Literature review and identification of best practices on integrated social service delivery

Part II - Country case studies
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Contents

HORIZONTAL SERVICE INTEGRATION ................................................................. 7

AUSTRIA .............................................................................................................. 7
1. Setting the scene ............................................................................................. 7
2. Main agents involved in managing the benefit system and providing employment and social services .............................................................................. 8
3. Brief description of the status quo before reform ........................................... 9
4. Details of the reform initiative ......................................................................... 11
5. Assessment and conclusions .......................................................................... 17
6. References ....................................................................................................... 18

ESTONIA ............................................................................................................ 20
1. Setting the scene ............................................................................................. 20
2. Main agents involved in managing the benefit system and providing employment and social services .............................................................................. 21
3. Brief description of the status quo before reform ........................................... 22
4. Details of the reform initiative ......................................................................... 23
5. Assessment and conclusions .......................................................................... 28
6. References ....................................................................................................... 29

FINLAND ............................................................................................................ 30
1. Setting the scene ............................................................................................. 30
2. Main agents involved in managing the benefit system and providing employment and social services .............................................................................. 30
3. Brief description of the status quo before reform ........................................... 32
4. Details of the reform initiative ......................................................................... 33
5. Assessment and conclusions .......................................................................... 39
6. References ....................................................................................................... 40

GERMANY ........................................................................................................ 42
1. Setting the scene ............................................................................................. 42
2. Main agents involved in managing the benefit system and providing employment and social services .............................................................................. 42
3. Brief description of the status quo before reform ........................................... 43
4. Details of the reform initiative ......................................................................... 44
5. Assessment and conclusions .......................................................................... 51
6. References ....................................................................................................... 52

NORWAY ........................................................................................................... 54
1. Setting the scene ............................................................................................. 54
2. Main agents involved in managing the benefit system and providing employment and social services .............................................................................. 54
3. Brief description of the status quo before reform ........................................... 55
4. Details of the reform initiative ......................................................................... 56
5. Assessment and conclusions .......................................................................... 63
6. References ....................................................................................................... 64
1. Setting the scene

Austria implemented an overarching reform of its social assistance system (the second social safety net) in 2010, following a lengthy negotiation process of the federal state and the states from 2007 till 2010.

The need for a reform of the social assistance and unemployment insurance system, has long been debated by experts and policy-makers. Increasing poverty rates and the low coverage of unemployment benefit and assistance eligibility criteria contributed to an increased pressure on municipal budgets, who were responsible for the provision of Social Assistance in case individual earnings (of any type) did not reach a certain threshold. The number of Social Assistance claimants has shown an unprecedented growth in the decade preceding the reform.\(^2\)

The old system struggled with numerous inefficiencies: Social Assistance systems’ legislation and practical implementation varied by state (resulting in different benefit rates, eligibility rules, sanctioning, etc.) and within states as well. This left plenty of room for staff discretion in dealing with SA clients, the latter violating basic human rights.

After a few bottom-up initiatives in the early 2000’s attempting to re-design the social assistance system, it was only in 2007 - when the socialist-conservative grand-coalition government took office - that the reform plan and its main goals was thematised by the government. The government rhetoric emphasised the importance of poverty alleviation as a major driver of the reform and one of the most important changes planned was the introduction of standardised (and in most cases higher than the original) rates and rules of social assistance in all states. The major aim of the reform was therefore, to create a social assistance system with standard rates, eligibility criteria, sanctions, repayment rules across all regions.

The focus of this report is on the institutional element of the reform plan: the transformation of the AMS (PES) offices into one-stop-shop offices. In this set-up, AMS offices would have taken on the role of a single gateway for UI and BMS (the name of social assistance under the new system) recipients and municipalities would have maintained only the marginal role of paying out the BMS benefits. The provision of all other support services would have been taken over by the local AMS one-stop-shop office. Though the one-stop-shop element of the reform was aborted early on in the negotiation process between the federal state and the states, more intense and cooperative interaction patterns have evolved between the AMS and the regional authorities.

\(^1\) We thank Bettina Leibetseder of the Johannes Kepler University of Linz (JKU) for her generous help in clarifying some details of this case study. All errors remain ours.

\(^2\) Austria experienced a two-fold increase in the social-assistance claimants (in terms of percent of total population) between 1996 and 2006. In Vienna, the number of those claimants that use the SA as a top-up in addition to their UB or UA entitlements, had grown fourfold in the same time period.
2. Main agents involved in managing the benefit system and providing employment and social services

Unemployment benefit and assistance recipients had been dealt with by the AMS offices both prior to and after the reform. The AMS (Arbeitsmarktservice Österreich) is the Austrian Public Employment Services, which was separated from the Ministry of Social Affairs in 1994. With the separation, the organisational culture has changed, resembling that of a social enterprise in the recent years. The AMS is headed by the Board of Directors, who are appointed by the Administrative Board and approved by the Federal Ministry of Social Affairs and Consumer Protection (BMASK). The Administrative Board consists of full members at the national level, representatives from the respective federal ministries and employee and employer representatives. The social partners, trade unions, workers’ chambers, etc. hold a majority in the Board. Regional offices of the PES have some degree of authority to shape the national plans according to the specific region’s circumstances. (Weishaupt, 2011)

The AMS offices administer benefit claims and provide employment services to the unemployed. Services are either supplied by the AMS itself or by contracted third-party organisations. (European Commission, 2014) Social Assistance recipients in the old system - if judged as fit for work - were also subject to participation in the employment services offered by the AMS. However, the latter was realised very rarely in practice, SA recipients were essentially excluded from activation services (or at least, it was up to the specific Social Office to what extent SA clients were involved in activation services).

After the reform, AMS handles BMS benefit claims parallel to the Social Offices, though it does not process them: AMS officers help clients understand the rules and eligibility criteria of the BMS and help them fill in the necessary documentation and then they simply forward the claims to the regional authorities. Processing remains with the regional Social Offices, who either receive the claims through the AMS or directly from the claimants. Though the planned one-stop-shop reform was given up early on, cooperation between AMS and the municipalities in the case of BMS recipients, has in many states become more intense and structured. In addition, representatives often reported that the two organisations have gained important insights about the functioning of the other through the tightened links between the organisations.

Social Office (Bezirkshauptmannschaft or Magistrat in Vienna) and municipalities were responsible for taking and processing Social Assistance claims prior to the reform. Funding was provided by the Local and provincial administrations, their share varying from state to state. Social offices were also responsible for providing rehabilitation services and by law they were also responsible for directing those clients into activation services who were capable to work. Since the implementation of the BMS, municipalities remain responsible for the benefit provision. However, in activating and rehabilitating its clients, it works much more closely together with the AMS staff.

The Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK) specifies the labour market policy, based on which the AMS Board sets out annual operational plans and objectives for the organisation. (Weishaupt, 2011)

The Federal Ministry of Finance initiated the modification that instead of the originally planned 14, the BMS would be paid only 12 times a year in order to avoid the creation of work disincentives.

The regions (Länder) are key players in the Austrian social system reform, since without the consent of each state, no federal-level reform can be brought about. The fact that the one-stop-shop element of the reform could not be realised is to be attributed to the veto of two (conservative-led) states. States with a socialist-democratic control in general, were more supportive towards the reform initiative.
The Austrian Federation of Trade Unions (ÖGB), the Austrian Chamber of Labour, and welfare organisations like Caritas or the Armutskonferenz actively promoted the redesign of the social assistance system with the aim of reducing large social inequalities and differential treatment of clients across (and within) different regions. (International Reform Monitor, 2010)

3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>UB and UA and employment services</th>
<th>SA (cash benefit and benefit-in-kind)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the provider</td>
<td>AMS (PES)</td>
<td>District commission/ Social Offices (Bezirkshauptmannschaft)</td>
</tr>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>Same for UB and UA 1) have been insured for a minimum period 2) be capable of work, and 3) be willing to work in a reasonably suitable job. (stricter conditions for UA than for UB recipients) 4) means-tested</td>
<td>3) Means-tested, can be disqualified if recipient does not accept appropriate job offer (but rules are less rigid than in the case of UB and UA) 2) Reimbursement obligation upon finding an employment and reaching a certain earnings threshold</td>
</tr>
<tr>
<td>Target group</td>
<td>Unemployed individuals fit for work (also SA recipients)</td>
<td>Uninsured unemployed; individuals in financial need</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>AMS</td>
<td>Social Offices, Municipalities</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>AMS</td>
<td>Social Offices. However, recipients of SA are rarely involved in activation programmes</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>AMS</td>
<td>Social Offices</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>AMS and third party providers</td>
<td>Social Offices and third party providers</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>Social security contributions, EU funds, government funds</td>
<td>Federal and municipal administration, whose contribution share varies by state (tax financed)</td>
</tr>
<tr>
<td>Additional information</td>
<td>Unemployment assistance has no time limit* Laws applying to UB and UA are both national-level laws</td>
<td>Laws applying to SA vary state by state</td>
</tr>
</tbody>
</table>

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* Threshold for a reasonable job in terms of income was in 2009 EUR 357.74 gross per month. In terms of physical requirements, the job must be in line with the person's physical abilities to call a job reasonably suitable. The place of work must be within reasonable travel time too (1.5-2 hours)

* Theoretically, it is payable for 52 weeks, but benefit payments continue until the eligibility criteria are met.
The main inefficiencies in this original system include:

- **Weak link between SA and activation**: Traditionally, link between SA recipients and activation services provided by the AMS was weak. While municipalities could, in theory, direct those fit-for-work into employment programmes provided by the AMS, in practice, these were rather ad-hoc occurrences and largely dependent on local administrations.

- **Work disincentives** existed on multiple levels in the old system: Firstly, upon taking up part-time work while being a UI or SA recipient, as income goes up, benefit rates decreases and once the earned income reaches a certain threshold, eligibility completely ceases. Secondly, upon returning to the labour market and realising earnings, former SA-claimants have to pay back a significant part of the benefit they earlier received. The repayment obligation can sometimes apply to third parties (spouses, relatives, etc.), as well. This clearly holds SA back from taking up work (but in some cases also from requesting SA). Many sources recommended the abolishment or alleviation of these rules (see for example Fink, 2009).

- **Administration costs** due to the differing legislations in the nine states (in terms of eligibility criteria, benefit rate, funding and organisation of SA).

- **Stigmatisation** of SA recipients was another feature of the old system that was aimed to be changed through the reform. Stigmatisation was often claimed to be a principle problem of the old system. SA beneficiaries were treated by a separate institution (Social Offices) than the unemployment beneficiaries (AMS) and they could be treated differentially also by other public institutions. For example, SA recipients were covered by health insurance but their costs incurred at the health system was reimbursed retrospectively (i.e.: though they were covered by health insurance, the reimbursement of their costs had a different procedure from the regular-insured clients. This often leads to differential treatment of the SA clients by the medical workers).

- The sizable **non-take-up** rate (explained by the strict repayment obligations and by stigmatisation) also gave ground for concerns. Fuchs (2007) estimates with an econometric model the share of households potentially eligible for SA to be somewhere between 49 and 61 per cent.

- One of the key reasons for the reform as a whole was the **non-standardised assistance provision**: SA benefit rate differed in each region, though it was always a function of household size and the number of dependent persons (Fink, 2009). Reference rates could be lowered or increased (by additional financial support like electricity costs, heating costs, etc.) and they are not calculated based on a common principle across the regions. Therefore, there was very little control over how much financial support is provided in the different states and the system leaves plenty of room for staff discretion too in the treatment of SA clients.⁵

- **Generosity of the assistance system**: In general, the Austrian social security system can be described as fairly generous. Duration of UI and SA is long in international comparison (UB: 20-52 weeks, depending on the contribution period; UA: basically inexhaustible as long as the qualifying conditions are met) and the benefit rates depend on the previous earning level (55 percent of the previous income for UB and around 52 percent for UA). At the same

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⁵ In some states, the actual share of SA recipients is much lower than it would be expected based on the share of those at-risk of poverty. (this is especially the case in Voralberg, Styria, Carinthia, Burgenland)
time, the 'low level of benefits' was one of the most highly-criticised elements of the old system. Armutskonferenz and other NGOs in this respect refer to those beneficiaries, who do not have the sufficient contributory period or whose earnings were very low and thus their benefits do not cover their life expenses either. In case of UB and UA entitlements not reaching a certain threshold, beneficiaries can request benefit supplement at the Social Offices. On the one hand, this mechanism lead to the Social assistance playing a cushioning role to UB and UA, which put an enormous burden on the municipal budgets and not sustainable in the long-run. (Fink, 2009) On the other hand, some sources claim that in many cases, the social assistance level determined for the claimant was also not sufficient to cover the living costs of the beneficiaries.

4. Details of the reform initiative

4.1. Brief description of the initiative

The Scandinavian models and some local activation service initiatives implemented in a couple of states served as role models for BMS reforms (i.e.: local initiatives: Linz – Jobimpuls, Steiermark: Integration through Work) . The German Hartz reforms were seen as a bad example mainly due to its failed organisational elements and to the significant weakening of the existential stability of the middle class.(BMSK, 2007) The actual implementation of the reform started in 2010 and was accomplished state by state. The last states implemented the BMS in 2011.

The most important aims of the reform from an institutional and organisational perspective were the following:

- strengthening the link between benefit provision and activation;
- eliminating the stigmatising effect of being a SA recipient
- elimination of disincentives to return to the labour market;
- reduction of the sizeable non-take-up rate;
- reduction of the administration costs and elimination of the inefficiencies in the existing institutional set-up in which AMS and municipalities work parallel at the regional level;
- availability of accurate statistical data about Social Assistance recipients and linked IT platforms between the relevant institutions were

The more general goals of the initiative were

- increasing the employment level;
- reducing social inequality;
- establishing the basis for the standardised treatment of all SA beneficiaries across and within states was (BMSK, 2011).

4.2. The rationale behind the initiative

The means-tested minimum income scheme (BMS) was developed to address the many weak aspects of the previous UI and SA systems.

Emphasis on activation approach was to be strengthened under the new system: it is the condition of receiving BMS to show job-readiness and to cooperate with the AMS in finding an employment if ‘diagnosed’ as fit-for-work. Simultaneously, AMS services should be improved in a way that they respond to the more complex needs of the BMS clients and the enhanced cooperation between the staff of the two institutions should also contribute to a more efficient rehabilitation process of the clients.
In order to reduce work disincentives and non-take-up rate, nearly all forms of repayment obligations were abolished. The rules regarding private savings, have been relaxed (private savings up to EUR 4000 are not taken into consideration when setting the benefit rate), as well as the rules regarding income earned from employment while receiving BMS. Beneficiaries, earning extra income (not exceeding 17 per cent of the equalisation supplement rate) after the sixth month of being a BMS recipient are not subject to benefit rate reduction to their extra earnings for a maximum period of 18 months.

In order to create a benefit system with standard rates, eligibility criteria, sanctioning and repayment regulations across all states, an extramural design of the social assistance system was planned to take effect with the implementation of the reform. The standardised benefit was designed to be indexed according to the actual equalisation supplement reference rate in old-age insurance. Supplements were to be granted for children and health insurance would be automatically granted for BMS recipients.

Legal complexity arising from the different rules applying to Social Assistance beneficiaries across the nine States (in terms of provisions with respect to recourse, minimum level of benefits, procedural law and eligibility), was to be eliminated through the standardisation of rules. However, the new system was planned to be implemented through different state legislations (not through a general national law).

The redefinition of the AMS as the single point-of-contact for BMS and UI claimants too was meant to address many problems at the same time (mostly stigmatisation of BMS recipients, weak link between social assistance and activation and the prevailing institutional complexities).

The reform also planned to provide health insurance for all recipients of BMS, which was not present in the earlier system.

Administration costs could be reduced by channelling benefit claimants to AMS offices, where there was already a system in place dealing with benefit claimants. Costs could also be reduced by establishing a transparent and complete statistical system behind benefit claims: Statistical data of Social Assistance recipients used to be in short supply due to technical and legal complexity of the non-standardised systems.

4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Needs-based minimum benefit (BMS)</th>
</tr>
</thead>
</table>
| Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc) | 1) Main income is below the level of the BMS (means-tested)  
2) Permanent residence permit  
3) Job-ready and shows job-search activity, accepts appropriate job-offer |
| Target group | Those not eligible for unemployment benefit anymore and those, whose earnings do not reach a threshold (tied to pension levels) |
| Who evaluates claims for this benefit / decides on who can participate in this service? | Municipalities |
| Who enforces the activation (job search, accepting job offer, etc) requirements? | AMS and municipalities together (municipalities have an access to the database of the AMS, which provides records about BMS clients job-search activity) |
| Who decides on sanctions (in case of non-compliance)? | AMS and Municipalities |
| Who pays the benefit / delivers the service? | Municipalities pay the benefit. For the employment services, it is mostly the AMS, that pays, but municipalities and the state also contribute in some regions. AMS and third parties deliver services |
| Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget) | benefit – Municipalities – activation services – Social Sec. Contributions; State and EU funds rehabilitation services - municipalities |

4.4. Context of the initiative: where did the idea come from?

Austria’s social security system was traditionally dominated by the insurance principle that did not provide much support to people without significant contribution to the pension or unemployment insurance system. (BMSK, 2007; Tálos, 2008) Poverty conferences, NGOs (i.e.: European Anti-Poverty Network), think tanks and civil society organisations facilitated consultations on the increasing share of those at-risk-of-poverty rate since the 1980’s. Despite urging recommendations by domestic and international stakeholders, until 2007 when the socialist (SPÖ)-conservative (ÖVP) grand-coalition government was formed, there had been no comprehensive national programme with the aim of transforming the Austrian social system. Regarding the power-distribution in the government, the social ministries (Social Affairs, Education, Health) were controlled by the SPÖ, while the ÖVP controlled the Economy, Labour and Science Ministries.(OECD, 2007) The 2007 government programme explicitly prescribed the reform of the

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6 In 2014: a monthly rate of EUR 814 for single persons, paid 12 times a year.
7 Exceptions: people above retirement age, people who have to care for children up to the age of three, who care for family members, who started a vocational training/high-school before the age of 18. (Kargl, 2014)
8 The Lisbon Treaty prescribed as one of its main objective, the reduction and in the long-run, the eradication of poverty.
social system and the introduction of a minimum-income of €1000 for those in work and of €726 for the inactive.

The story of the BMS reform dates back to the regional-level initiative of reforming the social assistance system in 1997. In 1999, a working group – geared by the Ministry of Social Affairs – was set up by the regions with the aim of developing a social assistance system with standardised quality levels. The working group was formed by social secretaries of the regions and it worked in close cooperation with Prof. Dr. Pfeil (University of Salzburg), who was later commissioned by preparing a draft law on the cooperation of the federal state and the regions in developing a minimum income scheme. The draft was first presented in 2004 and it showed the determination of the regions to introduce minimum standards in the social assistance system, while rejecting the idea of a federal-level re-organisation plan. However, the respective ministries (Ministry of Social Affairs and Ministry of Economy and Labour) did not react with specific steps to the initiative.

Poverty alleviation did become one of the government priorities when the new government was formed in 2007. In the same year, the Working Group formed in 1999 was “built into” the Ministry of Social Affairs and it remained under the leadership of Prof. Dr. Pfeil from the University of Salzburg. The programme received substantial support from the Minister of Social Affairs, Dr. Erwin Buchinger. The main question during the implementation period was whether the Ministry’s initiative would be accepted by the regions, since a single veto suffices to the termination of the reform initiative. Due to opposing interests between the regional and federal level, the one-stop-shop element of the reform was given up relatively early on in the negotiation process (approximately by spring 2008). The coalition government fell apart by the summer 2008, leading to new elections in September, 2008. The elections resulted in a slight majority of the social-democratic party and a conservative-social democratic coalition took power again.

4.5. The designing phase

The earlier formed Working Group (led by Prof. Dr. Pfeil) was inserted in the Ministry of Social Affairs (led by Buchinger), a strong supporter of the BMS reform. This group was working on the details of the reform initiative, which had two major strands: i) the standardisation of rules and benefit rates across states and ii) the institutional change regarding the role of the AMS and local authorities. At the turn of 2007-8, heated negotiations between the state and the regions started over two elements: i) the one-stop-shops and naturally ii) the funding questions of the proposal. About the former, municipalities were very discontent because they did not want to lose their role of being the sole responsible institution for social assistance provision. Funding issues, on the other hand, were problematic because municipalities claimed that the extra costs they expected to be incur under the new system, would not have been covered by the amount of transfer the federal state would have guaranteed them.

Based on the publicly available reform documents issued by the BMSK, by this time no elaborate report was available regarding the details of the implementation of the one-stop-shops. Negotiations were marked by the opposing interests both on the federal level (conflicting ideologies of the governing social democrats and conservatives) and between the state and the regional level too. The one-stop-shop element of the reform was relatively quickly aborted: by Spring, 2008 it was clear that due to the missing consent of two states (Niederösterreich and Vorarlberg – both in conservative governance at that time), the one-stop-shop plan would be given up.

The regions signed the amended Article 15A B-VG³ - on the agreement between the federal state and the regions - in summer, 2010. The one-stop-shop element was taken out of the proposal but the law still prescribed the cooperation between AMS and municipalities. However, the details of

³ Vereinbarung gemäß Art. 15a. B-VG zwischen dem Bund und den Ländern - Agreement pursuant to Article 15a. BVG between the federation and the federal states
the implementation process were left to the discretion of the regions). The implementation of the reform was carried out already under the 2nd coalition government – Werner Faymann chancellor – and the new Minister of Social Affairs, Rudolf Hundstorfer.

4.6. Implementation process

The main step towards the implementation was the signing of the amended Article on the agreement between the states and the regions in July, 2010. While the original date of implementation was July, 2009, the actual implementation started in 2010 and ended in 2011, when the last states implemented the BMS system. Most of the regions launched unique activation programmes designed for the more complex needs of the BMS recipients. These programmes were mostly based on local experiences with the target group and many of them were piloted (funded by the ESF) prior to implementation. (ÖKSA, 2012)

According to the AMS (2012) statistics, the average number of BMS recipients in intensive contact with the AMS grew on average by 3400-7000 on an annual basis as a result of the reform.

To our knowledge, there is not much information available on the actual implementation steps of the reform, however, we do know a few details about the processes implemented between the AMS and the municipalities for the handling of BMS clients. As the report about the implementation of the BMS in Upper-Austria describes: as a first step of the process a medical specialist (contracted by the municipalities)\(^\text{10}\) assesses the physical and mental condition of the client and determines whether he/she is fit-for-work. In the ‘Clearing-Stelle’, experts from the municipality and the AMS cooperate and make a proposal on what kind of activation/rehabilitation service is recommended to the clients. This is followed by the so-called ‘Case Management’, in the framework of which, the specific problems and actions needed for the reintegration of the client are mapped. This latter task is already carried out by third-party providers in Upper-Austria. The costs are financed by the AMS and the municipalities jointly. After the Case Management, third-party actors provide specific labour market programmes to the clients, tailor made to their needs. These can range from methods of adaptions to work-life balance through specific skills trainings or advisory sessions. (Stelzer-Orthofer, 2012)

4.7. Costs of the initiative

The states receive an amount of €50 million to finance the additional costs arising from health-care contributions. If their costs exceed this amount, further financial assistance is to be negotiated between the state and the Länder.

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\(^{10}\) In Upper-Austria, these work for the Pension Insurance
Table 1 Expenditures of Social Assistance and BMS between 2010-2013

<table>
<thead>
<tr>
<th></th>
<th>SA</th>
<th>BMS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Cash disbursements (€, Mio)</td>
<td>446.02</td>
<td>439.1</td>
</tr>
<tr>
<td>Expenditures on health insurance(€, Mio)</td>
<td>138.9</td>
<td></td>
</tr>
<tr>
<td>Other expenditures(€, Mio)</td>
<td>28.8</td>
<td>24.5</td>
</tr>
<tr>
<td>number of claimants</td>
<td>177 068</td>
<td>193 276</td>
</tr>
<tr>
<td>expenditure / claimant (€)</td>
<td>2 271.9</td>
<td>2 438.3</td>
</tr>
<tr>
<td>Total social expenditures</td>
<td>84 918</td>
<td>86 736</td>
</tr>
<tr>
<td>SA/BMS as % of total social expenditures</td>
<td>0.7</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Statistik Austria, (ÖKSA, 2012)

4.8. Who implemented the initiative?

The BMS was implemented by the regional authorities and by the AMS offices themselves.

