. Examples are NGOs and local authorities that work for the socially disadvantaged, occupational or professional organisations (such as trade unions for example), acting in the interest of their members and placement services provided by universities or training institutes.

Although PRES typically operate only in certain sectors of the placement market and hence are not directly competitive to the PES, this does not necessarily indicate that they would not choose to operate in other areas, provided that this would be profitable for them. The government could, for example, decide to fund PRES to place disadvantaged jobseekers in order to encourage PRES to enter all segments of the placement market. But even if this is not a desired goal, the PES still needs to develop a relationship with other intermediary agents on that market.

The European Commission has identified three possible types of PES-PRES relationship: first, cooperation in the fields of information and basic matching services and in active brokerage and adjustment; second,

complementarity, in particular labour market segments or in particular kinds of services; third, competition in providing services to employers with the possibility of fee-charging by PES.

The recent Greek National Reform Programmes (NRP) on the other hand have set the frame for PES-PRES relationship by announcing plans to create a Eures-type portal for better matching of supply and demand for labour, and plans to commission work relating to ALMPs to accredited institutions. Thus the frame is one of cooperation and complementarity.

With respect to cooperation, there is no reason why the PES should not develop a non-commercial efficient exchange of information with PRES (both for profit and not for profit). The idea is to create a national Internet portal where all vacancies and CV's will be easily accessible, regardless of who 'owns' the information. A Staffing Exchange Protocol needs to be developed, adjusted to the Greek context, that will make it possible for all parties on the market to exchange information about vacancies and CV's in a very cost efficient way. Such a cooperative effort serves the objective that all job vacancies in the labour market should be filled as quickly as possible.

As regards a relationship based upon complementarity, it should be noted that OAED has already contracted out certain services, notably labour market information and evaluation to the Institute of Labour (INE/GSEE) within the frame of Integrated Interventions Programmes, implemented in areas of high unemployment. Under these programmes, special structures are formed with the task to map all enterprises in the area, interview all unemployed workers, help them with the drafting of individual action plans, assess the potential for growth of specific sectors, and submit the findings to OAED for funding. Labour market intelligence, especially at the local level, and impact evaluation of ALMPs outcomes constitute two policy areas where OAED could benefit from contracting out, *i.e.* putting to tender in an organized and transparent manner.

Further, the idea to contract out counseling, guidance and brokerage services for certain segments of the unemployed constitutes another policy option.

Outsourcing or contracting out PES-related services (other than training which is now considered common practice worldwide) has been a major trend in governments around the world. In the past public services, financed by public funds, were administered by public authorities. Now it is becoming increasingly common to have public services financed by public funds but administered by non-public

organizations. The key point is regardless of who provides the actual services, these are still public services and the government is still accountable for them.

The categories of the unemployed for which outsourcing is recommended are the hard-to-place: older workers, the long-term unemployed, persons from the vulnerable population groups and the displaced workers. Although detailed data are not readily available, it is commonly believed that finding suitable jobs for the very disadvantaged jobseekers has proved to be an extremely difficult task for the PES and that the majority of these jobseekers remain without assistance.

An alternative option would be to seek the assistance of the private and the community sector in order to place those unemployed workers for whom the PES has not been able to find a 'cure' within a reasonable time limit. Given the strict activation limits set by the Employment guidelines (providing assistance within a period of at most 4 months in the case of young people and at most 12 months in the

case of adults, and the benchmark of 25% by 2010), there are bound to be unemployed who, irrespective of the effort made by the PES, will not be able to benefit. These cases could become the focus of a public-private partnership.

If decided, the development of a 'market' for placements ought to take into account the experience of countries that have already implemented such arrangements (Section 2) as well as the various choices that will have to be made (Section 3), especially those relating to the setting of accreditation criteria for the partners and the specification of efficiency indicators for effective monitoring.

Finally, with respect to the so-called 'competitive' model and the effective privatization of the PES, the author of this paper believes that it should be out of the question, due to the possible negative consequences that could be expected for the disadvantaged groups of the unemployed.

Notes

1. This section draws heavily on: International Labour Office (ILO), IFP/SKILLS: Public-Private Partnerships in Employment Services, 2003.
2. European Commission: PES-PREA Relationship in a European Framework, Issues Paper submitted at the Meeting of the Heads of Public Employment Services within the EEA, 16 Nov., 1998; section II, p. 4 (Baden).
3. See: OECD Observer, 2001, Labour Market Policies that Work.
4. Fay, R. G., 1997, 'Making the PES more effective through the introduction of market signals', OECD, Labour market and social policy-Occasional papers No 25.
5. See, Tergeist, P., and Grubb, D. 2006, 'Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the UK', OECD, Labour market and social policy Occasional papers No 42.
6. See, Struyven, L. and Steurs, G. 2003, 'The Competitive Market For Employment Services In The Netherlands', OECD, Labour market and social policy Occasional papers No 13.
7. OECD, 2001, 'Innovation in Labour Market Policies: the Australian Way', Paris. See also: Webster, E. and Harding, G., 2000, 'Outsourcing Public Employment Services: The Australian Experience', Melbourne Institute Working Paper No.4/00.
8. The pros and cons of possible choices are discussed, among other in: Fay, R. G., 1997, 'Making The Public Employment Service More Effective Through The Introduction of Market Signals', OECD, Labour Market And Social Policy - Occasional Papers N°25. See also: Struyven, L., 2004, 'Design Choices In Market Competition For Employment Services For The Long-Term Unemployed', OECD Social, Employment And Migration Working Papers No. 21
9. See, Dimoulas, K., and Michopoulou, K. (2008), Active Employment Policies, INE/GSEE-ADEDY, Study No 28, Athens.

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Institute of Social Policy
Laboratory for Monitoring Social Cohesion Policies

Laboratory Management: Balourdos, D., INSPO Dep. Director

The Laboratory for Monitoring Social Cohesion Policies was established in May 2004 and was further developed within the framework of the research project “Developing infrastructures for the Establishment of a ‘Social Data Pole’ in the Areas of Social Inequality and Social Exclusion” (2005-2007), funded by the O.P. Competitiveness.

The project’s aim was to set up the infrastructure for the support and enrichment of the knowledge base in specific subject areas, in view of becoming a reference point for the evolvement of research focused on social integration and social cohesion in Greece and Europe. For this purpose a number of databases were designed in the following fields:

Labour Market; Social and Economic Inequalities; Modernisation of Mental Health & De-institutionalisation; Individuals with Disabilities; Demographic Developments; Immigration; Social Economy.

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The Laboratory’s technical infrastructure is located at INSPO where a physical working environment is offered to EKKE and visitor researchers for the analysis of microdata and the use of research produced at INSPO, while cooperative projects with University Departments are initiated and promoted for training and further research by young researchers.

The Laboratory’s databases can be accessed through the EKKE intranet; laboratory material is also publicised to the research community through a series of activities as, workgroups, theme-focused seminars, working papers, policy application reports, etc. In addition, a series of datasets are disseminated to EKKE researchers through the EKKE intranet facilities; these datasets currently refer to: the labour market, demographic trends and income distribution, whilst new ones are under way, on the socio-professional re-integration of disabled people, the social economy, and particular aspects of the welfare state in Greece. At a later stage there is provision for dissemination of datasets to the wide research community through the EKKE Social Data Bank Infrastructure.

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