4.9. Monitoring

A Permanent Working Committee at the Federal Ministry of Labour has been assigned with the task of monitoring the implementation of the whole BMS reform. The Committee is made of up of representatives of the Ministry and the Federal State, the regions, the AMS, Social Security Institutions and NGOs (i.e.: Amurtskonferenz), the Statistical Office of Austria and other experts in the field. The Working Committee’s responsibility is to provide recommendations on the implementation and further development of the BMS and to carry out evaluation reports periodically. (International Reform Monitor, 2010)

4.10. Impact assessment

Steiner & Wakolbinger, (2010) measure in their ex-ante quantitative impact evaluation that the introduction of the BMS would increase the incomes for the poorest households but would slightly reduce labour supply due to the generous allowances for marginal employment under the current and the planned regulations of unemployment assistance.

Bergmann, Riesenfelder, & Sorger (2012) carried out an ex-post evaluation in which they compare BMS clients having an AMS contact (assessed as fit-for-work) with long-term unemployed but insured clients. It is important to note, that the results of the quantitative part of the study cannot be generalised due to the differences between the control and treatment groups. The study also relies on a qualitative part, based on an extensive series of interviews with AMS, regional Social Office, ALMP projects’ representatives and experts. The following conclusions are drawn: the management of BMS requests at AMS offices varies from state to state, but it is mostly confined to accepting the documents and forwarding them to the Social Offices. The number of requests has significantly increased in all states (the increase varies from 5 to 40 per cent) and thus the rate of non-take-up has also likely decreased. Sanctioning seems to have a marginal role: 5 to 10 per cent of the beneficiaries are subject to sanctions, which is explained in the study by the tedious procedural obligations related to sanctioning. The study emphasises the fact the BMS clients are in general further away from the labour market than is the usual clientele of the AMS. There are indications that inclusion of the BMS clients in activation services (mostly into support and counselling programmes), as well as integration probability into the labour market increased. It is also important to note that in many cases, BMS clients become job-ready after a certain period time participating in one or the other activation programme. They find that in most of the regions,
cooperation between the AMS and the municipalities has intensified, though the degree of integration is very different state by state.

Stelzer-Orthofer, (2012) assessed the success of the introduction of the BMS in Upper-Austria, based on interviews with AMS and regional representatives and with BMS clients. Regional representatives and AMS staff evaluated the introduction in general as successful, with special emphasis on the improved cooperation with the AMS and other stakeholders (health insurance). They also emphasised the advantages of the joint IT systems (‘EDV System’) set up between the regional authorities and the AMS. At the same time, cooperation between the two sides seems to sorely lack clear guidance on the division of work and both sides noted an increased workload due to the increased number of benefit claims since the introduction of the BMS. BMS clients have also been interviewed and the responses show that the various activation programmes has helped them a lot in taking up work-like habits and thus coming closer to the labour market.

Armutskonferenz (2011) claims that the BMS system is by no means more standardised than the previous Sozialhilfe, differences across states in benefit rates, treatment and eligibility still differ to a large extent, which can by no means be justified.

4.11. Problems faced during or after implementation of the initiative and how these were solved

Though transparency was intended to be reached through standardised rules applying to BMS recipients, since legislation is implemented in each state differently, the risk of incurring similar problems as prior to the reform is high. This aspect of the reform has been highly criticised by many experts.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

Contextual factors that have contributed to the Austrian reform process were the regions’ strong activity in terms of promoting the need for a reform. A regional-level research group was formed years earlier than the national level reform initiative started. The need for an overarching reform initiative (to broad reform plan) has long been advocated by the non-governmental sector as well. In this sense, the reform was marked by bottom-up processes, which always is an important element of successful reform initiatives.

On the other hand though, political factors have also obstructed the implementation of the one-stop-shop part of the reform. The political divide of the regions inhibited the agreement on creating one-stop-shops – as initially planned – in the AMS offices. The reluctance of the social authorities to forego their main role of providing social assistance (BMS) has also proven to be a major obstacle to the creation of real one-stop-shops.

5.2. Lessons for Europe

The Austrian experience shows that in a federalist state, the support of a reform initiative by all regions can be a decisive factor. In Austria, the veto power of the regions opposing the reform initiative, ultimately led to the failure of the one-stop-shop part of the reform. Therefore, in countries with strong regional autonomy, it is of crucial importance to focus on gaining the support of regional players already in the planning phase of the reform project.

Local experiences in terms of employment programmes in place since the early 2000’s, have proven to be key to implementing successful activation measures for the BMS recipients by the cooperating AMS and local social offices.
Willingness and openness of the two institutions involved in the activation of BMS recipients, was also of crucial importance in the development of successful activation processes.

5.3. Main strengths and weaknesses

Inevitably, the major weakness of the Austrian reform was the failure of the one-stop-shop plan. In addition to this, the reform has seemingly contributed to a more significant administrative burden of the AMS offices and also for the local authorities due to the increased number of claims. The fact that the AMS only collects the claims and then transfers them to the local authorities is a major source of inefficiencies. As Bergmann et al (2012) note, the lack of available social workers both at the regional institutions and at the AMS poses a significant challenge in the new system.

Despite the failed one-stop-shop reform, the Austrian case demonstrates that institutional cooperation can be strengthened in the absence of a real merger and that it can lead to improved labour market services not only for the unemployed but also for people with more complex barriers to re-employment. The BMS reform has led to improved screening of job-readiness, to improved quality and access to activation and rehabilitation services for the target group and most importantly, to improved cooperation between the AMS and the local authorities. The latter has been complemented by technical developments as well, such as better integration of the IT systems and database used by the two institutions. (ÖKSA, 2012)

6. References


1. Setting the scene

The Estonian economy had seen an unprecedented growth between 1995 and 2007, turning into one of the richest economies in the Central Eastern European (CEE) region. Labour supply was kept high by the low out-of-work replacement rates (especially in the case of unemployment allowance) while expenditure on Labour Market Programmes (LMP) was very low in international and in regional comparison as well.

Until 2008, unemployment remained below 10 per cent, except for a short period following the Russian financial crisis, which brought about a few years of rising unemployment rates.

Estonia and the Baltic States were among the European countries hit the most by the financial crisis of 2008. Fiscal and monetary policy was fairly limited at the time (e.g. by the low income redistribution, currency board, strong reliance on trade and thus exposure to foreign market fluctuations, etc.) and the reaction to the shock on the labour market was much stronger than elsewhere. Despite strict employment protection legislation (EPL), the crisis led to mass lay-offs, soaring unemployment and a marked drop in wage rates.

A labour market reform under preparation since the mid-2000s, came into force in the form of the New Employment Contracts Act (ECA) in May, 2009. The main purpose of the ECA reform was to bring labour market relations and the benefit system in line with the flexicurity principles. The reform had three main objectives: a) to increase flexibility by relaxing EPL and b) to increase the job-readiness of jobseekers by a stronger emphasis on activation and c) to increase the income security of the unemployed through elevated benefit levels. The major institutional change resulting from the latter aims was the acquisition of the Labour Market Board (LMB) by the Unemployment Insurance Fund (UIF). The main outcome of this acquisition is that benefit provision and activation are being brought together under the umbrella of the UIF through the transfer of responsibilities from the LMB to the UIF. The management of the LMB and the Unemployment Insurance Fund (UIF) were merged in May, 2009.

The reform process was to some degree complicated by the crisis. While the reform plan included several improvements of the security side of the system, these were first suspended and then completely ruled out due to the mounting budgetary pressure in the wake of the crisis. The reforms continued in the amendment of the Labour Market Service and Benefit Act in 2011, which prescribed a further tightening of activation rules, relaxation of the administrative burden on PES staff and the widening of the client base of the UIF (OECD, 2012).

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11 We thank Anne Lauringson of the Estonian Unemployment Insurance Fund and Aili Petti of the Estonian Ministry of Social Affairs for their generous help on clarifying some details of this case study and helpful comments. All errors remain ours.

12 Unemployment rate mounted by 11.2 percentage points between 2008 and 2010, reaching 16.7 percent in 2010 (Eurostat).
2. Main agents involved in managing the benefit system and providing employment and social services

The Estonian Labour Market Board (LMB), responsible for paying unemployment allowance and providing employment services, was established in 1990. Service provision was carried out first by local offices of the municipalities and then by the employment offices (PES), set up and managed by the LMB. The LMB was also responsible for the provision of unemployment allowance. The LMB was subordinated to the Ministry of Social Affairs.

Until 2002, unemployment allowance provided by the Employment Offices was the only type of passive support provided for the unemployed. The unemployment insurance scheme was created in 2002 with the establishment of the Estonian Unemployment Insurance Fund (UIF). The UIF is an independent public body, governed by the tripartite Supervisory Board composed of the representatives of the Government, employees (the Confederation of Estonian Trade Unions, the Estonian Employees’ Unions’ Confederation) and employers (the Estonian Employers’ Confederation). This structure has remained intact following the institutional change. A three-member Management Board is responsible for managing the operations of the Fund. The UIF is organised into one central office, 15 regional and 26 local offices across the country. The organisation is fully financed by the employers’ and employees’ contributions. Between 2002 and 2009, the authority’s sole responsibility was the administration and payment of unemployment benefits. Through the transfer of responsibilities from the LMB to the UIF in 2009, unemployment benefit and assistance provision and activation services are all being brought together under the umbrella of the UIF. (European Commission, 2013a) The UIF has recently started evaluating the impact of ALMPs partly internally and partly contracted out. (Leetmaa, 2012)

Employment policy as such, was a completely new field in Estonia (and in the other Baltic states) after the regime change. In Estonia, it was the Ministry of Social Affairs (MoSA) that was responsible for the planning and implementation of employment policy matters since the 1990s. (Heidenreich, Zeitlin, & Zeitlin, 2009) Since the reform of 2009, the Ministry participates in the designing of the goals, performance indicators and (quantifiable) targets of the UIF through their membership in the Supervisory Board. (European Commission, 2013b) The MoSA is also responsible for the implementation of impact evaluations of activation programmes. These are partly carried out by the respective departments (Labour Market Dept., Labour Policy Information and Analyses Department and the Department of Working Life Development) and partly by the European Social Fund (ESF) unit within the Labour Market Department, since a significant share of ALMPs are funded by the ESF. (Leetmaa, 2012)

In general, Trade Unions’ and Employers’ associations’ role and power is fairly limited in Estonia. At the same time, they have been involved in the policy formulation on the national level in the recent labour market reforms. In July 2009, trade unions organised protests against the decision of the government to postpone security strengthening elements of the New Employment Contracts Act to later implementation. The demonstrations did not lead to any change in the government’s aim to take out the security elements from the reform. (Nurmela & Osila, 2011)

Municipalities administer subsistence benefit and provide services such as social rehabilitation and care. These are partly financed by the state and partly by the local revenues collected by municipalities. Since the reform, there have been increasing efforts to involve subsistence benefit recipients in activation services organised jointly by the municipalities UIF. However, the general degree of activation of subsistence benefit recipients remains very low. (Flèche & Radziwill, 2012)
### 3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Unemployment Allowances (UA); Employment Services</th>
<th>Unemployment Benefit (UB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation providing the benefit/service</td>
<td>LMB - employment offices</td>
<td>UIF</td>
</tr>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>UA: Registered unemployed, not entitled to UB or exhausted UB entitlement. Means-tested, Insured for 180 days in the past 12 months. Services: registration at the UIF</td>
<td>Insured for 12 months in the past 36 months, involuntary unemployment. Job search obligations</td>
</tr>
<tr>
<td>Target group</td>
<td>UA: mainly LTU. Services: all registered unemployed (including UB) and for some services, all registered job-seekers (not only unemployed)</td>
<td>Unemployed</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>LMB</td>
<td>UIF</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>LMB, however, strictness of enforcement of activation is unclear</td>
<td>LMB, however, strictness of enforcement of activation is unclear</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>LMB</td>
<td>LMB notifies UIF about non-compliance</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>LMB</td>
<td>UIF</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>State budget and EU funds</td>
<td>Employer and employee contributions</td>
</tr>
<tr>
<td>Additional information</td>
<td>It is possible to receive subsistence benefits while receiving UA during a limited period of time</td>
<td></td>
</tr>
</tbody>
</table>

A main inefficiency of the original system was in the quality and availability of activation services. ALMPs in general received limited focus and funding (in 2005, Estonia had one of the lowest expenditure share on ALMPs in the EU). Therefore, the range of available activation services was narrow, and those available often lacked in quality. There were no efficient practices to classify clients according to the severity of their problems, which inevitably led to inefficient use of staff.

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13 Contacted experts on the Estonian labour market reform reported that such sanctions were in fact place. According to international literature, however, sanctions were not enforced in practice. (OECD, 2010)
capacity. Effectiveness of job-brokering by international standards was low. One of the key aspect of the reform was to improve the quality of activation services.

Availability of impact evaluations about the ALMP effectiveness was in short supply. The few available studies pointed to the fact that use of such measures had been too modest and that there was a large room for increasing the number of available services for the unemployed. (Reelika, Vörk, & Nurmela, 2009)

Institutional inefficiencies, outdated physical infrastructure and procedures and low staff-to-client ratios also hampered efficient service provision. (OECD, 2010) As Reelika et al., (2009) describe, jobseekers’ (both employed and unemployed) trust in LMB’s capacity to help them return to the job market was very low, which is partly explained by the low staff-to-client ratio and partly to the poor reputation of staff.

Access to services was in theory broad, since all registered unemployed and jobseekers had the right to participate in ALMPs. However, the ratio of registered unemployed who had UB or UA entitlement was small: less than half of the unemployed registered at the LMB until 2008. (OECD, 2010) Those who are not entitled to benefits, do not bother registering because they do not think that the LMB can help them find a work through activation services. In addition, based on the available sources, it is unclear whether sanctions - in case of non-compliance with the authorities or non-participation in the prescribed ALMP measures – are in effect used by the respective institutions (Reelika et al., 2009).

Another important source of inefficiency was in the missing direct link between the institution that managed the activation services (LMB staff) and the institution who paid the benefit (UIF). UIF staff did not oversee what kind of ALMP was its customer assigned to and LMB staff did not have the direct cost-saving incentive to help people back to employment as soon as possible (and limit benefit expenditures).

4. Details of the reform initiative

4.1. Brief description of the initiative

The overall aim of the reform was to improve the access to, quality and efficiency of employment services. More specifically, the institutional change aimed at improving the coordination of benefit provision and activation services. Through the reform, it was expected that the administrative capacity of the labour market institutions would improve as well, which in turn would contribute to improved service quality and an increased rate of return to the labour market. Budget of the newly organised UIF was not only under pressure due to the increased UB beneficiaries, but also because of the duty to provide severance payments and payments to employees upon employers’ insolvency, whose number increased significantly in this period. Therefore, reducing the UB caseload was vital.

Improving the physical infrastructure and reducing staff overload was also an important aim of the reform because efficiency of the LMB management was not sufficient: overburdened staff, outdated IT systems and limited office space all inhibited the development of efficient work processes. These circumstances were partly to be explained by the limited resources available for the LMB. Accordingly, the reform also aimed at increasing the capacities of the reorganised employment services (through receiving extra funds from the UIF).

With regards to more practical aspects of the goals of the reform, prior to the reform there was no encompassing database based on which the Ministry could track the post programme participation of formerly unemployed people and evaluate the impact of ALMPs. With the reorganisation, the UIF was expected to be responsible for the linking of databases provided by the respective state institutions.

By European standards, unemployment benefit and assistance rates are one of the least generous in Estonia.(European Commission, 2012) Originally, the reform plan also included the element of
increasing the income security of the unemployed through elevated benefit rates, but this was postponed (and later abolished) to a later date due to the extremely high caseload during the crisis years.

4.2. The rationale behind the initiative

The harmonisation of the labour market services and the benefits system was expected to contribute to a more efficient support provided to the job-seekers. The new, enhanced coordination mechanisms were expected to increase the administrative capacity of the new institution. The extension of the roles and functions of the UIF staff was expected to enable them to better evaluate which ALMP would effectively address the problems of each client. (Eamets, 2013; OECD, 2010)

Last, but not least, the reorganisation was expected to lead to increased resources, flexibility and administrative capacity and to a better system-design, through the shared responsibility with social partners embedded in the governance of the UIF. (Lauringson, 2015)

In addition, shifting the emphasis from passive to active policies - through increased resources available for ALMP and more attention devoted to the implementation of new employment services - was done with the intention to increase the rate of returns to the job market and thus reduce the stock of UB recipients. The improved employment service quality, launch of tailor-made and personalised services with elements of profiling and increased staff numbers was expected to support these goals. (Unemployment Insurance Fund, 2012)

As part of the enhanced service provision, the training system for the unemployed was also reformed: a transition from the approach of assignment to trainings based on the choice of the unemployed person to a needs-based approach was introduced. In addition, there was a shift away from focusing on training measures to wage subsidies with the intention to reduce the number of lay-offs and to focus resources on the less costly ALMP tools during the crisis years. The rationale behind this initiative was that during the crisis vacancies are in short supply and thus training is less effective, while making employment cheaper for employers can be more useful. (Eamets, 2013)

Additionally, with the hope to increase the accessibility of job-search services, further career centres (offering various counselling and job mediation services, mobile counselling in areas distant from regional centres) have been opened to serve both the unemployed and the employed jobseekers. (Eamets, 2013) As Flèche & Radziwill (2012) and the UIF (2012) note, cooperation with municipalities to strengthen the activation of LTU has intensified mainly through the start of pilot projects on subsistence benefit recipients’ activation. The latter is still today of high importance, as the involvement of these people in employment services is particularly low, leading to alarming poverty rates among this group of people.
4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of the benefit/service provider</th>
<th>Unemployment Insurance Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit / service provided</td>
<td>UB, UA, employment services, (insolvency payments)</td>
</tr>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>UB: registered as unemployed and who have been insured for at least 12 months during the 36 months; Participation in employment services and active job-search; UA: work or an activity equal to work for at least 180 days during the twelve months prior to registration as unemployed. UA is means-tested</td>
</tr>
<tr>
<td>Target group</td>
<td>UB and UA recipients (including groups with more complex needs) and registered job-seekers (not only unemployed) are eligible to some employment services</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>UIF (for UB, eligibility is described by the law, but for employment services, case workers have a lot of discretion in deciding what kind of services to provide)</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>UIF case workers</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>UIF case workers (in practice lower for UA recipients than for UB recipients)</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>UIF</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>UI benefits are financed from insurance contributions made by employers and employees; UA is financed by the state budget; services are financed jointly by the state budget, UIF contributions and EU funds</td>
</tr>
</tbody>
</table>

4.4. Context of the initiative: where did the idea come from?

Labour market policy was in Estonia traditionally marked by low spending on both active and passive measures. The importance of putting more emphasis on activation and improving the security elements of the benefit system (raising benefit levels, extending the benefit duration and widening the scope of beneficiaries) has long been promoted by international organisations. (OECD, 2010).

Introducing more flexibility in labour market relations was an important topic in the 2000s as the Employment Protection Legislation was reported to be one of the most rigid systems in Europe. Strict EPL can adversely affect labour markets because it tends to lead to an artificially low level of labour market flows (due to the reduced willingness of companies to dismiss old and/or to hire new workers), deepening the segmentation between the insiders and the outsiders on the labour market. The most important part of the reform of 2009 was, therefore, to increase flexibility in contractual relations. It is important to note, however, that many claimed (Eamets and Masso, 2005, Eamest, 2012) that based on empirical evidence, in practice, the EPL was not as rigid as many international institutions reported. Eamets (2012) argues that changes in labour market outcomes shows that in practice EPL did not have a significant effect on labour market flexibility and thus that the Estonian labour market was in effect, flexible enough.

In light of the above, the Employment Contracts Act reform plans of the 2000s can be characterised as an attempt to move the Estonian labour market in the direction of increased labour market flexibility coupled with stronger emphasis on activation and security elements for the unemployed.
By April 2008, following lengthy debates between the government, trade unions and employers associations, the reform process arrived at its final stage. The main elements of the reform to be implemented were: i) to ease EPL; ii) to strengthen security through increasing unemployment benefit levels and iii) to increase the administrative and financial capacity of the labour market institutions through the fusion of the LMB into the UIF.

Estonia was between 2007 and 2009 governed by a liberal-conservative-social democratic coalition government. The government faced political difficulties in late 2008, as budgetary pressure was mounting and the government announced significant expenditure cuts in order to keep the deficit low (by 2009, Estonia had again the lowest budget deficit of 1.4 per cent in the EU). In light of the budgetary pressure, it has become questionable, whether the government can keep its promise and increase social guarantees as agreed in the reform plans. As a result of the rising tension between the coalition partners, the Social Democratic Party left the coalition in May, 2009 and the cabinet continued to rule as a minority cabinet. (Freedom House, 2010)

Despite trade union demonstrations against the modification of the reform plans, the security elements aiming at the increase of benefit levels and coverage, were to a large degree postponed to later implementation (later on these were completely abolished). The reform was implemented in July, 2009 launching two major parts of the initial plan: the EPL easing measures and the institutional reform of the labour market organisations. (Nurmela & Osila, 2011)

4.5. Implementation process

With regards to the implementation details of the acquisition, there is limited information available. However, based on the materials and very helpful comments provided by Dr Anne Lauringson (Head of Analyses Department, Unemployment Insurance Fund), we can say the following: with the acquisition, the UIF management was merged with the LMB management. LMB employees were not automatically taken over by the UIF, but they had to re-apply to the UIF. Approximately one third of the employees of the LMB were taken over by the UIF. (Lauringson, 2015)

“Information desks were introduced in employment offices and national call centre established in 2009 to improve access to information and alleviate employment advisors’ caseload. Career information offices network was developed in 2010-2011 in employment offices in order to support job search of the clients.” (EUIF, 2012)

The UIF remained organised in one central office and 15 regional offices.

4.6. Monitoring

The Performance Management System (PMS) of the UIF functions in the following way since the institutional reform of 2009. The Employment Programme (for two years) and the Development plan of the UIF (for three years) is developed by the Supervisory Board of the UIF.

The UIF develops an annual action plan for each region (accounting for the regional labour market characteristics), and PMS is in place on the regional level. The latter consists of four indicators, each receiving different weight in the specific regions:

- impact: measures employment placement rates (biannual data)
- output: participation rate in active measures (monthly data)
- quality: satisfaction index of job-seekers, employers; administration quality and efficiency (monthly data)
- activities: job-search workshops for younger people, cooperation with local municipalities, etc. - not part of the PMS since 2014 (Lauringson, 2015)

The new incentive pay system takes into account the results achieved by each local office. For every individual employee the quality pay - decided upon and paid twice a year - depends also on his/her working results (so, quality pay depends in total on three parts: 1) Achieving the general objectives
of the PES; 2) The individual results of the employee’s work. 3) In case of regional departments - Achieving the objectives of the regional performance plan.) (Lauringson, 2015).

Regional performance is discussed on a monthly basis with the Management Board - composed of three members: Head of the Board, Member of the Board in charge of benefits and Member of the Board in charge of employment services (European Commission, 2014) - Overall performance is discussed between the Management Board and Supervisory Board on a quarterly basis

Sharing of best practices, field visits across regions and between the central and regional level happen regularly in order to ensure efficient information flow both horizontally and vertically.

Though the PMS is one of the responsibilities of the Management Board, on a daily basis, the work concerning matters of the PMS is coordinated by the advisor of the Board in tight cooperation with the Analysis Department. Other managers are involved in this work regarding the issues that concern specifically their field of work. PMS at the UIF is supported by the performance management IT tool, CAF (Common Assessment Framework i.e. Improving Public Organisations through Self-Assessment.) (European Commission, 2013b; Lauringson, 2013, Lauringson, 2015).

4.7. Impact assessment

To our knowledge, there are no impact assessments available on the direct effect of the institutional part of the reform. However, there are a number of interesting evaluations that preceded the reform process with respect to the anticipated EPL changes.

Though the idea of making the labour markets more flexible was appropriate, the reform came too late because most of the lay-offs had already happened by the time of the introduction of the New Employment Act. Eamets (2013) argue that although Estonian labour market flexibility was often reported as one of the most rigid in the OECD countries before the legislative change, data (i.e.: dynamics of labour market outcomes) show that in effect, the flexibility was much greater than it was reported by international organisations. (Eamets, 2012, 2013)

“Malk (2012) shows that while the Employment Contracts Act increased the mobility out of employment, however, it has not had a significant impact on moving into employment. The study also shows that the reform increased the probability of moving from unemployment to inactivity and a negative impact on the probability of job-to-job mobility.”(Eamets, 2013)

OECD (2010) stresses the importance of implementing the postponed elements of the reform of 2009, namely the ease of eligibility conditions and elevation of UA level. The report also points out that due to the limited resources, PES should concentrate on cheaper ALMPs, like job mediation and counselling. Staff time should be efficiently allocated between easy- and hard-to-place clients (profiling should be improved).

4.8. Problems faced during or after implementation of the initiative and how these were solved.

The Estonian government faced significant budget pressures in 2008. On the one hand, the government had to solve a political crisis (the Social-Democratic Party left the coalition government due to the expenditure cuts in May, 2009 – the date of the reform implementation) and on the other hand, it had to water down the demonstrations organised by trade unions against the planned modifications of the reform plan (abolishing the security elements of the reform).

4.9. Further relevant issues

Prior to the acquisition, it was typically the Ministry of Social Affaires that carried out the impact evaluations of the ALMP programmes. Within the Ministry it was either a respective department in charge of implementing such evaluations, or the Labour Market Department, when the specific programme was financed from ESF funds (in 2010, 71 per cent of the expenditures on ALMPs were covered by the ESF funds). However, as Leetmaa (2012) describes, the methodological aspect of
these evaluations was often times questionable, for which one of the main reason is the lack of appropriate data available (due to institutional difficulties and privacy protection rules). This explains, why the effectiveness of activation services in Estonia are unclear in general. Since 2012, the Analyses Department of the UIF is also in charge of impact assessments, which in theory would be a reasonable step, since the UIF has all the data available on ALMP participation. However, linking of other relevant datasets (i.e.: tax authority) owned by different state authorities often proves to be difficult, significantly hindering the UIF’s capacity to successfully evaluate the effectiveness of ALMPs.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation

In Estonia, there were a number of contextual factors that hindered the smooth launch of the reform initiative. The restricted policy set (low redistribution and hence tight budget available for social expenditures), the global crisis (increased number of benefit claimants, decreased staff-to-client ratio) and the resulting demonstrations by trade unions and the political crisis, all hindered an unproblematic implementation of the reform.

In a way, however, the crisis and the restricted policy set have also helped the reform to proceed, since the crisis put pressure on the involved institutions to increase capacities and the restricted policy set does not allow for the maintenance of an inefficient social security system in the long-run. The weak role of potential veto players (i.e.: trade unions) and the country’s traditional strong compliance with the international actors’ (EU, OECD) recommendations also contributed the implementation of the reform.

5.2. Lessons for Europe

The most important lessons for Europe from the Estonian case is that they started with a small and feasible change and did not try to realise an overarching institutional reform in one single step. The reform was not too ambitious, the goals were feasible to attain. The integration of the social assistance recipients into the system remains a next step. The change was organised in a very systematic and organised way and it was followed by strong performance management mechanisms inside the UIF.

5.3. Main strengths and weaknesses

The main strengths of the reform are 1) that the historically modest focus on activation has started to increase (0.03 per cent of the GDP on ALMPS in 2007, while 0.2 per cent in 2012 - source: Eurostat) 2) that the inclusion of the third social safety net (social assistance) claimants’ has gradually been started through pilots and other small-scale projects and that there are some indications that an improved quantity and quality of impact assessments will be available under the newly organised system.

A key weakness of the reform is, however, that unemployment assistance recipients’ compliance with the activation measures is less strictly monitored by the UIF and that social assistance recipients are only rarely involved in activation services.
6. References


1. Setting the scene

Finland has struggled to reduce structural unemployment since the recession of the early-90s. The goal of activation had been on the agenda of employment and social welfare policies in Finland since the 1990s, when the unemployment rate increased from 3% to 19% from 1990 to 1996. (Genova 2008, 385) Strengthening conditionality and improving service integration were the two basic policy directions in this period. The projects of the last two decades mostly focused on the long-term unemployed (LTU) and other ‘hard-to-place’ groups. This process culminated in the opening of LAFOS Centres that offer multi-sector services supported by cross-ministerial network governance.

Between 1997 and 2001, successive legislative amendments gradually tightened job search conditions for benefit claimants and increased incentives for employment and social agencies to cooperate in the activation of their clients.

The Government Employment Policy Programme (2003-2007) (GEPP) is one of the four policy programmes of the broader Government Programme Management Reform initiated by Prime Minister Matti Vanhanen’s Government with the aim of reducing overlaps between Ministries and enhancing horizontal policymaking. GEPP fits into the larger scale tendencies of Finnish social and employment policies, but the economic downturn of 2002 in Finland further motivated the reform of social services (OECD 2002). GEPP created the necessary political consensus about service integration being the main means to tackle structural unemployment. GEPP is based on the inter-ministerial cooperation of several Ministries (including the Ministries of Social Affairs, Education, Health and Trade) with the leadership of the Ministry of Labour (McQuaid et al. 2007; Kekkonen 2007).

The GEPP provided a supportive environment to launch the experimental predecessors of LAFOS Centres. In 2002, pilot programmes of Joint Service Centres were started in 18 municipalities to promote the interagency cooperation of the labour administration, the social affairs administration and the Social Insurance Institutions. These new services were targeted at the long-term unemployed. The new form of integrated service provision faced the challenge to coordinate public and outsourced activities on an individual basis. Due to the positive results of the evaluation of the pilot (Arnkil et al. 2004), the LAFOS Centres (Labour Force Service Centres) were established in 2004 to serve as a permanent structure of integrated services.

2. Main agents involved in managing the benefit system and providing employment and social services

Public institutions (directly managed by a ministry)

Ministry of Labour (since January 1, 2008: Ministry of Employment and the Economy\textsuperscript{15})

\textsuperscript{14} We thank Tiina Oinonen of the Ministry of Employment and the Economy for her generous help on clarifying some details of this case study and helpful comments. All errors remain ours.

\textsuperscript{15} Under the ministership of Prime Minister Matti Vanhanen the Ministry of Labour, the Ministry of Trade and Industry and the Department for Development of Regions and Public Administration of the Ministry of the Interior were merged into the new Ministry of Employment and Economy. (Source: https://www.tem.fi/en/ministry/history_of_the_ministry).
The Ministry of Labour functioned as the central body of the preparation and the implementation of LAFOS Centres. In general, the Ministry was in charge of planning employability strategies and thus it was the leader during the preparation of the reform preceding the opening of LAFOS Units, i.e. the Government Employment Policy Programme (2003-2007). Budgeting and administration was also the Ministry’s responsibility during the GEPP.

The Ministry was the lead agency of the steering group that was intended to oversee the implementation and follow-up of LAFOS Centres. The Ministry had a crucial role in financing the establishment of local LAFOS Centres, but it did not get any additional budget from the state for this purpose. The Ministry also provides funding for PES Offices.

Ministry of Social Affairs and Health:
The Ministry was part of the steering group that served as the central coordination body throughout the establishment of LAFOS Centres. The Ministry worked in close cooperation with the Ministry of Labour.

Autonomous public bodies (financed by the central government but autonomously managed)

PES Offices:
PES Offices lead the delivery of employability services in local and regional levels. In 2007, there were 127 PES Offices in Finland. PES Offices (and also municipality social agencies) assign clients to LAFOS Centres on the basis of a need evaluation (Aho 2007). LAFOS Centres where established based on contracts signed between PES Offices and municipalities. PES Offices shared half of the running costs with the municipalities, while the other half was provided by the Ministry of Labour.

LAFOS Centres (Labour Force Service Centres):
Established between 2004 and 2007, the LAFOS Centres are the institutions to carry out integrated services targeted at the long-term unemployed and clients that face employability problems from multiple sources (skills, health, income, social problems, etc.). Their services include employment services, social and health services, rehabilitation, social insurance and third parties. LAFOS Centres have a high level of autonomy and can shape local service networks independently.

The staff of LAFOS Centres come from a wide variety of backgrounds from the employment offices, municipality social welfare offices and the national Social Insurance Institution.

Clients of LAFOS Centres are assigned from the local employment services or social agencies on the basis of need evaluation.

The establishment of LAFOS Centres was made on a voluntary basis, however the Ministry of Labour provided financial support to set up the Centres. Half of the funding of running cost is covered by local municipalities (Karjalainen and Saikku 2011).

Other national level organisations (e.g. insurance agencies)

Social Insurance Institution:
The Social Insurance Institution is member of the steering group of nation-wide implementation of LAFOS. The Institution also delegates employees to LAFOS Centres.

Regional level organisations

Employment and Economic Development Centres (T&E Centres):
The 15 T&E offices (before a PES reform in 2013 there had been 74 offices) are responsible for providing employment services for the customers (Country Fiche - Finland in European Commission 2014). The TE Centres receive the operational budget for PES activities from the Ministry of Employment and the Economy. This budget need to cover all operational costs such as staff, lease, communications, etc. (Weishaupt 2014).

Centres for Economic Development, Transport and the Environment (ELY Centres):
The 15 regional ELY Centres are responsible for the regional implementation and development tasks of the central government. Among the various areas of scope (business and industry, cultural
activities, transport and infrastructure) labour force is one that ELY Centres deal with. In fact, the ELY Centres steer and supervise the activities of the T&E Centres. The ELY Centres also ensure that the statutory services are available to all customers of the T&E Offices (Country Fiche - Finland in European Commission 2014).

Local governments

Municipalities

Municipalities are responsible for providing social and health services, so they represented the social policy branch of the network structure of LAFOS Centres. During the LAFOS Reform municipalities could initiate the establishment of LAFOS Centres by forming contracts with local employment authorities. Municipalities had to share funding of half of the running costs of the Centres with PES offices, while the other half was financed by the Ministry of Labour.

In general, municipalities are quite autonomous bodies that have a high level of independence related to forming their social welfare and health policies. The Ministry of Social Affairs and Health have few possibilities to practice control over municipalities (Karjalainen and Saikku 2011).

NGOs

Association of Finnish Local and Regional Authorities

The Association is a non-profit organization of the towns and municipalities of Finland putting pressure in order to keep the costs of municipalities at the acceptable level. The Association is a member of the steering group of the state-wide implementation of LAFOS Centres.

3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>job search counselling, activation and ALMP for LTU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>people with multiple disadvantages, LTU</td>
</tr>
<tr>
<td>Target group</td>
<td>people with multiple disadvantages, LTU – mainly labour market support receivers</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>PES</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>PES</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>local Labour Committee of PES offices</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>PES</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>T&amp;E Centres (Regional Employment and Economic Development Centres)</td>
</tr>
</tbody>
</table>

In the old system there had been a "split" between the employment offices and the municipalities (responsible for social functions). The unemployed who were eligible to the lower level of unemployment benefits (labour market support) typically had to resort to social benefits too as the amount of unemployment benefit is too low (Arnkil 2004). Typically this group of clients have other problems in life and (re-)entering the labour market and often lost contact with the PES office. Responsibilities and costs had been tossed back and forth between the state and municipalities letting the citizen without any help. State officials at PES offices and municipal officials worked separately, to a large extent ignorant about what the other was doing (Arnkil and Spangar 2009).
4. **Details of the reform initiative**

4.1. **Brief description of the initiative**

In total, 39 LAFOS Centres were opened between 2004 and 2007. These Centres were established based on the voluntary decision of municipalities. In LAFOS Centres staff from the PES offices, the municipalities’ social welfare and health services, the national insurance institution and third sector organisations and employers work under the same roof to provide multi-sector services of employment, social welfare, health, rehabilitation and social insurance.

In a broader sense, LAFOS Centres address the persistent problem of structural unemployment in Finland that has been a sticky issue since the recession of the early-90s. (Arnkil and Spangar 2009) Secondly, the LAFOS Network aims at reducing the number of beneficiaries of unemployment benefits and the expenditures spent on last-resort benefits.

These aims are to be achieved through enhancing the employability of the hard-to-place and long term unemployed. The main objective of establishing the LAFOS Centres is to provide multi-professional services for the long-term unemployed and people with multiple disadvantages in finding their way in the labour market (e.g. skills, health, social problems). LAFOS Centres also aim to create intermediate labour markets (Marshall and Macfarlane 2000) to serve as a ‘bridge’ between unemployment and the open market through e.g. temporary work, subsidised work, work in social enterprises or voluntary organisations. (Munday 2007, 35; Karjalainen and Saikku 2011) The more efficient coordination between services provided by the state-run local employment offices and the municipality-run social services is also a key feature to provide better targeted individualised services. (Duell, Grubb, and Singh 2009)

4.2. **The rationale behind the initiative**

The underlying rationale of LAFOS Centres is to provide more suitable services for the long-term unemployed by combining employment, social welfare and health services and also a wide range of additional services that help in identifying and tackling individual problems in finding a job. (Munday 2007) Lafos services are individualised and able to respond to multiple problems (e.g. health, skills, disability) that hinder the re-employment of LTU.

Working in the same localities provides opportunity for staff from different professional environments to learn from each other and better incorporate each other’s competencies in forming the actual individual activation plan. Establishing a separate institution for the LTU also help PES offices stay focused on enhancing a better match of labour market supply and demand for the unemployed in easier situation without having to bother with the problem of LTU.
4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>job search counselling, highly individualised activation and ALMP for LTU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>PES delegate clients</td>
</tr>
<tr>
<td>Target group</td>
<td>people with multiple disadvantages, LTU</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>PES</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc.) requirements?</td>
<td>LAFOS</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>LAFOS</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>LAFOS</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>50% from central government; 50% from municipality</td>
</tr>
</tbody>
</table>

LAFOS Centres are separate service units with a personnel with very diverse background including professionals from the employment office, social welfare office, municipal health care unit and local Social Insurance Institution. Each LAFOS Centre builds their own network with third parties and services providers based on the client needs (e.g. educational services, debt advisors, psychologists, health care services, group activities).

The services at LAFOS Centres are provided through a working-pair method. An employment official and a social worker works together with the client to set up an individual activation plan that best fits the needs of the client.

4.4. Context of the initiative: where did the idea come from?

The economic downturn of the early 1990s left the country with a substantial level of structural unemployment even after the economy had stabilized in terms of economic growth. The first wave of reforms initiated during the mid-90s could be characterized as the rationalisation of PES services. During these years the targeting of active labour market measures and services were improved and some totally new services were introduced, e.g. job-search groups. According to evaluations, this first wave of reforms pointed out that efforts had been mainly concentrated on the supply-side of the labour market, while the demand-side and the integration between supply and demand were lacking attention. In sum, this rationalisation process reformed almost every element of employment services but was carried out without any organisational change. (Arnkil and Spangar 2009)

The second wave of reforms beginning in the 2000s had to address the double challenge of the high level of structural unemployment coupled with the problem of labour shortage stemming from demographic changes (OECD 2002; Arnkil and Spangar 2009; Arnkil 2004). A “dual strategy” was introduced, significant organisational changes were brought while the employment reform was being part of a broader reform to enhance horizontal policymaking. Similar to Sweden Finland started to follow a “two-prong” approach (or “dual strategy”): at the “better end” of the labour market self-services, e-services and efficient job-brokerage are offered, while at the “structural unemployment end” of the labour market, individualised multi-sectorial services are offered.
Services aimed at the “structural unemployment end” are delivered in a network framework in the LAFOS Centres – partly inspired by the Dutch one-stop-shop approach (Arnkil 2004).

The horizontal, cross-sectional cooperation in LAFOS Centres is one of the outcomes of a broader government reform that aims at enhancing horizontal policymaking through intra-ministerial cooperation and introduced new programme management methods (Kekkonen 2007). The programme management reform was initiated by Prime Minister Paavo Lipponen’s Government (in power during 1999-2003). Three high-level international experts were commissioned to analyse the situation of the Finnish central government and come up with proposals to improve efficiency. The main message of their review was to enhance horizontality instead of the sector-based organisation. The next cabinet under the ministership of Prime Minister Matti Vanhanen’s Government (2003-2007) implemented these recommendations in the framework of their Government Programme. Four intersectorial policy programmes were launched, the Employment Policy Programme being one of them. Inter-ministerial working groups were set up for each Programme. The work of these working groups were monitored using common indexes, evaluations of effectiveness were conducted and the results and future steps were discussed during policy sessions.

The activation of labour market support (LMS) was another reform within the Programme that had a supplementary role to the creating of the LAFOS Network (OECD 2013, 176). Labour market support is a flat-rate benefit for those who have received the maximum amount of unemployment insurance (UI) and unemployment allowance (UA, at most for 500 days) or have never met the employment conditions of UI and UA. Practically, LMS recipients are those who are difficult to employ (Aho 2007). In 2006, municipalities were made responsible for financing half of the LMS (previously fully paid by the state) in case they did not provide activation measures for the LMS recipients. Hence, municipalities became encouraged to launch active labour market programs and participating in the LAFOS programme (Kekkonen 2007; Karjalainen and Saikku 2011).

4.5. The designing phase

The pilot programmes that lead to the opening of LAFOS Centres started in 2002. 25 Joint Service Centres (JOIS) were set up mostly in larger cities and urban areas country-wide. These centres aimed at tackling the problem that the most disadvantaged group of unemployed were often the clients of the municipalities’ social work and health offices besides the local employment offices. The services of the employment offices and municipalities were not harmonized and clients often had a hard time in simultaneous cooperation with the two offices. The JOIS functioned as a “gateway” to or procurer of third sector services (e.g. rehabilitation, work practice, drug detoxification clinics, youth workshops, debt advisors).

The mid-term evaluation (Arnkil 2004; Arnkil et al. 2004) of the pilot programme showed positive initial results. Staff members and clients were both highly satisfied with the services. Based on the relative success of the pilot programme, the LAFOS Centres were founded providing similar services as the JOIS but on a permanent basis.

4.6. Implementation process

The foundation of LAFOS Centres was not formulated in any legislation, but was organised on a contractual basis. Establishment was voluntary and was based on contracts between the employment authorities and municipalities at the local level. Both parties provided the same number of workers and shared half of the expenditures, while the other half was financed by the Ministry of Labour (Karjalainen and Saikku 2011).

By 2007, 39 LAFOS Centres were established (and are still operating) that cover about 40% of the 161 municipalities of Finland as some Centres cover several municipalities (Aho 2007; Karjalainen and Saikku 2011). The nationwide extension of LAFOS Centres is in progress at the moment (Arnkil 2014).
4.7. Costs of the initiative

The Ministry of Labour did not get any separate budget to establish the LAFOS network; however, it reserved extra financing for local actors to support the opening of new LAFOS centres. Half of the running costs are financed from central sources while covering the other half is the shared responsibility of municipalities and employment offices (Karjalainen and Saikku 2011). There are no data available on the actual cost of implementation of the reform.

4.8. Who implemented the initiative?

The establishment of LAFOS Units was carried out in a network governance structure based on contractual agreements between different institutions of employment and social welfare policy involving third parties also (service providers, employers, education). The inter-sectorial network arrangement of LAFOS Centres achieved service integration without any change in legislation regarding governance structure, but based on the collaboration and trust of autonomous, independent institutions (Karjalainen and Saikku 2011).

The organisational structure of institutions taking part in the establishment of LAFOS Centres is illustrated in the Figure below. The representatives of central government signed a contract to form the steering group that was in charge of planning, overseeing and monitoring the state-wide implementation of the LAFOS Centres. The Ministry of Labour functioned as the leader of the steering group with close collaboration with the Ministry of Social Affairs and Health, the national Social Insurance Institution and the Association of Finnish Local and Regional Authorities. The mandate of this joined-up government was not very clear and in practice they rather functioned as a negotiation forum through providing information and recommendations instead of being a strategic decision making body as their original role had been and as LAFOS Centres had anticipated. Practically, the steering group provided recommendations to local-level actors regarding the organization of LAFOS Units. The steering group had an informal right to approve the establishment of LAFOS Units, while formally the approval decisions were carried out by the Ministry of Labour.

At the local level contracts were made between employment offices and municipalities to create the basis for LAFOS Centres by forming local steering groups. Both parties provided the same number of workers to the Centres and shared the expenditures related to the running of services equally. Steering groups at the local level comprised of actors from the employment services, the social welfare and health care services, the Social Insurance Institution and other actors from third parties. Local-level steering groups were the coordinating body of the implementation, long-term planning and budgeting of LAFOS Centres and had an important role in partnership recruitment. Parallel to the steering groups, management groups were formed with either one or two leaders (one from employment services, one from social welfare services) to serve as the operational management body. Throughout the implementation there has been a shift from the two- to the one-leader managerial model as it turned out that in practice it performs better. The role of the management groups and steering groups were not clearly separated and were often overlapping.
4.9. Monitoring

The establishment of LAFOS Centres was delivered in the framework of the intra-ministerial Government Employment Policy Programme (2003-2007). A new programme management system was introduced at the same time that put much emphasis on methods of monitoring and set out a number of common indicators over ministries and new tools to be used for monitoring.

In the new system the Prime Minister’s Office is in charge of monitoring the progress of the Government Programme (Kekkonen 2007). The earlier Government Portfolio, the main tool of follow-up documentation, was replaced by the so-called Government Strategic Document. In this new document the emphasis is more on the effectiveness of the measures rather than providing a description of what has happened as it was prior to the change. Besides the innovation of monitoring processes and documentation human resources for policy analysis and monitoring had been increased at the Prime Minister’s Office.

These processes shed light on the broader changes introduced in programme management and monitoring at the time of LAFOS Centres, but there is little information available about how monitoring was and is going on in relation to the LAFOS Centres, specifically. Some sources from after a few years of operation of LAFOS Centres note the lack of a well-functioning common monitoring system of LAFOS Centres (Duell, Grubb, and Singh 2009). Karjalainen and Saikku (2011) point out that accountability was a problem from the very beginning of the operation of LAFOS Centres. Each party had their own sector-based follow-up and data information system. It turned out that linking all the different data systems is more difficult than setting up a state-wide joint data system for LAFOS Centres.

4.10. Impact assessment

Evaluations about the LAFOS Centres are mostly qualitative and are based on surveys of clients and the staff. We have no information about a quantitative evaluation that focus on the efficiency of the LAFOS network, e.g. its effect on the employment of LTU or costs related to the LTU.
The evaluation of the pilot phase of LAFOS Network were run by Arnkil et al. (2004). After seeing the initial positive results of the pilot, the first permanent LAFOS Centres were opened. Customer feedback surveys run in 2002 showed a high satisfaction with the programme: 85% of clients were satisfied with the new services, which is a higher amount than that about the PES offices. Clients were mostly pleased with the individuality, versatility of services offered and the friendly nature of the staff and they also reported that they really appreciate the way how they were involved in shaping their own activation strategy.

Karjalainen and Saikku conducted an evaluation study about the performance of the LAFOS Centres in 2008 (Karjalainen and Saikku 2011). They found that the most positive experiences can be seen on the organisational level of LAFOS Centres. Staff of the Centres were eager to utilize the flexibility and wider ranges of services to tackle the problem of clients. Individual employability factors (e.g. competencies, skills, qualifications) were taken into account more than in the PES offices. Clients reported that they had a better understanding about their own situation.

The ultimate goal of LAFOS Centres was to reduce structural unemployment through the improved employability of the long-term unemployed. In fact participation rates in activation measures rose by 10% between 2005 and 2007, being 35% in 2007. However, the activation programmes did not seem to be successful in creating paths to the real labour market. Many clients ended up being in one active policy programme after the other without any better chances to go back to the labour market (Karjalainen and Saikku 2011). This suggests that the external employability factors were not taken into account enough, i.e. relations to the private sector and employers were scarce. Service processes of clients tended to be long, taking approximately about 2 years that let us doubt the efficiency of LAFOS Centres (Karjalainen and Saikku 2011).

4.11. Problems faced during or after implementation of the initiative and how these were solved.

The opening of LAFOS Centres faced the problem of harmonizing different institutional cultures under one roof. There had been initial difficulties related to the teamwork of staff members with different work history. Employees had unrealistic expectations about the expertise and skills of their new colleagues, especially in cases when challenges pushed them to the limits of their own competences. This kind of problem is natural element of similar integration reforms and it should not be expected that it can be avoided; but rather, foreseeing policy-makers should prepare for it and help accelerating the process of adaptation with clever design. Seemingly, the problem solved itself in the Finnish case. Karjalainen and Saikku (2011) mention the four stages of team development that were definitely met during the initial operation of the LAFOS Units (forming, storming, norming, performing). Probably, the working-pair method, i.e. that a former PES worker and a former worker from the municipal social services had to work in pairs together with the client to create an activation plan, helped overcome initial conflicts. In fact, later effective learning communities were formed under the roofs of LAFOS Centres and workers themselves reported that they appreciate that they can learn from each other in their new working environment (McQuaid et al. 2007; Karjalainen and Saikku 2011).

At the beginning, managerial organisation at the local level raised the big question of who should be in charge of making strategic decisions for such a new kind of organisation. Initially, a two-sector leadership was propagated; one manager from both the employment office and the social welfare offices was appointed as the leaders of the Centres. However, by time it turned out that a one-leader model is more efficient so most of the LAFOS Centres have transferred to it by time (Karjalainen and Saikku 2011).
5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation

Searching for factors that could pave the way to the implementation the LAFOS reform we find the most outstanding to be the socio-democratic welfare regime of Finland. Within this welfare regime universal and decommodifying benefits and services are granted as right and the main actor of welfare policies in the state. The aim of the welfare system is to create a high degree of equality and a solid basis for support for all income groups (as opposed to Italy, where the state is expected to intervene only when the family and the third sector fails to respond to social needs (Genova 2008)). Genova (2008) states that “management integration has been the evident outcome of the universalist logic in the Finnish welfare system”.

Second, professional integration has been at the heart of social service reforms since 1985 in Finland (Genova 2008). Over the years a clear consensus was formed over the need of integration as a solution for the problem of structural unemployment and the reintegration of people with multiple disadvantages to the labour market. The designing and implementation of the LAFOS reform was delivered without any major political debates and was based on a strong common belief of the need of the reform. Genova (2008) also specifies the constant dialogue between social and labour services and the limited type and number of actors involved as key elements of successful integration.

Initial difficulties derived from the differences of institutional cultures and the uncertainty about the best forms of managerial organisation, but these were soon overcome (see Chapter 4.11 for details on these hindering factors).

5.2. Lessons for Europe

LAFOS Centres are innovative organisational units to deal with the problem of the long-term unemployed and people with multiple difficulties in finding a job. The LAFOS reform seems successful in providing a broad range of services and a new, more user-oriented approach for their specific target group. An important feature of the reform is that integration targets only a sub-population of all unemployed, in specific, those unemployed who are most in need of network-based multi-sector services (cf. the NAV reform in Norway where the whole system is integrated for all target groups). Integrating a whole system may seem unnecessary given that a large share of the clients are not in need of services from multiple branches of the welfare system. However, one should keep in mind that the LAFOS Centres are part of a broader social and employment policy agenda, a kind of “two-prong” strategy where the “better end” of the unemployed receive self-services, e-services and more efficient job brokerage, while the “structural end” of the client receive individualised multi-sector services. To sum up, it seems that this kind of integration reform cannot be implemented without having such a broader context behind it.

5.3. Main strengths and weaknesses

The main achievement of the LAFOS Centre was the improved quality of services (Karjalainen and Saikku 2011). Surveys of clients clearly show that they are highly satisfied with services at the Centres. They appreciate the friendly behaviour of staff member, they feel their insights are valued and they are treated respectfully by the staff. Individual situations are better recognised and taken into account in planning and delivering services.

Second, well-designed incentives play an important role in the implementation of LAFOS Centres. The establishment of LAFOS Centres was based on the voluntary intention of municipalities. This fact on its own makes it clear that a voluntary-based system can operate well if the incentives encourage actors to join. In 2006, municipalities were made responsible for financing half of the
labour market support (previously fully financed by the state) in case they did not provide activation measures for the LMS receivers.

Despite the relative success of the LAFOS Centres, there are also some drawbacks of the new system. First and foremost, the new measures did not achieve the goal to increase activation of the long-term-unemployed. Approximately 10 percent of the unemployment periods ended because the client had been successfully transferred to the open labour market and the figure did not change since the introduction of the LAFOS Centres (Karjalainen and Saikku 2011). Many clients are just participating in activation programmes again and again without any improved chances to find a real job. Seemingly, a gap between demands of local labour markets and the abilities of clients remained, that need to be filled. Furthermore, service processes at LAFOS Centres take on average two years, a rather long period of time. The Ministry of Employment and the Economy expressed their doubts about the efficiency of the LAFOS system based on an evaluation of the Ministry and pointed out the LAFOS Centres seems to have an effect on the well-being of its clients rather than their employment (Valtakari, Syrjä, and Kiuru 2008; Karjalainen and Saikku 2011).

Another weakness of the LAFOS network is the uneven distribution of the LAFOS units countrywide. The geographic inequalities in the access level of services are against the universalist approach of Finnish social policy (Karjalainen and Saikku 2011).

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1. Setting the scene

In 2002, the re-elected SPD-government (headed by Chancellor Gerhard Schröder) was forced to tackle the problems of the ailing German economy (described by stagnation, increasing unemployment, national debt and budgetary deficit) and to propose long-awaited complex reforms to ameliorate the German welfare system. A commission of experts set up before the elections presented a solution for the problems described above, which became the basis of a series of institutional and welfare reforms between 2002-2005 (the so-called Hartz-reforms, named after the head of the expert commission) and the Agenda 2010 policy programme announced in 2003. Among the four laws for ‘Modern Services on the Labour Market’ the Hartz IV reform in 2005 aimed at improving the institutional system and outcomes of the German employment policy by merging two existing welfare benefit schemes (creating the UB II scheme; the ‘basic income support for the able-bodied jobseekers’) and creating a new institutional system for the activation of the long-term unemployed, the ARGE (constituted by the public employment services and the municipalities).

2. Main agents involved in managing the benefit system and providing employment and social services

Public institutions (directly managed by a ministry)

*Federal Ministry for Labour and Social Affairs (BMAS):* the ministry responsible for central employment policy. Due to the federal structure, German federal ministries are small and have lesser roles compared to other OECD-countries: their key role is to take part in the policy-making and law-making process, but are not directly involved in implementation or in control of the implementation (Wegrich et al 2013). During the second Schröder government between 2002 and 2005, most of the Ministry's responsibilities were delegated to the newly set up *Federal Ministry for Economics and Labour (Bundesministerium für Wirtschaft und Arbeit, BMWA),* which was dissolved when the CDU-government gained power in 2005.

Other national level organisations (e.g. insurance agencies)

*Bundesagentur für Arbeit (BA):* is the central body that operates the public employment service (PES) in Germany. The main actor in implementing employment policies in Germany (Wegreich et al 2013). The BA is structured along three main levels of administration: a central office in Nuremberg, 10 regional offices that supervise and coordinate the local offices, and 156 local offices with 647 sub-offices delivering services (Kundenzentren). The BA is funded exclusively by compulsory social insurance contributions of employers and employees. The federal government (via the Federal Ministry of Labour and Social Affairs) only has the duty of ensuring that the BA complies with the statuses and all other legal requirements, but has no official influence on operational business or resource allocation (although the level of contributions and amount of benefits are set by the federal government, the BA has the autonomy of setting its own targets and performance goals independently). The BA has always been a one-stop-shop for the insured unemployed (ever since its creation in 1927): it is responsible for benefit payments, implementation of ALMPs, counselling services job and placement. The Hartz III reform in 2004 aimed to modernise its operation along the lines of New Public Management (management by objectives; requirement

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16 We thank Regina Konle-Seidl of the Institute for Employment Research (IAB) for her generous help on clarifying some details of this case study. All errors remain ours.
of setting a quantitative goal, etc.) and the reform renamed it as Bundesagentur für Arbeit (Federal Agency for Employment) from its previous name Bundesanstalt für Arbeit (Federal Labour Institution), and created customer-oriented jobcentres, the Kundenzentren (Konle-Seidl et al 2007, Konle-Seidl 2008).

Regional level organisations

Jobcentres (until 2020, named as Arbeitsgemeinschaften [ARGE]): the joint agencies established in 2005 by the Hartz IV reform, responsible for the labour market reintegration (employment and social services, and also the administration of benefits) of the ‘basic income support for the able-bodied jobseekers’ scheme (the newly established UB II benefit); see ‘Details of the reform initiative’). Until 2020, the official name for a joint Jobcentre was ARGE; in 2010 they were renamed as “gemeinsame Einrichtungen”.

Local governments

Municipalities: local social welfare offices were responsible for the benefit payment, the general social services (e.g. housing) and the reintegration of social assistance recipients (before the 2005 reform). Note that the intensity of activation differed strongly between municipalities, and activation requirements were not strictly enforced in practice. Social assistance benefit was funded by federal taxes. From the beginning of 2005, the local welfare offices are integrated into joint ventures along with the local BA offices, and the two partners are commonly responsible for the activation of the UB II recipients (the long-term unemployed; see ‘Brief description of the initiative’), although some of the districts were allowed to operate their own jobcentres independently. As of 2014, a total of 108 municipalities manage their own jobcentre without assistance of the BA.

NGOs

Private providers and NGOs: responsible for activation services contracted out by the BA.

Employer associations and trade unions (‘social partners’): have strong influence in German employment policy. Are traditionally represented in governing (and, until 2004, in managing-) boards of the BA, although they had become less influential ever since the implementation of the Hartz reforms between 2002 and 2005.

3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Unemployment insurance benefit + Unemployment assistance (after exhausting the insurance benefit)</th>
<th>Sozialhilfe (social assistance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc.)</td>
<td>insured unemployed17</td>
<td>means-tested</td>
</tr>
<tr>
<td>Target group</td>
<td>insured unemployed</td>
<td>disadvantaged persons able to work</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>eligibility set by federal law/evaluated by BA</td>
<td>municipalities</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc.) requirements?</td>
<td>in principle, the BA, in practice, not strictly enforced</td>
<td>in principle, the municipality, in practice, not enforced</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>in principle, the BA, in practice, not strictly enforced</td>
<td>no sanctions in practice</td>
</tr>
</tbody>
</table>

17Those who have an employment record for at least 1 year during the preceding 3 years.
The main efficiencies in the old system emerged from the existing parallel structures and the common practice of shifting responsibilities between the municipalities (obliged to look after the social assistance recipients) and the BA (responsible for the reintegration of the insured unemployed): municipalities tried to pass on clients who were considered 'hard cases' onto the BA, and similarly, hard-to-place insured clients were often pushed to the social assistance scheme by the BA to get rid of the financial burden (Konle-Seidl 2008, Wegrich et al 2013).

4. Details of the reform initiative

4.1. Brief description of the initiative

Before the 2005 reform, the municipalities were responsible for the activation of social assistance beneficiaries, but the intensity of reintegration measures differed strongly between municipalities. Many local authorities placed social assistance recipients in work opportunities that were covered by social insurance in order to create new entitlements to unemployment insurance benefits and unemployment benefits, in order to shift the burden of benefit payment to unemployment insurance (Konle-Seidl et al, 2007; Wegrich et al 2013). This practice of redlining was also common in the BA offices as well, as hard-to-place insured clients were often pushed to the social assistance scheme.

The reform was supposed to reduce the fragmentation in the delivery system and to end the different treatment of unemployment benefit (managed by the BA) and social assistance (managed by the municipalities) recipients. Another goal of combining the previous two schemes (unemployment assistance + social assistance) was to reduce the administrative overhead inherent in the old system (Konle-Seidl et al 2007).

4.2. The rationale behind the initiative

The main rationale behind the initiative was to strengthen the activation principle and enforce the concept of 'Fördern und Fordern' (supporting and demanding; carrots and sticks). In practice, this meant broadening the target group of employment services via giving access to activation measures for former social assistance recipients, and also stricter enforcement of the activation requirements and implementing sanctions in case of non-compliance.

The development of the organisational structure, however, was motivated by political interests (and were agreed upon as a compromise between the stakeholders) rather than by policy considerations. The original proposal of the government involved a creation of one single agency that would have been responsible for all unemployed groups. With the establishment of a single gateway for all target groups, the proposal of the government aimed to eliminate the disincentives in the system that often resulted in shifting hard-to-place clients back and forth between the different schemes (Dingeldey 2011). Also, the idea of creating one single agency was inspired by the 'whole-of-government' concept that incorporates a holistic approach to public administration and service delivery. However, this plan was strongly opposed by the Bundesrat (Champion and Bonoli 18 The upper chamber of the German parliament; made up of representatives of the sixteen states (Länder); the platform where the Länder can practice their veto rights.)
2011); thus the final outcome of organisational arrangement can be considered as an example of the German ‘interlocking federalism’ (Konle-Seidl, 2008).

### 4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>unemployment insurance scheme (UB I)</th>
<th>basic income scheme (UB II + Sozialgeld)</th>
<th>Sozialhilfe Neu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>insured</td>
<td>means-tested + assessed as ‘capable of work’</td>
<td>means-tested + assessed as ‘not capable of work’</td>
</tr>
<tr>
<td>Target group</td>
<td>short-term unemployed</td>
<td>long-term unemployed/disadvantaged persons able to work(^{19})</td>
<td>severely disabled working-age individuals + needy persons above 65</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>BA</td>
<td>Jobcentre (ARGE)</td>
<td>municipalities</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>BA</td>
<td>Jobcentre (ARGE)</td>
<td>no activation requirements</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>BA</td>
<td>Jobcentre (ARGE)</td>
<td>no sanctions</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>BA</td>
<td>Jobcentre (ARGE)</td>
<td>municipalities</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>Compulsory social insurance contributions of employees and employers.</td>
<td>General taxes at the federal(^{20}) and at the local(^{21}) level.</td>
<td>General local taxes.</td>
</tr>
<tr>
<td>Notes</td>
<td></td>
<td>Possibility for some of the municipalities for opting out and creating a municipal jobcentre without the BA.</td>
<td></td>
</tr>
</tbody>
</table>


\(^{19}\) Includes unemployed not entitled to unemployment insurance benefit and also people in formal education or training, or people employed in precarious jobs or self-employed who are at risk of social exclusion.

\(^{20}\) The income support and activation measures and about one third of the support for housing and heating costs.

\(^{21}\) About two thirds of the support for housing and heating costs and additional social services.
The year of 2005 brought significant structural changes regarding employment policy in Germany: before the so-called Hartz IV reform (put into practice as of January 1, 2005), welfare benefits targeting the unemployed could be grouped together as follows:

1) Benefits administered by the German public employment service (PES) offices, the BA:
   a. unemployment insurance benefit (Arbeitslosengeld): for the insured unemployed (for those who had an employment record of at least one year during the previous three years); covered by social contributions, earnings-related, for a limited duration.
   b. unemployment assistance (Arbeitslosenhilfe): after the exhaustion of the unemployment insurance benefit; tax-funded, but still earnings-related (although with a lower replacement rate), for an unlimited duration.

Recipients of these two benefits could also be entitled to participate in active labour market measures organised by the BA.

2) Benefit administered by local welfare offices run by the municipalities:
   a. social assistance (Sozialhilfe): means-tested, tax-funded, flat rate, for an unlimited duration; for those who had could not gain access to unemployment insurance benefit (the long-term unemployed).

To achieve the goals mentioned in Section 4.1, the unemployment benefit and the social assistance were integrated into one scheme, creating the ‘basic income support for needy jobseekers’: in this scheme, a new benefit called Arbeitslosengeld II (UB II) was introduced, which was a means-tested, flat-rate benefit for those who were able to work, paid after the exhaustion of Arbeitslosengeld I (the unemployment benefit; UB I) or for those with no or very little work experience, for an unlimited duration. The other benefit in the basic income scheme, the re-defined social assistance (Sozialhilfe Neu) targeted working age citizens permanently not able to work or needy persons above 65 years, and a third benefit, social allowance (Sozialgeld) was introduced for children under 15 living in the households of UB II recipients (Konle-Seidl 2008). For the management of the basic income support scheme and the activation of the long-term unemployed, a new organisation was created that involved the local offices of the BA and the welfare offices of the municipalities. The new joint agencies – the Jobcentres, known as ARGen until the end of 2010 – are responsible for the administration and payment of the UB II benefit, the placement of jobseekers, and the delivery of active labour market measures and social services (such as debt-, drug- and socio-psychological counselling as well as in-kind provisions for housing, heating, clothing etc.) for the target group.

Concerning the unemployment insurance benefit (renamed as UB I and also subject to changes from 2005 in terms of level and duration), the BA remained responsible for the administration and payment as well as for the delivery of labour market measures and placement services for the insured (short-term) unemployed.

4.4. Context of the initiative: where did the idea come from?

In early 2002, the so-called ‘placement scandal’ (Vermittlungsskandal) got publicity when the Federal Audit Court discovered that the placement statistics of the BA were wrongly reported: in fact, only about one-third of the officially reported placements could be considered as legal and real employment (Konle-Seidl et al 2007, Konle-Seidl 2008, Wegrich et al 2013). The scandal prompted the newly re-elected government to set up a committee of experts (headed by Volkswagen-director Peter Hartz) with the task of working out a solution to the problems of the institutional system of the employment policy, as the ‘outdated’, ‘inefficient’ and ‘bureaucratic’ BA was primarily blamed for the low level of employment. Based on the suggestions proposed by the Hartz committee, Chancellor Gerhard Schröder announced the Agenda 2010 policy programme in 2003 that aimed to modernise the welfare system and revitalise the stagnating German economy. The four laws on ‘Modern Services on the Labour Market’ (the Hartz I-IV reforms) implemented
between 2002 and 2005 were also in line with the report of the expert committee: Hartz I in 2002 introduced new ALMP measures and a targeting system, Hartz II in 2003 set up new forms of employment and initiated a rise in the number of local job centres, Hartz III in 2004 was aimed at restructuring and modernising the BA along the lines of New Public Management, and finally, Hartz IV created a new institutional system for the activation of the long-term unemployed, the ARGE (constituted by the public employment services and the municipalities) and significantly restructured the unemployment benefit system by merging two existing welfare benefit schemes (creating the UB II scheme; the 'basic income support for the able-bodied jobseekers'). The reforms – especially the elements that aimed at making the unemployment benefit system less generous – were expected to raise the number of persons in employment and thus have a positive impact on the federal budget. The Hartz IV reform – the most influential and most contested element of the reform series - was voted in by the Bundestag (the federal Parliament) on December 16, 2003 and by the Bundesrat (the upper chamber of the Parliament) on July 9, 2004, to take effect by January 1, 2005.

4.5. The designing phase

After the government's decision about the integration of the two benefit payment systems into one scheme, there were significant disagreements about which level of the government should be responsible for the reintegration of the UB II recipients and whether the BA or the municipalities should administer the new benefit (Minas 2014). The original proposal of the government involved a creation of one single agency that would have been responsible for all unemployed. (Kemmerling and Bruttel 2006) By establishing a single gateway for all target groups, the proposal of the government aimed to eliminate the disincentives in the system regarding the shifting of responsibilities of hard-to-place clients back and forth between the different schemes (Dingeldey 2011). Also, the idea of creating one single agency was inspired by the 'whole-of-government' concept that incorporates a holistic approach to public administration and service delivery. However, this plan was strongly opposed by the Bundesrat22 (Champion and Bonoli 2011). Many of the municipalities feared to lose political influence if they would give up the important task of reintegration services and benefit administration, especially in rural regions (Holzner et al 2009). The then-opposition party, the conservative CDU argued that municipalities were more competent for the reintegration of long-term unemployed as they possessed deeper knowledge on local labour market and the needs of jobseekers, and additionally they would have stronger incentives to reduce the number of benefit recipients because the benefit costs are at least partly borne by their own budgets. On the other hand, the BA was seen by the government as more suited and competent for the task of labour market integration (Konle-Seidl 2008, Kemmerling and Bruttel 2006).

As a compromise, new joined-up agencies were created that included the local BA offices and the welfare offices of the municipalities; in 69 districts, municipalities were granted the right to opt out and operate their own jobcentre, and in 23 districts, the old system of complete separation of employment and social services continued.

The new joined-up agencies, the ARGEs were explicitly modelled after the British Jobcentre Plus agencies (Champion and Bonoli 2011) and the whole Hartz IV reform was inspired by other European examples considered as best practices, more particularly the United Kingdom, the Netherlands or Denmark (Konle-Seidl et al 2008).

There was no official pilot for the Hartz IV reform, but there had been some moderate pilot programmes to tackle the problem of rising unemployment. For example, the MoZArt initiative in 2000 was a pilot programme that introduced (loose) binding cooperation for the BA and the municipality in some areas, and created the basis for setting up the ARGE in 2005 (Champion and

22 The upper chamber of the German parliament; made up of representatives of the sixteen states (Länder); the platform where the Länder can practice their veto rights.
Bonoli 2011). As Champion and Bonoli (2011) described, “only when a consensus emerged that the MoZArt initiative did not go far enough, was the country ready to embark on a more ambitious initiative [i.e. the Hartz IV].” (p. 332.)

In 2005, the reform was implemented nation-wide, with the exception of the 23 districts where no changes were implemented, and some other municipalities had the opportunity for opting out of the joint agencies and create an independent municipal jobcentre\(^2\) that is responsible for activation. This ‘option clause’ (granted for 69 municipalities) was originally available until 2010 (Konle-Seidl 2007) and the period between 2005 and 2010 was referred to as ‘test-phase’. However, as no consensus had been reached between the stakeholders by 2010 and political disagreement about the organisational structure persisted, opt-out municipalities received a permanent status and their number increased to 108 in 2010, although at the same time, ARGEs were also reinforced as the regular institutions for handling long-term unemployed and their autonomy was increased (Wegrich et al 2013).

### 4.6. Implementation process

According to Article 44b of the Second Book of the German Social Code (Zweite Buch Sozialgesetzbuch; SGB II), the joint Jobcentres (the ARGEs) were set up as of January 1 2005. The ARGE consortia were established on the basis of a formal agreement between the municipality and the local BA office.

After 11 districts (Landkreisen) turned to the Federal Constitutional Court in 2007, it came to the decision in December 2007 that the organisational form of the ARGE jobcentres were unconstitutional and declared that it was impossible to require municipalities to enter into a joint venture with the BA. The court ordered that until the end of 2010, the ARGEs should be restructured. Thus in 2010, the relevant article of the constitution was changed, and the new regulation established the joint agencies as the regular institutional design for delivering the services, renamed the ARGE offices as ‘Jobcentres’ and strengthened their autonomy. However, the new law also declared that participation in the joint venture was not mandatory for the municipalities, and allowed the opting-out municipalities (initially planned to be integrated into the joint agencies as well as of 2010) to maintain the operation of their independent jobcentres, and another 39 municipalities were granted the possibility for opting out.

### 4.7. Costs of the initiative

According to Mosley (2005), total of around 10 billion was planned in the 2005 Federal budget for active reintegration measures (6.35 billion) and personnel and administrative costs (3.30 billion), and the regional allocation of the reintegration budget was based on the gravity of the labour market situation as measured by ratio of projected UB II recipients to the labour force. The resources for personnel and administration were distributed according to the number of needy households in the district.

### 4.8. Who implemented the initiative?

The new joined-up agency, the ARGE (Arbeitsgemeinschaften; current name is Jobcentre) has 535 offices that were established on the basis of formal agreement between the municipalities and the local BA offices. The ARGE consortia are legal entities of their own, and are established on the basis of a formal agreement between the municipality and the local BA office; this founding contract sets the framework conditions for the cooperation between the two partners. The two partners, however, have retained their own tasks and independency. The municipalities are responsible for reimbursement of accommodation and heating, and related one-time costs (for

\(^2\)The jobcentres operated by the opting-out municipalities were called ‘zugelassene kommunale Träger’ (zkT).
example, initial furnishing and clothing), child care services, as well as debt, drug and socio-psychological counselling. The BA offices are responsible for the payment and administration of the benefit (the UB II) as well as for all activation measures.

The joined-up agencies serve as a **common port of entry** for every client. After an initial counselling and preliminary profiling, the clients are referred to the appropriate service stream: those who are eligible for the unemployment insurance benefit (the UB I) and thus fall under the SGB III regulation are referred to the BA; while those who are not eligible for UB I get into the basic income scheme regulated by SGB II and are taken after by the ARGE/Jobcentre.

The main managerial body of the Jobcentre is the **supervisory board**, which consists of an equal number of representatives from the BA and from the municipality. The board’s task is to select the managing director and is responsible for the administrative structure and organisation of the agency (Wegrich et al 2013).

The **number of employees** employed by the joint agencies is approximately 55,000 nationwide (Olejniczak and Salmon 2013).

### 4.9. Monitoring

Within the joint agencies, the Ministry of Labour and Social Affairs has the responsibility of legal oversight on the BA, and the respective state-level ministry has the oversight on the tasks carried out by the municipalities.

While the BA enjoys autonomy to a high degree, as the Jobcentres are financed by federal taxes, new control mechanisms were needed to be developed. The **Ministry of Labour and Social Affairs and the BA develop the targets together** on an annual basis. These quantified goals usually regard the number of UB II recipients, the long-term dependence on benefits and the success of reintegration measures. Based on these target agreements and considering regional characteristics, **local BA-offices negotiate the specific level of targets with the regional offices** in each district. The **controlling reports and statistics** (e.g. number of re-integrated jobseekers, useful measures, development of monetary benefits) are published on-line in each month and are publicly available. There is no formal system of sanctions for the jobcentres in case the targets are not reached, although the **managers of the Jobcentres can be sanctioned** with a reduction of bonus payments in case of underachievement (Wegrich et al 2013).

From 2013, the BA and the municipalities negotiate targets with the management of the Jobcenters. For the municipality-run jobcenters (the **opting-out municipalities**), targets are first agreed between the Federal Ministry of Labour and Social Affairs (BMAS) and the Ministries of Labour of the 16 German states (Länder). In the next step, the respective state-level ministry negotiate the levels of targets with the opt-out municipalities in their region (Christensen et al 2014).

### 4.10. Impact assessment

The federal law (the “experimentation clause” of Section 6a of Book II of the German Social Code, commissioned by the German Parliament) required an ex-post comparative evaluation of the two different implementation systems to see whether the ‘centralised’ (represented by the joint-up agencies, the ARGEs) or ‘decentralised’ (represented by the opting-out districts) organisational model works better for activation (the experimental clause and its context is described in detail by Deutscher Bundestag [2008] in German). **Initial qualitative and descriptive assessments** did not find any major differences between the joint agencies and the opt-out municipal jobcentres.

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24 A more detailed description and assessment of the BA’s and the ARGE’s target setting and budget planning process will be provided in the other template on Germany, which is focusing on the vertical coordination aspect of the Hartz- and succeeding reforms.
concerning main outcomes such as re-integration, employability or social stabilization (Konle-Seidl 2008).

A quasi-experimental impact evaluation (Boockmann et al 2013) by the independent research institute IAW (Institut für Angewandte Wirtschaftsforschung) used statistical matching and regression models to evaluate the relative performance of the joint agencies and the opting-out municipalities, and estimate their effect on the integration of basic income support recipients into the labour market. They found that, compared to ARGEs, the locally run reintegration measures had a negative effect on the employment chances of men, but for female jobseekers, no significant differences were identified between the clients of the two organisational structures. The authors’ conclusion is that, for those without further obstacles to employment, centralised standards and routines of the BA works better in terms of employment chances; but for women, who often require additional services (especially child care facilities), this difference between the two organisations’ success of labour reintegration disappears.

Another impact evaluation by the Ifo Research Institute (Holzner, Munz and Büttner 2009) was carried out to estimate the impact of the ARGEs on the employment chances of the clients. This evaluation also relied on the quasi-experimental setting of the policy change and compared the performance of the ARGE-jobcentres to that of the opting-out municipality jobcentres, using instrumental variables for the choice of opting out and applying simulation techniques for the income perspectives of the long-time unemployed under each organisational settings. Their results suggest that the ARGE-job centres are able to provide a higher income perspective than local job centres.

Besides the assessments of the ARGEs’ performance mentioned above, some macro-level impact evaluations of the Hartz reforms as a whole were carried out (for example Fahr – Sunde 2006, Jacobi – Kluve 2006), but these papers do not specifically measure the effects of service integration and the introduction of one-stop-shops.

4.11. Problems faced during or after implementation of the initiative and how these were solved.

According to several sources (e.g. Konle-Seidl et al 2007, Konle-Seidl 2008, Wegrich et al 2013, Minas 2014, Dingeldey 2011), tensions among the staff employed by the two actors are quite frequent within the agency. These tensions usually emerge as ‘clashes of cultures’: staff employed by the municipalities often complain about the BA staff being too dependent on centralistic orders, as they are used to decide upon detailed legal provisions, whereas staff of municipalities are more used to decide on a greater discrentional leeway (Konle-Seidl 2007). Another source of tension is that the staff of the Jobcentre are employed by different public bodies, resulting in different working times and salaries. Despite the central will and idea of tight cooperation, there is a tendency at the local level to develop different mini-organisations within the consortia consisting of either BA- or municipality staff and facilities that work parallel and separately from each other (Dingeldey 2011); thus the synergic advantages that could arise from expert teams with diverse professional background is not always exploited.

Some other problems mentioned in the relevant literature was issues with the newly introduces software system (Boockmann et al 2013, Bundesregierung 2006), shortcomings in qualification and communication skills concerning staff in the entrance zone (since the staff who meets the new clients for the first time and refers them to the appropriate scheme had not been trained duly) (Bundesregierung 2006), and occasional client complains about no longer having direct access to their formal professionals and frequent caseworker changes (Bundesregierung 2006, Sztandar-Sztanderska and Mandes 2014) and complaints of caseworkers about high caseloads and lack of time (Sztandar-Sztanderska and Mandes 2014). Since the joint jobcentres were set up from one day to another, another main concern at the beginning was to pay out the UB II benefit in due time, especially as there were major problems with the information system. These problems, however,
were only present in the initial phase of the implementation and were solved soon after (Bundesregierung 2006).

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

Compared with other European examples, the German case of risk re-categorisation and labour-market activation can be considered a late reform, as most other countries had started to reshape their unemployment benefit system by the end of the 1990s (Dingeldey 2011, Bonoli and Champion 2013). The German welfare state was characterised by a Bismarckian system and status conservation, with strong fragmentation of benefit administration and service delivery: on the one hand, the levels of unemployment insurance benefit and unemployment assistance (the latter provided for an unlimited duration) depended on previous earnings with relatively high replacement rates, and recipients of these benefits were entitled to participation in active measures provided by the BA, without strict behavioural requirements in effect. On the other hand, those who did not have previous employment record for a sufficiently long duration were entitled to the means-tested social assistance benefit administered by the municipalities, without effective access to active labour market measures. The Hartz reforms in the first half of the 2000s were proposed as intended solution for the problems arising from a continuing increase in unemployment level and prolongation of unemployment duration, and were explicitly aiming to eliminate the fragmentation of the welfare system.

The reform process, however, was hindered by the institutional arrangements of the federalist state. The constitutional context and the federal administrative structure limit opportunities for joined-up government beyond networking and consensus-style projects (Wegrich et al 2013), as the states – through their representation in the Bundesrat – serve as veto points along the chain of policy-making, as described by Champion and Bonoli (2013).

5.2. Main strengths and weaknesses

The strengths mainly emerge from other elements of the reform: for example, the shift of attitude towards a labour market attachment approach for everyone, including the minimum income scheme participants as well, or widening the target group for employment-related programmes. The stricter enforcement of sanctions in case of noncompliance with the PES and introduction of stricter behavioural requirements for jobseekers has strengthened the incentives for employment. Concerning the service integration element of the reform and the organisation arrangements, the new agencies are less centrally steered and have more autonomy for organising tasks and activities at the local level, and similarly to the Norwegian and the Finnish example of one-stop-shops (the NAV and the LAFOS centres, respectively), represent a holistic approach of activation with a depth of tasks less shallow compared to the Finnish case (Minas 2014). Results of impact evaluations relying on quantitative methods suggest that Jobcentres are better at reintegrating long-term unemployed into the labour market compared to the municipalities.

However, the final setup is not devoid of weaknesses. Despite the initial intentions of the government, the reform has not yielded a full integration of services; instead, three different one-stop-shops (the BA, the Jobcentres and the opting-out municipalities) has emerged. As employment and social services are still not provided by one single agency for all target groups, the fragmentation of service delivery has not ceased (Konle-Seidl 2007), and there are some professional insights that suggest the reform ‘partially failed’ and fragmentation has even aggravated (Dingeldey 2011). The complexity of the institutional architecture, the lack of clear division of responsibilities and the unclear governance structure of the Jobcentres can hinder the
efficiency of service delivery and result in impractical procedures (Konle-Seidl et al 2007, Wegrich et al 2013, Tergeist and Grubb 2006). Furthermore, the practice of shifting jobseekers between different schemes – one of the problems the reform aimed to tackle – continues, although in a somewhat different form: since the municipalities are solely financially responsible for income support of persons who are not able to work (by paying social assistance), they have an incentive to shift costs by classifying persons as capable of work and get them transferred to the federal funded UB II system (Konle-Seidl 2008); indeed, after the implementation of the reform, 90 percent of former social assistance recipients were classified as able to work (including severely disabled people) and transferred to the UB II (Dingeldey 2011).

To summarise, although Germany have (to an extent) managed to break out of path dependency by implementing the Hartz reforms (especially with the Hartz IV which brought quite radical changes in welfare and employment policy and its institutional arrangements), the original plans of establishing a single gateway and one-stop-shop for all target groups have failed. The reasons for this failure mostly lie in the political culture of Germany that relies on strong consensus along the decision-making chain, entailing that policy changes can be blocked by actors (e.g. states or municipalities) who serve as ‘veto points’ in the system. The German example points to the importance of well-designed incentives: political will and expertise is not enough, but a design where incentives for cooperation at the local level are carefully planned (making the local actors interested in cooperation with new potential benefits from cooperation) is needed.

6. References


1. Setting the scene

Although unemployment level in Norway is generally low, the share of population dependent on other welfare benefits (such as disability) has been increasing in the last few decades. Before 2001, the fragmentation of social services created obstacles for clients with more complex problems (Christensen and Lægreid 2013).

In order to overcome inauspicious trends and to streamline public administration, the so-called NAV-reform was initiated in 2001 by the Norwegian parliament. After long political debate in line with the Norwegian consensus-driven policy making, the reform was adopted in 2005 and implemented from 2006 through to 2011. The reform resulted in the merger of two existing public bodies, the employment service administration (Aetat) and the national insurance administration (Trygdeetaten) and created a new national-level organisation, the ‘New Welfare and Labour Service’ (usually referred to as ‘NAV’). At the local level, one-stop-shops for social and employment services were established that serve as coordinated frontline services, involving municipalities as partners.

The one-stop shop system for social welfare was established in the context of the “Norwegian Employment and Welfare Administration”, a comprehensive reform of the public sector. Remarkably, the NAV reform is “a pure structural reform not involving changes in substantive policy and delivery content” (Christensen and Lægreid 2012 p. 593).

In the literature of service integration and coordination between employment and social services, such as child benefits, rehabilitation, social assistance (see, for example, Taylor 2009, Minas 2009 and 2014, Angers 2011), the NAV reform is usually cited as one of the comprehensive initiatives that resulted in the greatest level of service integration and an architecture that can be described as ‘whole system working’.

2. Main agents involved in managing the benefit system and providing employment and social services

Public institutions (directly managed by a ministry)

Employment Service Administration (Aetat): before the 2006 reform, Aetat was responsible for the administration of unemployment benefits and for the operational implementation of the Government’s labour-market policy. Its main task was to help people find new jobs as fast as possible through assistance in their active job searches, personal advice and other active measures. Before it was merged into the NAV in 2006, it had 18 regional offices that operated a total of 162 local offices. In 2001, the Aetat employed a total of 3,800 full-time employees (Christensen and Lægreid 2010).

Autonomous public bodies (financed by the central government but autonomously managed)

Other national level organisations (e.g. insurance agencies)

National Insurance Administration (Trygdeetaten): Before its merger into the NAV in 2006, the agency administered almost all social security benefits, including unemployment, pregnancy, maternity, single parenthood, illness and injury, disability, old age and death.

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25 We thank Peter R. Myklebust of the The Directorate of Labour and Welfare for his generous help on clarifying some details of this case study and helpful comments. All errors remain ours.
In 2001, the agency had about 7,600 full-time employees, and handled cases of about 2 million persons who received regular benefits from social insurance (Christensen and Laegreid 2010).

**Association of Local and Regional Authorities (KS):** KS is the employers’ association and interest organisation for municipalities, counties and local public enterprises in Norway. Nearly all municipalities are members of the KS. This is an advisory and consultative body that represents its members in debates and social consultations against the government and the Parliament. During the preparatory and implementation phase of the NAV reform KS negotiated on behalf of the 431 municipalities.

**Norwegian Welfare and Labour Service (Ny arbeids- og velferdsforvaltning, NAV):** the NAV was established as a new agency in 2006 by merging the national insurance administration and the employment services. It is present at the state, regional and local levels. Its local offices provide employment and social services along the principle of one-stop-shops and operate in partnership working along with the municipalities (for details, see 'Detailed description of the new system').

In 2011, the NAV administration involved about 16,000 employees at the state level and one third of the national government budget (Christensen et al 2013; Laegreid and Rykkja 2013).

**Local governments**

**Municipalities:** Before the 2006 reform, welfare offices of the local governments were responsible for the administration of social assistance and for the implementation of social services alone. Norway is usually classified as a country that follows the ‘Northern model’ of local government system, characterised by a relatively few number of municipalities that are larger in population size, and traditionally possess a high level of autonomy with higher share of own revenues, but usually have a broader range of tasks and responsibilities compared to local governments in other European countries.

Municipalities in Norway are responsible for the management of the social assistance scheme, targeting disadvantaged persons and serving as a ‘safety net’. Ever since the NAV reform, the management of the social assistance scheme is closely coordinated between the municipalities and the local NAV offices, although municipalities has remained responsible for the administration of the scheme.

In 2003, the municipal social welfare services’ staff included about 4,100 full-time employees, and roughly 135,400 people were receiving financial assistance (Christensen and Laegreid 2010).

In 2006, a total of 431 municipalities existed (their number dropped to 428 by 2013).

### 3. Brief description of the status quo before reform

In this section, please briefly describe the welfare system focusing on the services affected by the reform, **before the reform** was started.
<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</th>
<th>Target group</th>
<th>Who evaluates claims for this benefit / decides on who can participate in this service?</th>
<th>Who enforces the activation (job search, accepting job offer, etc) requirements?</th>
<th>Who decides on sanctions (in case of non-compliance)?</th>
<th>Who pays the benefit / delivers the service?</th>
<th>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>unemployment benefit and employment services, ALMPs</td>
<td>insured</td>
<td>unemployed</td>
<td>Employment Service Administration (Aetat)</td>
<td>Aetat</td>
<td>Aetat</td>
<td>central government</td>
<td>central government</td>
</tr>
<tr>
<td>most social security benefits</td>
<td>insured</td>
<td>various, depending on the benefit</td>
<td>National Insurance Administration (Trygdeetaten)</td>
<td>no obligations to take part in activation measures</td>
<td>no sanctions</td>
<td>Trygdeetaten</td>
<td>municipalities</td>
</tr>
<tr>
<td>social assistance and social services</td>
<td>means-tested</td>
<td>disadvantaged citizens</td>
<td>municipalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The old welfare system was characterised by **low cost effectiveness**, mainly because of the existing **parallel administrative structures** and double work, and weak economies of scale. **Specialisation by purpose** was a dominant principle that resulted in an increasing institutional fragmentation and often inefficient practices regarding ‘not-my-table’ problems. The previously existing three welfare subsectors were not coordinated efficiently between sectors and levels, especially in the case of multiservice users (Christensen and Lægreid 2013; Christensen, Fimreite, and Lægreid 2007).

4. **Details of the reform initiative**

   **4.1. Brief description of the initiative**

There was an increasing recognition of the various needs of clients who relied on welfare benefits and services. Around 15% of all users needed to apply for help from more than one office (Aakvik, Monstad, and Holmås 2014). Besides reducing the burden on multiservice users, activation of the relatively **high number of inactive working-age persons** who were locked in the ‘benefit trap’ was the main goal of the reform initiative. To achieve these goals, the employment services and national insurance administrations were merged into a new labour and welfare service (NAV) in 2006, and one-stop-shops for social welfare were created at the local level. The **main goals of the reform were threefold** (with the largest emphasis on the work orientation aspect): 1) to increase the employment rate and reduce the number of persons on welfare schemes like unemployment, sickness and disability benefits, social assistance (welfare-to-work); 2) to create a more coherent and efficient administrative apparatus (efficiency improvement), and 3) to make the administration more service-oriented (user orientation) (Aakvik, Monstad, and Holmås 2014; Lægreid and Rykkja 2013).
4.2. The rationale behind the initiative
The reform’s main driver seems to be the aim of increased workforce participation and holistic, efficient administration, which was believed to be achieved through more user-friendly service and rationalization, respectively (Askim et al. 2011). The endeavour for efficiency and a holistic approach, in turn, has been propelled by the increased awareness of coordination problems across levels of government (Askim et al. 2011). Overall, NAV reform targeted enhanced steering capacity of the state and its administration through improved coordination within the public sector (Bezes et al. 2013).

In general, proponents of integrated service delivery assume that, with coordinated help by generalist case worker competence, users can get back to employment faster after a period of sickness or unemployment (Aakvik, Monstad, and Holmås 2014). One-stop-shop reforms like the NAV reform are also expected to increase take-up rate of benefits and services for users through simplification and a more user-friendly approach, thus can have an indirect effect on employment as well if human capital is successfully strengthened through employment and social services.

4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Insurance-based benefits and employment services</th>
<th>social assistance scheme</th>
<th>other social benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the agency</td>
<td>Employment and Welfare Administration (NAV) and its local one-stop-shop offices</td>
<td>[welfare office of the municipality]</td>
<td>municipalities (within local NAV offices)</td>
</tr>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>various</td>
<td>means-tested + other criteria (e.g. being a single parent)</td>
<td>means-tested</td>
</tr>
<tr>
<td>Target group</td>
<td>all unemployed and other users of welfare services</td>
<td>disadvantaged citizens</td>
<td>disadvantaged citizens</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>NAV local offices</td>
<td>municipalities</td>
<td>municipalities</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>NAV local offices</td>
<td>no obligations to take part in activation measures</td>
<td></td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>NAV local offices</td>
<td>no sanctions</td>
<td></td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>NAV local offices</td>
<td>municipalities</td>
<td>municipalities</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>central government</td>
<td>municipalities (through local taxes supplemented by a block grant from the central government)</td>
<td>municipalities</td>
</tr>
<tr>
<td>Notes</td>
<td>closely coordinated with and integrated into the NAV offices.</td>
<td>it is integrated into local NAV offices on a voluntary basis</td>
<td></td>
</tr>
</tbody>
</table>

57
During the 2006 reform of the Norwegian welfare state, the National Insurance Administration and the Public Employment Administration were merged into one single state agency, the Employment and Welfare Administration (NAV). The local branch offices of NAV serve as single gateways and one-stop-shops for welfare, responsible for a broad range of employment and social services (assessment of needs, providing information to clients, working out individual action plans, vocational rehabilitation, training, counselling, benefit administration and payment and follow-up of clients). The law made it mandatory for the welfare offices of the municipalities to coordinate their work with the new local agencies: the one-stop-shops were created as partnerships between the local NAV offices and the municipalities. In addition to the centrally prescribed minimum requirements regarding which kinds of services are to be provided (economic social benefits and advice, pensions and employment services, later housing and debt counselling were added) by the one-stop-shops, each municipality and local NAV office were obliged to sign a local contract that served as a framework for additional services (e.g. health, educational) to be provided together. The most common tasks added are treatment of alcohol and drug abuse, immigration/refugees, psychiatric health care and child welfare. The design of organisations and the division of leadership were also regulated in these local contracts. Thus the organisational and operational setup of the new one-stop-shops were arranged along the mix of compulsory elements and freedom of choice.

The partnership model introduced by the NAV reform involve dual accountability relationships: vertically to the central government, horizontally to the local government authorities. The partners of the agreement are physically located at the same office but the social services are subject to local authorities while the employment and insurance services are subject to the regional NAV offices that are part of the central state administration (Lægreid and Rykkja 2013). The key principles of the partnership model of the NAV Reform are the following (Fimreite and Lægreid 2008):

- mandatory partnerships between municipalities and the central NAV Agency,
- one welfare office at each municipality,
- joint front-line services where the administration of local social services and the local NAV share premises,
- joint management is recommended (however dual management – one manager from social services, one from the NAV – is acceptable too),
- a minimum set of services has to be provided at each one-stop-shop office, that include unemployment benefits, rehabilitation, pensions, child benefits, cash benefits, advice and follow-up, occupational rehabilitation, sickness benefits, aids/appliances and financial social help from the local authority. Additionally, all clients have to have an individual action plan.

The details of the partnerships are laid down in local agreements between the local social services and the regional NAV offices. The basis for the local partnership agreements is a framework agreement at the central level between the Government and the KS. The partnership model of the NAV Reform is basically a public-public partnership that is different from typical PPP arrangements in that it is mandatory and the role of the private sector is minor. The NAV partnership resembles a typical PPP partnership in being a close collaborative and contractual cooperation with the aim of providing citizens with public goods and services.

4.4. Context of the initiative: where did the idea come from?

In 2004, there had been a restructuring of ministries in Norway that lead to the merger of the two ministries previously responsible separately for employment issues and insurance and social services: the Ministry of Labour and Social Affairs. This institutional change paved the way to the implementation of the reform by eliminating tensions between different ministers. The new
minister made great efforts to find a solution acceptable for everyone (Christensen and Lægreid 2010)

The reform was initiated in 2001 by the by the Storting, the Norwegian parliament, which requested the government to consider the merger of insurance, employment and social services. Backed by a public committee of experts, the government originally advocated the maintenance of the structure in place, but finally proposed the partial merger of the three main welfare administrations, which proved to be a politically feasible compromise.

4.5. The designing phase

The designing phase of the reform can be characterised by the consecutive back-and-forth proposals of the Storting (the Norwegian Parliament) and the Government which led to finally reaching a compromise (Christensen and Fimreite 2010; Christensen and Lægreid 2010).

The Parliament came up with the idea of the merger of municipal social services, national social insurance and employment services in 2001. The reaction from the Government was to retain the institutional structure but open one-stop-shops at the local level, however this response, having failed to address several potential models for the merger, was received with criticism by the Parliament (Christensen and Lægreid 2010).

In 2003, the Government set up an external public commission that consisted of experts to evaluate the possible effects of the potential restructuring plans. The expert group published their report in June 2004. The report did not support the original proposal, i.e. merging the three branches into one central administrative body. Instead, they recommended that local authorities should remain responsible for social services and two separate specialist administrative bodies should exist: one for employment and income that is responsible for services and payments related to the unemployed and another one for pension service system for pensions, family benefits and health insurances. The experts supported the idea of a modest restructuring between the existing employment and insurance services that would give employment-related parts of the National Insurance Service to the Employment Service and leave every other responsibilities at the National Insurance Service. The report also suggested that the new employment services and insurance services should have a strong local presence sharing premises with the municipalities' social services (Christensen and Lægreid 2010).

The Government’s final proposal came out in 2004 and offered an in-between solution picking elements from the original proposal of the Parliament as well as from the expert report. The proposal suggested merging the Employment Services and the National Insurance Services into one central agency: the Norwegian Labour and Welfare Organization (NAV). They had seen this merger as a vital precondition for fully integrated services at the local level. At the local level one-stop-shops were to be established on the basis of a partnership agreements between NAV and the local social authorities. The Storting accepted this version of the proposal giving up their original view about full amalgamation.

There is a trade-off between the central government’s need for standardisation and the local governments’ need for local autonomy and flexibility. Initially, the central government intended to make local agreements on a mandatory basis, introduce a unitary management model and set up a standardised task portfolio at the local front-line. The KS opposed the intention of the central agency to set up a standardised task portfolio for the local front-line services and by that constrain the local autonomy of municipalities (Fimreite and Lægreid 2008; Christensen and Lægreid 2010). Finally, a compromise was born and it was agreed that the arrangement should be mandatory, a unitary management model was recommended but a dual model was also acceptable and the minimum requirements are set down (financial social assistance from the municipal side) but other municipal services can be provided based on specific local partnerships.
4.6. Implementation process

The NAV reform was adopted in 2005 and implemented from October 2006 through to April 2011 (Aakvik, Monstad, and Holmås 2014). In 2006, the new NAV agency was formally established and the necessary legislative amendments were approved by the Storting (Christensen, Fimreite, and Lægreid 2007). At first, 25 local one-stop-shop offices were established as a pilot six months before starting the country-wide operation. One municipality was chosen more or less randomly in each of Norway’s 19 counties to participate in the pilot phase. Additionally, 6 urban administrative districts were selected at the same time from the two largest cities, Oslo and Bergen (Aakvik, Monstad, and Holmås 2014). Subsequently, further one-stop-shops for social welfare were established in each of the 431 Norwegian municipalities26 by 2011 (Lægreid and Rykkja 2013). Most of the total 457 one-stop-shops were established during 2007-2009. In addition to one-stop-shops, NAV established county offices with particular tasks and administrative functions (Aakvik, Monstad, and Holmås 2014).

In 2008, the reform underwent a significant reorganisation, which involved two major changes. First, six regional pension units were established and some special units were set up in the counties responsible for tasks related to international cases, complaints, control and technical aids. These new units were not put in the main line organisation, but were subordinated to a central agency department for special units. Second, regional administrative units were set up in each of the 19 counties of Norway functioning as ‘back offices’ for local NAV offices. Altogether 37 regional administrative offices were established. During the reorganisation staff and some specific tasks were sent to the regional level from the local level pointing to a re-specialisation trend in contrary to the NAV reform’s original generalisation motive (Christensen and Lægreid 2012). The reorganisation also lead to the weakening of financial resources at the local level.

4.7. Costs of the initiative

The merger of the agencies entailed large implementation costs, including costs related to planning and reporting both at the central and local level, marketing and localities. As physical co-location (common offices) of partners within the local agencies is required, more than 500 units have been established. Costs of hiring new staff and trainings for existing employees were also substantial, as the new tasks required different competencies. Another challenge was developing new and more efficient ICT-tools to improve service quality; the implementation of the new system was initially calculated to cost at least 1 billion NOK (Lægreid and Rykkja 2013). The ongoing costs of maintaining the new ICT system is still a major budgetary item for NAV, as well as the external counselling services from management and technology consultant firms (based on personal information inquiry from a Norwegian expert). Detailed information on specific budgetary items are not available.

4.8. Who implemented the initiative?

The implementation of the merger of the two central offices was led by the National Employment Service and the National Insurance Service themselves. Throughout the first phase of the implementation the different attitude of the two agencies to merge lead to some tensions (Christensen and Lægreid 2010). The Employment Service, in specific the Directorate of Labour leading the Employment Service, embarked on the implementation with a strong determination to leave their mark on the new structure and with the feeling of threat that their mission will fade away within the new merged administration. The service was accustomed to adapting to changes in the government and macroeconomic conditions as employment policies are often affected and

26 Since Jan 1, 2012, there are only 429 municipalities in Norway.
reformed in relation to such factors. The Employment Service was also used to situations when they had to defend their missions and policies against external pressure.

On the contrary, the National Insurance Service had seen the reform as an opportunity rather than a threat. There had been various employment-related services administered under the Insurance Service and the employees of the Service have realized that the structural separation between them and the Employment Service hinders their operation.

4.9. Monitoring

When the NAV and its local offices were set up in 2006, the general governmental performance management system (Management-by-objective-and results, MBOR) used in all public agencies in Norway was applied. This means that the process of budget allocation, target setting and performance management is not specialised for NAV and does not differ from the system used in other agencies (Christensen, Laegreid, and Jantz 2014). The ministry that has the legal oversight over NAV, the Ministry of Labour and Social Affairs, was set up as part of the reform in 2004 by merging two existing ministries. General goals and sub-goals, targets and performance indicators are defined by the parent ministry, as well as allocated financial resources, the latter based on the annual state budget. These are all included in the annual Letter of Allocation, which serve as a contract-like arrangement between the Ministry and the central level of the NAV. For example, in 2012, this letter of Allocation listed 24 performance indicators and 56 obligations for the NAV to report performance to the Ministry (Askim, Chrsistensen, and Laegreid 2014; Christensen, Laegreid, and Jantz 2014). In response to the reporting obligations, the NAV sends an annual report with detailed statistics and evaluation of outputs (activities) and outcomes (effects) to the parent ministry, and further dialogue between the ministry and the NAV takes place on regular formal governance meetings.

4.10. Impact assessment

The Research Council of Norway embarked on a comprehensive evaluation project27 of the NAV reform in 2006, running until 2013 (Kristiansen 2004). The evaluation project was headed by Associate Professor Anne Lise Fimreite of the Rokkan Centre at the University of Bergen. The project’s scope was two-fold, including both a research-based evaluation about the effects and results of the reform with respect to its objectives and a process evaluation part focusing on the implementation phase. Dozens of researchers were involved in this large-scale evaluation project including the University of Bergen, the University of Oslo and several other academic institutions and economic research centres.

The evaluation project had seven modules focusing on seven different aspects of the reform:
- Module 1: Welfare model, administrative system and the Labour and Welfare Administration (NAV)
- Module 2: The local NAV office
- Module 3: Local Implementation
- Module 4: New professional roles through the NAV reform
- Module 5: Welfare-to-work – effect studies
- Module 6: User experience
- Module 7: Efficiency – DEA Analysis

27 Website of the evaluation project and list of publications: http://rokkan.uni.no/nav/?31. Project page on the website of Research Council of Norway: http://www.forskningsradet.no/prognett-eval-nav/Home_page/1224698458162
Throughout the project a wide variety of data were collected to support later quantitative analysis. Under Module 2, a database of agreements was built to collect systematic information about the specific elements of local agreements at the municipal level, such as the objectives and performance requirements, interaction with other services or human resource development. The organisational database of Module 3 includes questionnaire-based survey data and also data from the central agencies documentation including e.g. the date of establishment and local initiatives the municipalities participate in. A rich dataset was set up about the clients of the NAV offices. User experience was measured by surveys focusing on both objective (e.g. waiting time, follow-up activities) and subjective (e.g. users’ expectations, attitudes, experiences). Background information about clients were also registered (e.g. gender, immigrant background, previous experience with the any of the services of the NAV offices).

Quasi-experimental design was used to measure the impact of the programme on employment outcomes and the use of social insurance and assistance schemes. In specific, transition to work, length of time until discontinuation of the need for assistance, and the length of time until need for assistance rises again were used as outcome variables in a hazard rate analysis. For the impact assessment, the extensive individual register-based data was linked to the municipal-level data about the one-stop-shop offices throughout the country. The researchers could take advantage of the step-wise implementation of the reform over 2006-2010, i.e. that the new one-stop-shops were not opened at the same time, to create treatment and control groups, and applied difference-in-differences methods to estimate the effect of the reform on employment (Aakvik, Monstad, and Holmås 2014). Their results suggest that on the short run (i.e. the first few years after the implementation until 2010), the reform did not have any significant positive impact on users’ employment chances, and neither had reduced the number of social assistance recipients. Their conclusion is that although the reform was unsuccessful in reaping the intended benefits in the first few years, there are some indications that the effect of NAV improves slightly over time, as large bureaucratic reforms with a turbulent implementation phase – like the NAV reform – usually have large initial costs for users but can have larger long-term returns.

4.11. Problems faced during or after implementation of the initiative and how these were solved.

The implementation of such a large-scale reform as the NAV reform can hardly be imagined without facing any difficulties. First of all, the different organisational cultures that previously existed separately were hard to harmonize to form a single new organisational culture. According to Jacob Aars – member of the evaluation team – there was an uncooperative atmosphere in the NAV due to the fact that staff members doing the same job were working under different commands either from the local or the central government getting different pay (Aars 2014). At the central level, the initial attitude of the Employment Services – who thought of the merger as a threat on their goals and independence – did not help in the creation of a healthy work environment (Christensen and Lægreid 2010).

Employees in the new system had a hard time acquiring the necessary competencies for their new tasks. Assistance provided by the new organisation in accommodating staff’s skills to the new structure fell short of preparing old employees to be able to serve the new tasks. The generalist approach required in the new organisation was hard to deliver. Many staff members felt that their specific competencies were devaluated during this process, “employees felt their skills were unappreciated, almost as if they were being told to unlearn them” (Aars 2014; Lægreid and Rykkja 2013). As a reaction to the failure of generalist model, the new system went through a reorganisation in 2008 during which some specialist competences were put on the regional level. This reorganisation was a step back from the original generalist idea of the reform to re-specialisation.
The Ministry of Labour set up an expert group to analyse the organisation of and activities at local offices as well as at regional administrative units (Christensen and Lægreid 2012). The expert group was rather critical and pointed to problems of productivity and quality of services provision and an increase in the number of clients in employment-related activities. The critique was directed at the implementation of the reform. The report identified problems related to many people changing work-place and tasks simultaneously. The report supported the reorganisation of the reform in 2008 claiming that this could mitigate some of the negative effects of the NAV system. They argued that it is impossible to build up specialist competence in all local units due to the large amount of governmental sub-services and sub-tasks. In their opinion, the specialist regional level units was an important precondition for local units to keep focused on individual guidance and following-up clients.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

"While integrated social policy is a hot issue in most of the Western welfare states, the merger of the pension, the labour market, and the social service administration is very uncommon" (Christensen and Lægreid 2013, 557). The NAV reform is cited as one of the most comprehensive reforms in the field of service integration and is commonly considered as a good example of working one-stop-shops (see, for example, Minas 2009, or Angers 2011). However, the complexity of the reform was definitely a hindering factor in terms of implementation. The large amount of relocated employees who had to acquire new competences at the same time led to strong difficulties in adaptation. Christensen and Lægreid (2012) point out that the characteristics of "good" pension policy differ widely from other field of social policy as it is mainly about financial transfers and does not require regular contact to customers. Thus, involving pension policy in the reform might well just increased its complexity without bringing significant efficiency gains. This is reflected in the reorganisation of the NAV system in 2008 – when a pension reform was going on – that established separate units for pension administration at the regional level.

The political process leading to the reform is an important feature for consideration. “The reform was mainly decided against the will of the administrative leadership in the ministry and the former employment administration” (Christensen and Lægreid 2012, 15; Laegreid and Rykkja 2013). At the time of the reform, after years spent on public discussion and preparing and evaluating several proposals from both the Storting and the government it was important politically to have some kind of a merger. However, the political and administrative considerations may have not pointed to the same direction in this case (Christensen, Fimreite, and Lægreid 2013).

5.2. Lessons for Europe

The NAV reform initiated a very ambitious plan of merging three, previously separately operating service branches – the national insurance system, the employment system and local social welfare services. It turned out that the implementation of this huge reform have run into obstacles and the reorganisation of the reform was necessary. The conclusion might be drawn, that some smaller scale and more narrowly targeted integration initiatives might be easier to deliver and sustain. In fact, the main target group of the integrated services – those with complex problems – account for about 15% of all the users of the system (Aakvik, Monstad, and Holmås 2014). Some preliminary results on the quality improvements after the reform point out that multi-service users – the 15% – probably received better and more efficient services, but the remaining clients had to face difficulties (Laegreid and Rykkja 2013).
The complexity is reflected in the multiple objectives of the reform that are difficult to unite and meet at once (Laegreid and Rykkja 2013). (The three major goals were work orientation, user orientation and efficiency). The efficiency goal was intended to be reached based on economy-of-scale arguments. However, the merger made the system itself so complex that this complexity introduced further inefficiencies. Furthermore, strong unions ensured employees kept their jobs after the reform (Christensen and Laegreid 2012). Enhancing user orientation was also hard to meet mainly due to the complexities in the new system and the initial difficulties for employees to gain new competences and adapt to their new tasks and roles. Many clients struggled to find their way around in the new system and lost contact with their former caseworker.

Laegreid and Rykkja (2013) highlight some other key lessons learned from the Norwegian experience. The importance of the context appears in Norway as the constant tension between state power intending to introduce standardised measures and the local authority and autonomy sticking to the need of local adaptation and flexibility. Second, they highlight the importance of unexpected environmental shocks. After the financial crisis, the new system had to deal with an increased number of unemployed that put a large pressure on the organisation. Third, loyal and committed staff is essential for the successful implementation. In the case of the NAV reform tensions appeared due to the negative attitude towards change in employees of the previous PES office who were afraid that their mission will fade away and gain less importance in the new system.

5.3. Main strengths and weaknesses

The Norwegian NAV reform is often cited as one of the most comprehensive reforms in the field of service integration and is commonly considered as a good example of working one-stop-shops (see, for example, Minas 2009, or Angers 2011). One reason for that is that it was one of the most radical coordination initiatives adopted in Europe, by completely re-designing the organizational structure of the provision of benefits and employment services (Champion and Bonoli 2011) and introducing a single gateway for all target groups, considered to be a rare example within Europe as most other similar European initiatives tend to have a less encompassing scope in terms of range of services and/or benefits (e.g. France, Denmark), target group (e.g. Finland, Estonia, Germany) or institutional setup (e.g. Germany). Unlike other examples, the NAV-reform integrated all functions for all client groups and intended to achieve coordination by the highest level of integration: complete merger of different agencies and integration of central government ministries and policies.

6. References


Christensen, Tom, and Per Lægreid. 2012. „Competing principles of agency organization – the reorganization of a reform“. International Review of Administrative Sciences 78 (4).


7. Appendix

Organigram for NAV

Source: NAV
1. Setting the scene

The UK labour market was characterised by increasing earnings inequality, high long-term and youth unemployment and social exclusion in the 1980s. The conservative government’s welfare and taxation policies aimed at decreasing welfare dependency and rewarding high earners. The 1995 Jobseekers Act restructured the benefit system and tightened activation requirements. As a result of the reform, the share of those claiming contribution and income based unemployment benefit (Jobseekers Allowance) declined, while the number of Incapacity Benefit (essentially the inactive) claimants increased sharply.

The New Labour government took office in 1997 after 18 years of conservative rule and winning the elections with the promise of launching a welfare-to-work programme, helping the long-term unemployed return to work. New Labour’s targets, among others included the introduction of a National Minimum Wage, the Child Care Strategy, and various tax and benefit changes intended to make work pay and the introduction of so-called employment zones in regions of high unemployment, where intensified employment services were provided for the unemployed to facilitate job-acquisition.

The Jobcentre Plus project, which integrated the Benefit Agency and the Employment Service into a single government executive agency, was carried out gradually from 2002 to 2007. Its primary aim was to provide integrated employment services for the working-age population (both unemployed and inactive). The services provided ranged from benefit claims processing through work-focused interviews, transfer to various activation programmes (i.e.: New Deal schemes) and follow-up activities.

2. Main agents involved in managing the benefit system and providing employment and social services

The ONE Agency managed and delivered the pilot rounds of the integrated one-stop-shop service provision of the Jobcentre Plus design between 1998 and 2001. The Jobcentre Plus was created with the merger of two former institutions, the Employment Service and the Benefits Agency. The Jobcentre Plus remained an executive authority until 2011 and it was subordinated to the Department for Work and Pensions, which replaced the Department for Social Security (DSS) and the Department for Education and Employment (DEE) in 2001. Altogether, 860 Jobcentre Plus Offices were built.

The Employment Service was responsible for providing job-search related support and activation services to claimants of the Jobseeker’s Allowance (JSA) prior to the introduction of the Jobcentre Plus Offices. The Employment Agencies Act (1973 c.35) governed the conduct of these offices (roughly 17 000 around the country). Employment Agencies were subordinated to the DEE.

Benefit Agencies were responsible for the administration of benefit claims and benefit payments as well as running the Social Security Offices. Benefit Agencies were assigned to the DSS.

Jobcentre Plus frontline staff referred those clients into the New Deal Programmes (ND), who belonged to the target group of one of the ND schemes. ND Programmes were launched in 1998,

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28 The Conservative government coming into office in 2010 redesigned the welfare policies considerably, which affected Jobcentre Plus as well.
initially financed from a one-off windfall tax on privatised utility companies. The New Deal included six different schemes, each targeting people with integration problems of a different kind. The Programmes were launched gradually 1998 onwards (the first pilots were conducted for unemployed youth). (i.e.: lone parents, people with sickness or disability) and consisted of various activation schemes (employment subsidies, training programmes, volunteering, etc.).

3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Employment Services</th>
<th>Income support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the agency</td>
<td>Jobcentres</td>
<td>Social Security Offices</td>
</tr>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>Contribution-based JSA*: Insurance; Income-based JSA: means-tested</td>
<td>People not required to work, subject to means test</td>
</tr>
<tr>
<td>Target group</td>
<td>unemployed, available for and seeking work</td>
<td>lone parents, pensioners, long-term sick and disabled people</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>Jobcentres</td>
<td>Social Security Offices</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>Jobcentres</td>
<td>No activation requirements</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>Jobcentres</td>
<td>-</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>Income-based JSA, government Employment services: Jobcentres</td>
<td>Social Security Offices</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>State (using revenues from the National Insurance Fund)</td>
<td>State (Department of Social Security – until 2001)</td>
</tr>
</tbody>
</table>

* JSA= Job search allowance.

In the original system, income support claimants had no access to employment services, which substantially reduced their potential to look for and find employment in the job market. The upkeep of the system was relatively expensive and therefore, the Jobcentre Plus initiative was strongly motivated by cost-cutting incentives too.

4. Details of the reform initiative

4.1. Brief description of the initiative

The process of merging of ES and BA started in 1999. It was the Social Security Select Committee’s and the Employment Sub-Committee’s (committees of the DSS and DEE) responsibility to supervise and manage the preparation and implementation of the pilot projects of the Jobcentre Plus idea. With the merger of the respective Departments, in 2001 the Department of Work and Pensions took over this role.
The main aim of the initiative was to contain welfare expenditures, to reduce the operational and administrative costs associated with running the Jobcentres and the Social Security Offices, to eliminate disincentives of the inactive not anymore eligible for the Jobseeker’s Allowance to return to the job market and consequently to increase the employment level to a sustainable level. Also, the initiative aimed at steering the benefit system towards financial independence and work instead of the historically heavy benefit dependency. (Work and Pensions Committee, 2002)

4.2. The rationale behind the initiative

The concept of the Jobcentre Plus was anticipated to achieve its impact through several channels. By establishing a single point of contact for all benefit recipients and all services, the complete procedure from benefit claiming to participation in employment services was expected to become much easier and more efficient. Extending the circle of the clients for whom participation in different employment services (Work Focused Interviews, New Deal caseloading and employment programmes, Personal counselling) is compulsory was anticipated to contribute to stronger work incentives for the inactive. Through providing improved training sessions for the Jobcentre Plus staff, it was ensured that labour market prospects, training possibilities or potential personal difficulties can be discussed with a professional able to provide effective and practical support to the clients.

Though not in the initial phase, the Work Focused Interview was soon preceded by a benefit support session, whereby a Financial Assessor dealt with all the benefit-related questions. By arranging the benefit administration first and thus letting the clients know about their financial support for the next period, clients were expected to be able to better cooperate with the Personal Advisers and focus on the tasks needed to be done to find new employment possibilities.

By establishing performance targets that prioritise those furthest away from the labour market, the designers of the Jobcentre Plus aimed to prevent Jobcentre Plus staff from focusing on easier-to-place clients and devoting less effort to the more problematic clients. The improved supporting environment (IT solutions, physical environment, etc.) was expected to increase staff motivation and engagement too. In addition, enhanced cooperation with employers in order to have a broader access to the available job opportunities was also expected to increase the efficiency of the employment services.
4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Name of benefit/service</th>
<th>Jobcentre Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main access criteria (insured, means tested, other criteria, e.g. age, family status, etc)</td>
<td>Service: unemployed status; benefit: same as in table 2 + job search criteria extended to those capable of working</td>
</tr>
<tr>
<td>Target group</td>
<td>unemployed, lone parents, disabled people and carers</td>
</tr>
<tr>
<td>Who evaluates claims for this benefit / decides on who can participate in this service?</td>
<td>Jobcentre Plus</td>
</tr>
<tr>
<td>Who enforces the activation (job search, accepting job offer, etc) requirements?</td>
<td>Jobcentre Plus and New Deal staff</td>
</tr>
<tr>
<td>Who decides on sanctions (in case of non-compliance)?</td>
<td>Jobcentre Plus and New Deal staff</td>
</tr>
<tr>
<td>Who pays the benefit / delivers the service?</td>
<td>Depends on the client. Caseloading for lone parents was provided through New Deal for Lone Parents (NDLP) staff. Caseloading for customers with health problems or disabilities was provided through New Deal for Disabled People (NDDP) staff. Carers, for whom there is no New Deal provision, should be caseloaded by their PA, who initially counselled them at the JP. (conducting job search; conducting in-work benefit calculations; and promoting and referring customers to the services of specialist providers such as DEAs, New Deals and other organisations).</td>
</tr>
<tr>
<td>Who provides the funding behind (e.g. local gov using their own revenues or local gov using a per capita subsidy from the central budget)</td>
<td>Government (Department for Work and Pensions)</td>
</tr>
</tbody>
</table>

4.4. Context of the initiative: where did the idea come from?

The New Labour government envisioned the elevation of the employment level (to 80 per cent) and combating poverty through stronger work incentives and thus labour market engagement. The New Labour position was that the old system had not provided strong enough incentives for the unemployed to work and that the lone parents, disabled or sick people and older workers had received little assistance under the conservative government’s welfare regime. The reform in the welfare sector was an integral part of the Labour government’s ten-year reform programme aiming for a more integrated, work-focused and personalized approach to social security. Jobcentre Plus was a key element of the welfare-to-work policy agenda, reflecting the ideal “work for those who can, security for those who cannot” (DSS, 1998 in Karagiannaki 2007).

The need for a reformed welfare regime was supported by social and economic trends. Rising income inequality since the 1980s, high levels of long-term and youth unemployment, rising social expenditures proved to be unsustainable in the long-run. The benefit and taxation policies of the preceding Conservative regime tended to favour the high-income households and offered little support to low-income households, paving the way for the introduction of policies that put more emphasis on social inclusion and activation. (Hills, Sefton, & Stewart, 2009; Lupton, Hills, Stewart, & Vizard, 2013)

Though the introduction of the Jobseeker’s Allowance (JSA) in 1996, with a strict job-search efforts conditionality, resulted in a decreased number of JSA clients and increased job placement records, the share of incapacity benefit beneficiaries increased significantly. Since these people with particular barriers to labour market engagement (disability, sickness, psychological issues, etc.) needed more effective support to reconcile work habits and their personal problems to be able to
return to the job market, the situation called for an effective remedy. In addition, the share of those not receiving either of the benefits (JSA, incapacity benefit recipients) while being inactive also grew at an alarming pace. (Davies, Hartfree, Kellard, & Taylor, 2004; Petrongolo, 2009)

Prior to the launch of the Jobcentre Plus project, a series of pilot projects had been carried out under the supervision of the DSS and the DfEE. These pilots were run by the so-called ONE Agency. In 2000, the Prime Minister announced the implementation of a series of welfare reforms, among which the details of the Jobcentre Plus vision were also outlined. 2003 onwards, it was the new welfare ministry, the DWP that was tasked with the supervision of the Jobcentre Plus project.

There were a number of technical considerations leading to the reform of the benefit and employment service provision. Namely, the existing system of different state and regional level organisations was not coherent or effective. In addition to this, at the international level, the reform coincided with the trend in many OECD countries towards the use of one stop shops and single gateways in relation to welfare, employment and social assistance (Finn 2000).

4.5. The designing phase

Prior to implementation, a series of pilot rounds were carried out under the supervision of the ONE Agency. According to the Budget 2000, “ONE aims to forge an entirely new culture, which puts work first and provides a modern, integrated and flexible service for all.” (Work and Pensions Committee, 2002)

During this transitional period of pilot rounds (the ONE pilots), some local offices were fully integrated and offered a single point of contact while in others, benefit and employment service provision remained split between the separate agencies (which allowed for numerous impact assessments to be made). Between 1999 and 2001, twelve areas and twelve pilot programmes with slightly different designs were launched in Britain. The pilots covered a significant (approximately 10 per cent) share of the working age population. (Karagiannaki, 2007)

4.6. Implementation process

The timeline of the implementation process looked like the following: the One pilots were implemented between 1999 and 2001. There was one important universal change implemented during this period: participation in Work-Focused Interviews for all clients (non-JSA as well) became the condition for receiving both JSA and Incapacity Benefits starting in year 2000.

Building on the experience of the pilot rounds (though prior to the end of the pilots and thus to reliable evaluation results), in 2001, 17 areas launched the Jobcentre Plus Pathfinder Offices.

Key differences between the ONE pilot and the Jobcentre Plus design includes:

Greater involvement of employers

Local authorities were not anymore involved in the service delivery

Meeting with a Financial Assessor prior to the work-focused interview (Lissenburgh and Marsh, 2003). This element was introduced with the aim of arranging the benefit-related questions firstly and then being able to concentrate on the future job opportunities of the client

The nation-wide implementation started in 2002 and was planned to end in 2006. At the beginning of the implementation, districts and district level managers were assigned operational and financial control over the processes, while later on, the core management team decided to centralise these roles due to changed management support tools and financial constraints. Between 2002 and 2003 Jobcentre Plus offices started to operate in another 24 districts. In this period, a series of cost-cutting and rationalisation measures were taken, reducing the number of planned Jobcentre locations from 1000 to 860. Also, the rationalisation plans prompted the transfer of the benefit processing operations to 79 centralised processing centres. By the end of 2007 the national implementation was for the most part completed.
Jobcentre Plus offices operated as one-stop-shops where clients could arrange or obtain information (in case of services provided by different institutions) about all sorts of issues related to job-search activities and benefit claims (benefit claims processing, job-search support, trainings, personal counselling, etc.). The final design of the service provided at/through the Jobcentre Plus offices adopted the so-called ‘Call Centre Model’, which relied on the following elements:

- Initial contact with the client was made on the phone with the First Contact Officer (assessing client’s personal circumstances, childcare needs, job-ready clients – work possibilities, benefit eligibility criteria, sending out benefit claim documentation, explaining to new clients the requirement to participate in a work focused interview, and its purpose, etc.)
- Meeting with the Financial Assessor (arrangement of the administration of benefit claim)
- The Personal Adviser conducted the Work Focused Interview covering job opportunities, Jobcentre Plus services, identification of personal barriers to work and possible help required, and job search assistance. Personal Advisers agreed with the clients on future contact dates and required activities in the meantime.
- Caseloading:
  - Personal Advisers transferred clients belonging to either of the New Deal target groups for taking up caseloading with the more specialised staff of the New Deal Schemes (services provided for lone parents, disabled or people dealing with sickness and later on with the introduction of a New Deal 50+ for the older people). These services mostly included services like subsidised employment, volunteering, mentoring, training and education.
  - In case of JSA clients, Personal Advisers themselves performed the caseloading of clients (Davies et al., 2004).

4.7. Costs of the initiative

The cost of the implementation of Jobcentre Plus offices mounted to €2.7 billion (£1.9 billion), which was €438 million (£300 million) less than the originally allocated budget. (the savings were a consequence of the 2003-2004 rationalisation measures). Out of this €2.7 billion, the largest share is attributed to the investment into refurbishments and acquisitions €1.169 billion (~£800 million) and to the implementation of new business processes €731 million (~£500 million). Of this reduction, approximately €198 million (£136 million) resulted from reducing the size of the programme, €175-204 million (£120–140 million) from improved procurement and around €73 million (£50 million) from other efficiency improvements. (National Audit Office, UK, 2008)

As the National Audit Office (2008) notes, the running costs of the new estate are approximately 12 per cent more expensive, due to the realised estate rationalisation, the annual overall saving amounted to €197 million (£135 million) in 2006-2007. (National Audit Office, UK 2008)

4.8. Who implemented the initiative?

As the National Audit Office, UK, (2008) reports about the implementation of the initiative, at the beginning of the implementation process, detailed planning and budgetary control was delegated to the districts, particularly to the District Programme Managers (Estates professionals responsible for coordinating the works within a District and act as a single point of contact for the core project management team.). 14 Regional Works Contractors (Contractors appointed by the Department for

29 Euro amounts have been calculated using the Eurostat’s exchange rate data (table ert_bil_eur_m) by calculating the average GBP/EUR exchange rate for 2005
Work and Pensions to manage and deliver the network of Jobcentre Plus offices within a specified region) delivered the physical redevelopment of the ex-Benefits Agency or ex-Employment Service estates.

004 onwards, however, the core management team decided that a centralised steering of the project is a more rational option for the continuation of the implementation. This was mainly due to the introduction of tighter budget constraints (due to the signs of a potential rise in expenditures) and, as the project progressed in time, "more quantitative data on customer volumes and estate building costs" became available, which allowed for a more centralised nature of project steering. As a result of this shift in responsibilities, more prescriptive guidelines and control mechanisms were implemented by the central management for the regions. Financial controls were also reassigned to the core team.

As a further consequence of the announcement of efficiency improvements and tighter budget controls, the function of benefit transfer procession was decided to be centralised to 79 processing centres. As another result of the announcement, a significant reduction in the planned JP staff (by 15,000) and in the planned number of JP offices (860 offices instead of 1,000) was phased in.

Throughout the project implementation, various committees and reporting groups, particularly the Project Steering Committee and National Checkpoint, were put in place to provide the Senior Responsible Owner (SROs are working at the DWP and assigned the role of managing the implementation of particular projects, in this case the JP implementation) with support and guidance. Risks to the project were actively monitored and reviewed by a Risk Review Board and escalated to the Project Steering Committee.

Projects from 2001 to 2003 were implemented traditionally by existing service providers through tendering the construction work with a number of contractors. New supply chain arrangements were developed during this time (Lewis and Hickey Architects). From 2003 onwards partnership arrangements dominated the contractual agreements: stakeholders have commented that the project was successful in creating a completely open and non-confrontational environment that allowed for Regional Works Contractors (Contractors appointed by the Department for Work and Pensions to manage and deliver the network of Jobcentre Plus offices within a specified region), sub-contractors and suppliers to work with the Department as a single integrated team. Following an OJEU (Official Journal of the European Union) tendering process, the DWP Estates appointed 14 Regional Works Contractors and specialist contractors and suppliers to deliver the office fit-out programme (National Audit Office, UK, 2008).

4.9. Monitoring

Progress of the implementation was assessed by the National and Regional Groups, and the senior management from the DWP met on a weekly basis. The roll-out was regularly assessed by the DWP’s internal audit division too.

The Estates team (responsible for the construction works) also had a daily updated view on the progress on the sites.

There was a well-designed incentive system in place among Regional Works Contractors (RWC): they obtained extra profit if a particular project was delivered below its estimated costs. Key performance indicators were also in place for the RWC, along which they were assessed and ranked against each other. However, there were no penalty scores given, in order to maintain the rewarding nature of the system.

A performance based incentive system was also introduced in the Jobcentre Plus offices with various different performance indicators.

*Job entry targets* allocated different weight to different client groups (with the highest weight given to clients from priority groups: jobless lone parents, disabled, people from disadvantaged areas,
jobseeker allowance recipients who remain off benefit four weeks after starting the job) in order to avoid creaming effects. (National Audit Office, UK, 2008)

Business delivery targets were designed to measure the efficiency and effectiveness of service delivery at Jobcentre Plus offices (indicators included: accurate processing of claims of income support / JSA, identification of people in client groups with literacy, language and numeracy skills, etc.) There was a number other targets in place, such as the Fraud and Error Target that aimed at minimising losses from benefit fraud and administrative errors; the Employer Outcome Target, which measured the pace and efficiency at which the fill-up of employer’s vacancies happened or the Customer Service Targets measuring quality and speed of customer services. (Karagiannaki, 2007)

This system was in accordance with the targets set out in the original Jobcentre Plus vision. For instance, Job Entry target assigning an increased weight to the unemployed with more complex problems ensures that JP staff does not focus a disproportionate fraction of its capacities on helping easy-to-place clients return to the job market. Business delivery targets supported the achievement of the cost-cutting goal (through the assessment of the timeliness and accuracy of claim processing) and the increased quality of service provision as well (through screening whether JP staff has correctly identified clients with different skills shortages or through the Customer Service Targets).

4.10. Impact assessment

The DWP commissioned a series of evaluation projects to monitor the extent to which Jobcentre Plus is meeting its service delivery and labour market objectives in the first years of the implementation process. In addition, a number of external researches were made to evaluate the performance of the new Jobcentre Plus Offices.

The net impact assessments showed that the integration had a positive impact on the job entry targets for some groups (people with disabilities), while no impact for others (lone parents or JSA recipients) (Stafford, Corkett, Bennett, Frogner, & Shrapnell, 2005). As the authors note, deficiencies were likely to have been solved by later stages of the introduction. Riley, Bewley, Kirby, Rincon-Aznar, & George (2011) find similar results: the Jobcentre Plus integration contributed to a decreased number of people on Incapacity Benefit schemes; it contributed to an increased job-matching rate for the claimants of both groups. They find negative effects for some groups, such as 50+ unemployed with a short benefit claim period. Karagiannaki (2007) in her impact assessment, accounted for the degree of integration and for the quality of implementation performance in the specific districts and with this method, she indeed finds positive job entry outcomes for all target groups.30

Customer service quality at the same time has been negatively affected by the merger, as shown by the assessment of Stafford et al (2005) and Karagiannaki (2007). Davies et al (2004) point out that Jobcentre Plus staff tended to differentiate between JSA and Incapacity Benefit recipients, neglecting the latter group in order to devote more time and energy to those with better employment probabilities. Davies et al (2004) also find that especially at the beginning of the implementation process, Jobcentre Plus staff was often unprepared to deal with the more complex problems of the Incapacity Benefit recipients.

The qualitative evaluation of McKenna (2005) confirms the above findings. Interviews of the evaluation conducted both with staff and clients show that the lack of sufficient knowledge and confidence of the personnel when dealing with clients with more complex needs, indeed posed a

30 The study uses two models to estimate the effect of the integration: a simple OLS model, and a fixed effects model that accounts for both the degree of integration and the quality of implementation performance in the following way: multiple observations are taken from the same district over time and this way, potential heterogeneity bias are eliminated. As Karagiannaki notes, this method is of particular benefits if the selection of roll-out districts was not random.
problem. Sometimes personal advisers simply did not find the state of the clients appropriate to discuss work-related questions and did not force these topics in order not to discourage the clients from future cooperation.

Riley et al. (2011) also attempt to measure the macro effect of the integration reform and they conclude that the Jobcentre Plus reform contributed to an increased labour market supply and to a modest reduction in average wages. They state that the reform has been likely to induce an annual increase of 0.1 per cent in the GDP. Their sensitivity analysis also indicates that the reform has been more than self-financing.

4.11. Problems faced during or after implementation of the initiative and how these were solved.

Especially in the early stages of the implementation process, the lack of experience of the Jobcentre Plus advisers with clients with more complex needs clearly was a problem. Accumulation of experience over time on the one-hand, and working together with specialists (i.e.: New Deal specialists) on the other hand, helped staff to efficiently work together with these clients. Additional training and guidance from the management of Jobcentre Plus offices also contributed to the reduction in deferrals. (Lissenburgh & Marsh, 2003)

As the impact evaluations emphasised, there was not enough time and energy devoted to work-focused interviews at the earlier stages of the implementation, however, marked changes in relation to caseloding approach have been observed later on, due to the introduction of job entry and caseloading targets. (Davies et al., 2004; Lissenburgh & Marsh, 2003)

From the managerial perspective, Jobcentre Plus’s ability to effectively manage the programme’s budget centrally was constrained by underdeveloped financial management practices during the course of the roll-out. As the programme progressed, the core project management team did develop stronger financial monitoring systems, but continued to suffer from some limitations. 

As described in section 4.8, the initial decentralised project implementation has proved to be inefficient and too expensive once sufficient data on client volumes in the different districts and precise estate construction costs were available. This problem was solved by shifting the responsibilities (both coordination and financial control) to the central management team (National Audit Office, UK, 2008).

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

From a systemic perspective, there were a number of factors that contributed to the successful implementation of the Jobcentre Plus reform. Since the institutional reform was part of a broader welfare reform, the implementation was supported by a comprehensive network of public and private actors in strong interaction with each other. The senior-leadership remained consistent, which ensured accumulated knowledge and experience and consistent approach and leadership style throughout the duration of the project. (National Audit Office, UK, 2008)

From a political perspective, the stable political background coupled with a broad welfare reform in process, ensured the continuous support of the reform over a longer time-horizon (the Labour Government was in power for 13 years). Another feature of the UK political system that supports long-term reforms is that it lacks any major veto power that could have impeded the reform process.
Based on our research, it is possible to identify two specific events that hindered the implementation process: firstly, the industrial actions of 2001-2002 and secondly the global crisis of 2008.

5.2. Lessons for Europe

Scheduling of the implementation is innovative about the UK case because gradual implementation was a basis for a number of successful elements of the Jobcentre Plus reform and could be seen as one of the most innovative elements of the reform. The call-centre approach, allowing clients to arrange the first steps of their benefit claiming procedure via phone calls is also an innovative element.

There are a number of features that can be transferable to other countries' similar practices. The gradual and localised implementation process had a lot of advantages, one of which was that it allowed a great deal of flexibility in the implementation phase: those districts that were ready first could be scheduled for early roll-out. Districts that joined the reform in the second or third wave, could learn from the past experiences and improve elements, when necessary. Partnership-based approach with frequent consultations among service providers and the state has proven to be a very effective way of cooperation in the roll-out phase. On the local level, effective financial management and monitoring arrangements were in operation throughout the roll-out, which can also be the prerequisite of a successful reform process in any other country.

What also made the UK case a sustainable reform is that the merger of the institutions was followed by many major changes at different levels of the governance (i.e.: merger of Ministries). This ensured that the accompanying institutional system was also apt and supportive in the new set-up.

5.3. Main strengths and weaknesses

One of the main strengths of the Jobcentre Plus reform lies in its long duration designing phase. The scheduling allowed for the project to learn from itself. There was enough time and capacity to change elements that have proven to be inefficient during the course of the implementation.

Effective management practices, clear goals and responsibilities and effective performance management systems of the project 'organisation' were also very important elements to success.

As impact assessments indicate, re-employment rates of the client group have increased as compared to before the reform. Some assessments also have shown the reform's positive impact on labour supply and a resulting downwards pressure on wages (which might contribute to an elevated employment level).

An important weakness of the reform was that there were strong indications that the Jobcentre Plus staff was not prepared to handle Income Support beneficiaries at the early phase of the reform and that there was not sufficient time and energy devoted to less advantaged clientele. This issue, however, has also been addressed early on in the implementation process.

6. References


VERTICAL SERVICE INTEGRATION

DENMARK

Lili Márk

1. Setting the scene

The diminishing size of the workforce is probably the biggest challenge of the Danish labour market. The goal of reintegrating the unemployed through activation measure has been a very important driver of employment policies since the 1990s as a response (Mploy 2011). Also, activation policies form an major pillar of the so-called Danish “flexicurity” model that ensures a high level of job mobility allowing employers to lay off in times of economic downturn and security through a generous social system for employees at the same time (Bredgaard, Larsen, and Madsen 2005; Mploy 2011). Activation policies have a major role in preventing the abuse of generous social services (Mosley 2012a).

In 1994 a major employment policy reform took a step towards the decentralization of labour market policy and established 14 regional labour market councils (Pérez del Prado 2013, 45). These new offices had greater autonomy with a larger budget. The idea behind decentralization was to make it easier to fit local conditions when designing employment policies. The reform also put much emphasis on better activation measures and a “comprehensive range of measures aimed at increasing access to the labour market, facilitating the acquisition of job-related skills, stimulating job creation, and supporting the function and capacity of the labour market in general” (Hendeliovitz and Woollhead 2007).

In the beginning of the 2000s it has been realised that there is a substantial compliance gap between the central will of activation through work-first measures and the lenient implementation of local municipalities (Bredgaard and Larsen 2009; Bredgaard 2011). The idea of “municipalisation” of employment services was first brought up by the government in 2001 and aimed at addressing this compliance gap, but received strong opposition from representatives of labour market organisations who preferred that they have a significant influence over labour market policies under the traditional PES system. The local government reform agreed upon in 2004, however, offered a new opportunity to restructure the employment organisation in a way to help closing the gap between central intention and local implementation practice. Municipalities gained a bigger role and freedom in the design and implementation of employment policies, but at the same time central steering was strengthened, the government increased its strategic control through introducing new monitoring tools and incentives.

2. Main agents involved in managing the benefit system and providing employment and social services

Public institutions (directly managed by a ministry):

Ministry of Employment (BM):

The Ministry of Employment has the overall responsibility for employment policy and is the supreme administrative authority (Mploy 2011, 22). The minister sets three or four goals for employment policy each year focusing on issues that had been identified as priorities.

31 We thank Jan Hendeliovitz of the Danish Agency for Labour Market and Recruitment at the Ministry of Employment for his generous help on clarifying some details of this case study and helpful comments. All errors remain ours.
National Labour Market Authority (AMS):

The AMS is the body of the Ministry of Employment. Before the reform in 2007, the AMS was responsible for providing active measures for the insured unemployed in close cooperation with social partners (trade unions and employers’ associations) through its 14 regional offices (Bredgaard and Larsen 2009). Since 2007, the AMS is the central body responsible for implementing and following up on employment policy on behalf of the minister (Mploy 2011, 22). The main mission of the AMS is to integrate everyone in the labour market with the exception of youth for whom education is the highest priority. Local units of the AMS worked in strong cooperation with the municipalities under the roof of new job centres between Jan 1, 2007 and Aug 1, 2009 (the date of the introduction of the job centres and the date of full "municipalisation").

National Employment Council (BER):

BER was set up in is a central advisory body that comprises representatives from the social partners, the municipalities and the Danish Council of Organisations of Disabled People (Mploy 2011). The Council has to advise the minister and the AMS about major employment policy initials, the minister’s annual goals, the following up of regional employment policy measures, test projects and proposals for new legislation. Before 2007, the institution was called National Labour Market Council.

Regional level organisations

Employment regions – Regional Employment Agencies:

In 2007 four employment regions were defined and Regional Employment Agencies were set up in Denmark instead of the previously existing 14 regional PES offices. The 2007 reform shifted responsibilities from the regional to the local level. The Regional Employment Agencies report to the National Labour Market Authority. Their role is to support job centres and ensure they perform well (AMS 2013). Each regional agency has set up a Regional Employment Council that serves as a regional-level advisory body and consist of the social partners, the municipalities, the Regional Council and the Disabled People’s Organisations Denmark.

The Regional Employment Agencies (REA) and the Regional Councils sign an annual contract with the minister for employment on how the regions must work to ensure good results in delivering effective measures in cooperation with job centres (Mploy 2011, 24). The REA have no direct contact with clients, i.e. citizens and enterprises. The main role of the REA is to monitor and follow up measures, results and outcomes of municipalities’ employment measures. They also analyse the labour market challenges faced by the REA in light of the central goals. At the beginning of each year employment REA publish their analysis about labour market trends and forecasts and hold a conference on policies where actors from all levels of employment policy are welcome. The REA also function as a communication channel between the AMS and the local job centres. The REA have an important consultancy function: they enter into dialogue with local job centres and mostly focus on municipalities where the performance problems emerge. Best practices are collected and made visible by the REA and cross-municipal networks are formed to enhance the sharing of experiences.

Regional Employment Councils (RBR):

RBRs are regional-level advisory boards that support the work of the employment regions and consist of the social partners, the municipalities, the Regional Council and the Disabled People’s Organisations Denmark (Mploy 2011).

Unemployment Insurance Funds (A-kasse):

‘Unemployment insurance funds are voluntary and private member organizations paying out financial compensation to their members in case of unemployment or early retirement.’ (Bredgaard 2011) Before 2007, their main responsibility was to issue unemployment insurance to the insured unemployed and advise them about their rights and obligations. The A-kasses had the right to sanction the unemployed people in case they did not demonstrate availability for work. Since 2007,
the A-kasses have had a more active role in the reintegration of the unemployed. They voluntarily took responsibility for the first contact interviews with all their unemployed members, referring their members to vacant jobs, enhancing job search activities and intensified controlling of availability (Bredgaard 2011).

**Local level organisations**

**Municipalities**

Since the local government reform in 2007, there are 98 Danish municipalities instead of the 271 previous municipalities. The reform restructured the responsibilities of municipalities. By 2009, all the municipalities became politically and fiscally responsible for employment measures both for citizens and enterprises. In fact, as a result of this reform almost all public service are now in the responsibility of municipalities including local policies and measures within business development, schools and education/training, the elderly, children and young persons, employment, social policy, health prevention, etc. (AMS 2013; Mploy 2011). Municipalities are obliged to set specific local targets for each national employment goal (AMS 2013).

**Local Employment Councils (LBR):**

The LBRs are advisory boards helping the work of local job centres in setting up targets. The LBRs monitor the results of job centres (Mploy 2011). The council consists of participants from the social partners, the Disabled People's Organisations Denmark, the Organization of General Practitioners in Denmark, the Local Integration Council, relevant local associations and the municipal council.

**Job centres:**

In 2007, 91 job centres were established. The seven smallest municipalities do not have their own job centres but are in binding cooperation with a near larger municipality. Job centres plan, develop and implement employment policies. The single objective of job centres is fastest possible (re)integration of unemployed people to the labour market. The administration of benefits remained the responsibility of local governments. The target group of job centres involves both the insured and the uninsured unemployed people.

### 3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Employment (BM)</td>
<td>National</td>
<td>Decide about budget allocation</td>
<td>Performance management based on qualitative data</td>
</tr>
<tr>
<td>National Labour Market Authority (AMS)</td>
<td>National</td>
<td>Set national and regional targets forming the basis of annual performance contracts</td>
<td></td>
</tr>
<tr>
<td>National Labour Market Council (BER)</td>
<td>National</td>
<td>Consults the AMS about goals to set</td>
<td></td>
</tr>
<tr>
<td>Public Employment Service – regional units</td>
<td>Regional (14)</td>
<td>Ensure that decisions made by the regional PES offices comply with state legislation</td>
<td></td>
</tr>
<tr>
<td>Regional Employment Councils</td>
<td>Regional (14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Employment Service – local units</td>
<td>Local (app. 70)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Until 2007, a two-tier implementation system was operating in Denmark. The “insurance branch” served the insured unemployed and activation policies were the responsibility of the 14 regional PES offices under the Ministry of Employment, while the “social assistance branch” was delivered by the municipalities under the monitoring of the Ministry of Social Affairs providing activation measures for the uninsured and issuing means-tested social benefits (Bredgaard and Larsen 2009; Weishaupt 2011). The 14 regional PES offices had a substantial decision-making power with their own budgets. The PES offices were bound by the national targets within a “management-by-objectives” system and the employment policy was designed and implemented in a close cooperation with social partners. The actual implementation of employment measures for the insured were delivered in the local units of the PES at each municipality.

The coordination between the local PES units and municipalities was limited to the minimum amount of information exchange (Hendeliowitz and Woollhead 2007). The biggest drawback of the previous organisational setup was that employment services run parallel in two branches of institutions, separately for the insured and the uninsured, although the measures for the two groups are essentially the same both directing at the fastest possible way to reintegrate people to the labour market (Hendeliowitz and Woollhead 2007; The Danish Ministry of the Interior and Health 2004). There had been also large regional disparities regarding the quality of employment services, furthermore the largest differences were identified within the same municipalities between individual case-workers (Bredgaard 2011, 768). The aim of national policy makers was to enhance a more standardised system.

4. Details of the reform initiative

4.1. Brief description of the initiative

In 2007, the local government reform reorganised the governance structure of Denmark. Instead of the previous 271 municipalities, 98 larger municipalities were created and the 14 counties were restructured into five administrative regions. The reform strengthened the – already quite strong – basis for a decentralised public structure and intended to address the problem that many municipalities had been unsuitably small to solve tasks efficiently and lacked sufficient capacities of planning (Hendeliowitz and Woollhead 2007; The Danish Ministry of the Interior and Health 2004). The restructuring was accompanied by the reorganisation of responsibilities and tasks: almost all public services now became the responsibility of local municipalities. In 2006, 63% of public spending was spent at the regional / municipal level in Denmark as opposed to the 20-30% in other OECD countries (Mploy 2011, 10). Specifically, in 2007, 48% of the public budget was allocated in municipalities (Hendeliowitz 2008, 13 Box 3).

Regarding employment policy, the reform brought a shift of responsibility from regional PES offices to municipalities, often labelled as the “municipalisation” of the Danish labour market governance system (Weishaupt 2011; Weishaupt 2014). Four employment regions were set up (two administrative regions are considered as one labour market) (AMS 2013) and 91 jobcentres were opened at the local level (the seven municipalities with less than 20,000 inhabitants does not have a separate job centre, but are in binding cooperation with neighbouring larger municipalities).

Under the roof of jobcentres the PES services and municipal services for the uninsured are available at the same place. The main official intention of this integration is to ensure the equal treatment of target groups irrespective of whether they are uninsured or insured and creating better coordinated and integrated employment services (Arbejds Markedsstyrelsen 2005). Parallel to the horizontal service integration, crucial changes occurred in the vertical governance relations. The municipalities gained much more freedom in planning and implementing employment policies and at the same time, new methods of performance management, monitoring and planning tools were introduced. In fact,
the sub-regional levels have the highest level of flexibility in designing and implementing labour market policies among OECD countries (Froy et al. 2011). The basic idea of this new system is that municipalities enjoy a great deal of freedom in choosing the employment measures they implement, provided that they are able to meet centrally defined target levels (Hendeliowitz 2008). Bredgaard and Larsen (2009) label the reform as “centralised decentralisation” and point out that the hidden motivation of the central government by this new structure was to gain increased strategic control over municipalities to push them towards work-oriented measures while delegating operational responsibilities to municipalities. Hendeliowitz (2008) also mention the critical view of some observers that the decentralization is in fact a deconcentration process meaning that “the management of the tasks is to a great extent subject to the central government's priorities and regulations, but is implemented at the local levels” (Hendeliowitz 2008, 13).

4.2. The rationale behind the initiative
The main rationale of the vertical elements of the reform was to reduce the gap between the work-first policy orientation of the central government and the lenient implementation of local municipalities (Bredgaard and Larsen 2009; Bredgaard 2011). During the political debate preceding the reform, the minister of employment expressed his criticism about the social integration approach of local municipalities, i.e. that they had focused on the barriers, social interventions and childhood-problems of the clients instead of taking efforts to find the fastest way to integrate them to the labour market (Bredgaard and Larsen 2009, 9). The government’s intention was to put more emphasis on work-first measures, such as requiring participation in activation programs in return for benefits, stronger availability requirements, job-seeking activities and tougher sanctions. Leading civil servants in the central labour market administration shared the view that the incentives in the institutional structure were not well designed to enhance translating central policy goals to the practice of municipal job services. The reform intended to solve this problem by gaining more strategic control over municipalities through the integration of all employment-related policies into one centre and strengthening performance management tools.
## 4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Unit of govt.</th>
<th>Level of govt.</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Employment (ME)</td>
<td>National</td>
<td>Minister announces 3-4 measureable national goals and focal areas in each year for employment policy</td>
<td>If job centres does not perform well, minister can contract out services to private providers (after checking reports from regional / local councils) Complex financial incentives system, e.g. municipalities with better outcomes get rewards (since 2009)</td>
</tr>
<tr>
<td>National Employment Council</td>
<td>National</td>
<td>Advice ministry in planning initiatives, drafting policy and legislation</td>
<td></td>
</tr>
<tr>
<td>Labour Market Authority</td>
<td>National</td>
<td></td>
<td>Collects publicly available data about job centres performance (jobindsats.dk)</td>
</tr>
<tr>
<td>Regional Employment Councils</td>
<td>Regional (4)</td>
<td>Contract between ME, RBRs and regional councils about regional targets. Make recommendations about focal areas for next year.</td>
<td>Create annual reports about labour market situation together with Regions</td>
</tr>
<tr>
<td>PES Employment Regions</td>
<td>Regional (4)</td>
<td>Contract between ME, RBRs and regional councils about regional targets</td>
<td>Monitor performance of job centres through yearly performance audits Regular follow-up (quarterly) of local job centres Benchmarking job centres with similar conditions (naming and shaming) Create annual reports about labour market situation together with Regions</td>
</tr>
<tr>
<td>Local Employment Councils</td>
<td>Local (app. 100)</td>
<td>Local employment plan is sent to local councils to review</td>
<td></td>
</tr>
<tr>
<td>Job centres</td>
<td>Local (app. 100)</td>
<td>Incorporate minister’s goals and regional targets, based on that set up a local employment plan, operational responsibility over the implementation of employment policy</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Hendeliowitz 2008; Mploy 2011; AMS 2013; Mosley 2012a)
Regarding the new jobcentres, an official guide about the new jobcentres published by the AMS argues that the main benefit of the establishment of job centres is eliminating parallel function that had been operating in two separate institutions – the social services of municipalities targeting the uninsured and the employment policies targeting the insured unemployed – due to historical reasons rather than rationality (Arbejds Markedsstyrelsen 2005). The guide suggests that the overall goal of activation applies for everyone, no matter if the client is insured or uninsured.

The goal setting mechanism in the new system is driven by the 3-4 national goals specified by the minister of employment for each year. These goals are broader goals that focus on the most up-to-date and most important features of employment policies. For 2011, these goals included: (1) minimise the number of unemployed with more than three months of continuous unemployment; (2) minimise the number of people under the age of 30 who receive unemployment and social security benefits; (3) minimise the number of persons on permanent income support schemes and (4) minimise the number of non-western immigrants who receive public benefits (Mploy 2011).

These central goals serve to ensure the direction of local employability measures are in line with the central intentions.

The AMS then translates these national goals to exact quantitative targets to be reached collectively as the result of the work of all jobcentres. For example, the AMS specify that there should not be more than a specific number of people continuously unemployed for more than three months. Knowing these goals and specific targets, the local job centres concretise local goals in their employment plan together with the local employment councils and in constant dialogue with the employment regions. Local job centres are monitored through a yearly audit and are under regular supervision of the employment regions. Regional offices might recommend to the central agency to contract out services to private providers in case a job centre's performance fall below comparable other job centres, however there have not occurred such a case (Mploy 2011).

Obligatory benchmarking also plays an important role in the performance management system. Jobcentres with similar conditions are compared to each other in the manner of "naming and shaming" that is possible since a new data collection system was introduced. This system is complemented with transparency and publicity of data about the conditions job centres face and their performance.

In 2009, a complex system of financial incentives was introduced. In general, the financing system compensates municipalities’ for their expenditures on income support and active measures. The system’s complexity stems from the parallel intentions of creating sufficient economic incentives for municipalities to use sources efficiently keeping in mind the primary aim of (re)integrating people to the labour market as fast as possible while stabilising and counterbalancing financial shortcomings of municipalities in case external factors such as economic downturns or the shutdown of a large company lead to sudden increases in expenditure (Mosley 2012a; Mploy 2011).

Basically, there are two types of sources the municipalities get from the state: block grants and state reimbursements. Block grants are issued for municipalities to cover their expenses on income support and active measures. Block grants are not earmarked and it is entirely up to the municipality what they want to spend it on with the only restriction that there is a ceiling on co-financing of active measures (Mploy 2011).

State reimbursement can either be state refunds and state grants. State refunds cover a certain share of municipal expenditures depending on various conditions that aim at encouraging municipalities to use measures documented as the most efficient by the state-level. First of all, municipalities have to bare 100% of costs in case they do not fulfil minimum requirements. Minimum requirements include, for instance, the preparation of online CV within 3 weeks of initial registration or providing an initial job interview within 3 months of registration. Other conditions are set to encourage municipalities to involve clients in active measures, e.g. 65-75% of the costs of active measures are refunded, whereas only 35-50% of other services are refunded (Mosley 2012).
Furthermore, active measures are differentiated based on their deemed efficiency, e.g. wage subsidies and work apprenticeships are prioritized over others.

Additionally, state grants are issued partly depending on the local employment situation and partly as a reward to jobcentres that show good results. These results are evaluated taking the local economic context into account. The transferability of these rewards serves as a great incentive as municipalities with good results as they might spend these extra funds on anything they decide on.

A 2011 reform of the financial system addressed the critique that incentives are too much dependent on outputs rather than outcomes, and thus municipalities are encouraged to increase the scope of employability enforcement while not bothering with quality considerations. Since the reform municipalities receive benefits after every time an unemployed is back to work (Mploy 2011).

4.4. Context of the initiative: where did the idea come from?

The liberal-conservative government that replace the social democrats in 2001 started to gradually move towards the standardisation of active employment policies and social policies. The previous Ministry of Labour was renamed as the Ministry of Employment and the responsibility of activation of people on social assistance and sick leave was moved from the Ministry of Social Affairs to the hand of this new ministry (Bredgaard 2011; Weishaupt 2014). The first steps of harmonisation of active employment services aimed at the insured and the uninsured were in practice delivered through the “More people into employment” (Flere i Arbejde) reform throughout 2002-2003 (Mploy 2011). Some minimum requirements were set that every unemployed had to receive (e.g. contact interviews in each 3-months period) and a profiling system was introduced that assigned each client into one of five categories based on distance from the real labour market.

To further enhance the standardisation of measures for all unemployed, the idea of an organisational reform leading to municipalisation of employment services was brought up by the new government in 2001. The proposal suggested a full transfer of responsibilities from the PES to local municipalities in newly established job centres. This proposal was received with strong opposition from trade unions, employers’ organisations and the social democrats in fear that the proposed changes would erode traditional corporatism in which social partners had a significant influence on policy making (Bredgaard 2011). The government abstained from elaborating on their idea of municipalisation for a while.

In 2002, however, they set up a Local Government Commission (Bredgaard 2011) to give recommendations on division of responsibility between levels of government. Based on these recommendations political negotiations followed that lead to a compromise across all parties to set up new job centres, but this final version of the reform details were far from the original proposal of the government. (See details of this negotiation process in Chapter “4.5. The designing phase”).

4.5. The designing phase

After the great opposition about the government’s “municipalisation” proposal, the government set up a Local Government Commission to give recommendations on the division of responsibilities between levels of the government (Bredgaard 2011). The Commission came out with its recommendations in January, 2004. They suggested to reduce the number of municipalities and transfer responsibilities from PES offices to new municipal job centres and also restructure the regional level into five administrative regions. The government made a proposal based on these recommendations in April, 2004 (The Commission on Administrative Structure 2004).

After the proposal, political negotiations began. The government attempted to persuade social democrats by the idea of setting up 3 different types of job centres and test the full municipal responsibility in only a few job centres while leaving responsibilities at the hand of PES at others (Bredgaard 2011). The social democrats saw this offer as the first steps for full municipalisation at a later time. Finally, the government found its majority with the Danish People’s Party with concessions made to the social democrats.
4.6. Implementation process

In 2007, 91 local jobcentres were established (the seven smallest municipalities cooperate with larger neighbour municipalities). In most of the jobcentres (77) the local PES units and the municipalities worked under the same roof, but followed different chains of command following the existing institutional split. Also 14 “pilot centres” were setup, where the designing and implementation of employment policies at the local level is entirely the municipalities’ responsibility (Hendeliowitz 2008). The basic concept of the employment policy reform is that while local jobcentres have operational responsibility over the implementation of employment policy, central administration strengthened monitoring, benchmarking, output and outcome measurement (Bredgaard and Larsen 2009).

The evaluation of the 14 pilot job centres was still ongoing when the government made the decision about the full municipalisation of employment services that came into effect on August 1, 2009 (Weishaupt 2014, 34). This meant that the responsibility for all employment measures directed at the insured unemployed were now given to municipalities instead of local PES offices. At the same time, complex financial incentives were introduced designed to make municipalities prioritise employment services over other services they have to provide.

From the very beginning of the reform it was made clear that the sole responsibility of the job centres was to deal with employment policies and reintegrate the unemployed, while the administration of benefits was the responsibility of unemployment insurance funds closely related to trade unions (Bredgaard and Larsen 2009; Hendeliowitz 2008). Reintegration services include visitation, profiling, job-matching, counselling and advice, contact session every 3 months, referrals to wage subsidy schemes, enterprise apprenticeships, education and training, and other activation schemes (Bredgaard and Larsen 2009). Job centres may use external service providers to contract out activities.

4.7. Costs of the initiative

The total one-off direct costs of implementing the reform was about EUR 220 million (based on personal information inquiry).

4.8. Impact assessment

Bredgaard and Larsen (2009) and Bredgaard (Bredgaard 2011) analyse the case of the Danish employment policy reform in its aspect of being a main pillar to achieve the enhanced usage of work-first measures in employment policies. In general, they ask the question whether an operational reform can reach changes in policy content. They compare the results of a representative internet-based survey of municipal executives in the new job centres conducted in 2008 with a similar survey from 2001. The difference between the answers in the two years clearly shows that the substance of employment policies have, indeed, shifted towards work-first as opposed to the previous focus of municipalities on a human capital and social integration approach (e.g. importance placed on the following objectives increased: using activation as a work-test (availability test), ‘comply with the needs of the labour market for manpower’; while the importance of improving quality of life shrank). This analysis point to positive results of the reform, however the authors name a number of challenges, too (see Chapter 4.10.). A noteworthy feature of the paper is the big difference between the number of respondents in 2001 (176) and 2008 (50) regarding the questions the authors quote.

4.9. Problems faced during or after implementation of the initiative and how these were solved.

Bredgaard and Larsen (2009) point to some drawbacks of the new system based on the initial experiences. First, the more bureaucratic organization requires a large amount of documentation
that increased the administrative workload for jobcentre employees. According to a study by the Local Government Denmark (national association of municipalities) about 75% of the working time of front-line workers is spent on administration. Executives estimate that over 80% of front-line workers spend 50% or more time on administration. Second, the survey run in 2008 show that about half of the executives are sceptical about the reform that poses an ‘implementation barrier’. The authors emphasize that the two systems (employment and social services) had run functionally separated and mostly driven by the prior municipal practices reinforcing the view that the hybrid jobcentre system is only a ‘midway stop’ towards full municipalisation.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

In sum, a number of factors played a role in helping the implementation of the reform of which most are related to or stem from the Danish traditions of corporatist policy-making and high level of public policy making. The reform had mostly positive outcomes, and while there had been some hindering factors, most of these were overcome as time passed.

First, the idea of decentralization of employment services was not a new one at the time of the ‘municipalisation’ reform. The first step of decentralization occurred in 1994 when 14 regional labour market councils were established. It seems logical to assume that the idea of giving the responsibility of employment services to municipalities could have not emerged without this first step of decentralization that can definitely be regarded as a helping factor.

Second, the Danish government had clearly articulated and well-focused goals and also a clear vision about how to reach those goals (Bredgaard 2011). The main objective of the reform initiative was to shift from the social integration approach of previous municipal services towards a work-first approach that put much more weight on the role of activation as fast as possible. Prior to the reform, municipal service-providers stuck to the view that some clients face such aggravated problems that they are simply not ready for joining activation programmes. This attitude was absolutely opposite to the central will. The national government intended to reach their goal by creating job centres whose sole responsibility is to focus on employment policies no matter the clients are insured or uninsured. Simultaneously, stricter performance management tools and steps towards standardised measures were introduced. In terms of implementation it is both important to have clear goals and a clear strategy to follow (cf. the case of NAV reform in Norway, where the reform seemed to be too large-scale to be implemented without obstacles and unexpected consequences).

Two main hindering factors were the initial disagreement about full municipalisation and the resistance of staff to change. In the beginning, disagreement about municipalisation mainly came from the social partners, who were afraid that their relatively large influence on employment policies will fade away. Thus, it was hard to come to a consensus quickly. Surveys of municipal employees have also shown that in the initial years of the new system about half of the employees were not supportive of the new municipal organisation.

5.2. Lessons for Europe

Damgaard and Torfig (2010) analyse the local governance networks that started operating due to the 2007/2009 municipalisation reform. The Danish experience is often cited as a best practice, but they warn everyone that this does not necessarily mean that all European countries should follow Denmark and do the same. In fact, the policy transfer to other countries would be perilous because the achievements of the Danish example are conditional on the tradition of stakeholder involvement and political willingness to devolve political competence in the field of active
employment policy to the local level. It is important to note that even before the reform, Denmark ranked the highest in flexibility of labour market implementation at sub-regional level among the OECD countries (Froy et al. 2011).

Some elements of the Danish example, however, can serve as inspiring innovations for other countries. Such elements are the performance management techniques introduced (e.g. naming and shaming, publicly available comparative database about the performance of job centres) or the financial incentives. Another useful lesson for Europe might be that a clearly defined, unambiguous goal is necessary for a successful reform.

5.3. Main strengths and weaknesses

One of the main strength of the Danish example is its clearly focused and well-articulated goals, i.e. enhancing work-first policies. Second, integration reforms often face the obstacle of too much complexity in the newly integrated services that the new organisation is incapable of handling. This problem did not emerge in the case of the Danish reform as “the complexity of work has been artificially reduced by separating the responsibilities of job centres from benefit administration” (Bredgaard 2011). Bredgaard (2011) also emphasized the importance of well-designed incentives that encouraged the actors to drive the implementation towards policy objectives.

The essence of this reform was to promote standardisation and thus equal access to services in different locations of the country as an answer for increasing disparities between different municipalities and between different case-workers in the same municipalities. According to different evaluations, the reform did achieve this objective, the advantages of the reform definitely include “a higher likelihood of equal treatment of citizens across municipal boundaries, and a higher degree of predictability and transparency in encounters between citizens and caseworkers” (Bredgaard 2011).

Increased standardisation, however, came at a price. Some initial surveys after the reform have shown that the new system brought a need for a large amount of administration time. Another disadvantage of the new standardised system is reduced scope for adaptation, experimentation and innovation (Bredgaard 2011). Bredgaard (2011) claims that this drawback is most evidently seen in the system’s incompetence to deal with the reintegration of unemployed with multiple and complex disadvantages.
6. References


7. Appendix

Source: (Hendeliowitz 2008, 14)
Figure 2. Chart of the present set-up of the main public employment-related institutions in Denmark

Source: The Public Employment Service, Storstrøm Region, Denmark.

Source: (Hendeliowitz and Woollhead 2007)

Figure 3. Chart of the 2007 political and institutional set-up of the public employment service in Denmark

Source: (Hendeliowitz and Woollhead 2007)
1. Setting the scene

In 2002, the re-elected SPD-government (headed by Chancellor Gerhard Schröder) was forced to tackle the problems of the ailing German economy (described by stagnation, increasing unemployment, national debt and budgetary deficit) and to propose long-awaited complex reforms to ameliorate the German welfare system. A commission of experts set up before the elections presented a solution for the problems described above, which became the basis of a series of institutional and welfare reforms between 2002-2005 (the so-called Hartz-reforms, named after the head of the expert committee) and the Agenda 2010 policy programme announced in 2003. Among the four laws for 'Modern Services on the Labour Market', the Hartz III reform in 2004 aimed at restructuring and modernising the BA (Federal Employment Agency) along the lines of New Public Management. Although some measures aiming to foster decentralisation in decision-making and budget flexibility were introduced in 1998 (Tergeist and Grubb 2006), performance measurement and quantitative target setting were only established in 2004. Further changes concerning the target setting and budget planning process occurred in 2013 when a 'bottom-up' approach replaced the previous 'top-down' method.

2. Main agents involved in managing the benefit system and providing employment and social services

Public institutions (directly managed by a ministry)

*Federal Ministry for Labour and Social Affairs (BMAS)*: the ministry responsible for central employment policy. Due to the federal structure, German federal ministries are small and have more limited responsibilities than ministries in other OECD-countries: their key role is to take part in the policy-making and law-making process, but are not directly involved in implementation or in control of the implementation (Wegrich et al 2013). During the second Schröder government between 2002 and 2005, most of the Ministry’s responsibilities were delegated to the newly established *Federal Ministry for Economics and Labour (Bundesministerium für Wirtschaft und Arbeit)*, which, in turn, was dissolved when the CDU-government gained power in 2005.

Other national level organisations (e.g. insurance agencies)

*Bundesagentur für Arbeit (BA)*: before the 2004 reform, *Bundesanstalt für Arbeit or Arbeitsamt*. The BA is the central body that operates the public employment service (PES) in Germany. The main actor in implementing employment policies in Germany (Wegreich et al 2013). The BA is structured along three main levels of administration: a central office in Nuremberg, 10 regional offices that supervise and coordinate the local offices, and 156 local offices with more than 600 sub-offices delivering services. The BA is funded exclusively by compulsory social insurance contributions of employers and employees. The duty of the federal government (via the Federal Ministry of Labour and Social Affairs) is limited to ensuring that the BA complies with the statuses and all other legal requirements, but has no official influence on operational business or resource allocation (although the level of contributions and amount of benefits are set by the federal government, the BA has the autonomy of setting its own targets and performance goals independently). The BA has always (i.e. ever since its creation in 1927) been a one-stop-shop for the insured unemployed: it is responsible for benefit payments, implementation of ALMPs, counselling services job and placement. The Hartz III reform in 2004 aimed to modernise its operation along the lines of New Public Management (management by objectives; requirement of setting a quantitative goal, etc.) and the reform renamed it as Bundesagentur für Arbeit (Federal Agency for
Employment) from its previous name Bundesanstalt für Arbeit (Federal Labour Institution), and created customer-oriented jobcentres, the Kundenzentren (Konle-Seidl et al 2007, Konle-Seidl 2008).

**Regional level organisations**

*Jobcentres (called Arbeitsgemeinschaften [ARGE] until 2010):* the joint agencies established in 2005 by the Hartz IV reform, responsible for the labour market reintegration (employment and social services, and also the administration of benefits) of the ‘basic income support for the able-bodied jobseekers’ scheme (the newly established UB II benefit). Consortia of the local BA offices and the local welfare offices of the municipalities. Until 2010, the official name for a joint Jobcentre was ARGE; in 2010 they were renamed as “gemeinsame Einrichtungen”.

*State-level governments and ministries (Länder):* the Federal Republic of Germany is made up of 16 constituent states, each of them having an own unicameral legislative body (Landtag) and an own government; state-level governments have the responsibility of regional economic development. The states also delegate representatives to the Bundesrat, the upper chamber of the German federal parliament, where the number of votes a state has is proportional to its population. The states thus have the possibility to shape employment policy and legislation at the federal level through their veto rights but have less influence on the implementation of policies.

**Local governments**

*Municipalities:* Before the Hartz IV reform, municipalities were responsible for the reintegration of social assistance recipients. From the beginning of 2005, most local welfare offices are integrated into joint ventures along with the local BA offices, and the two partners are commonly responsible for the activation of the UB II recipients (the long-term unemployed), although some of the districts were allowed to operate their own jobcentres independently. As of 2014, a total of 108 municipalities manage their own jobcentre without assistance of the BA.

**Social partners**

*Employer associations and trade unions (‘social partners’):* have strong influence on German employment policy. They are traditionally represented in governing (and, until 2004, in managing-) boards of the BA, although they have become less influential ever since the implementation of the Hartz reforms between 2002 and 2005.
3. Brief description of the status quo before reform

From 1998

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov (national, federal/regional, local)</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools (financial incentives, admin incentives, e.g. firing low-performing managers, monitoring performance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Ministry for Labour and Social Affairs</td>
<td>federal/central level (Bund)</td>
<td></td>
<td>No official performance management concerning the BA.</td>
</tr>
<tr>
<td>Bundesanstalt für Arbeit (BA) central office (Nuremburg)</td>
<td>federal/central level (Bund)</td>
<td>A central reintegration budget was introduced in 1998. Budget was allocated among the regions based on a given formula.</td>
<td></td>
</tr>
<tr>
<td>Bundesanstalt für Arbeit (BA) regional offices</td>
<td>regional/state level (Länder)</td>
<td>No active role.</td>
<td></td>
</tr>
<tr>
<td>Bundesanstalt für Arbeit (BA) local offices</td>
<td>district/municipal level (Kreisen/Gemeinden)</td>
<td>Can decide on the allocation of their funds to various programmes financed by a global reintegration budget for active measures.</td>
<td></td>
</tr>
</tbody>
</table>

Before 2004, no official performance management existed regarding regional or local level offices. Since 1998, the allocation of funds was the responsibility of the central level and was based on a specific formula. In each year, the Supervisory Board of the BA decided upon a central integration budget for active labour market measures. The source of funding was provided by compulsory social contributions, paid by employers and employees. This central integration budget was then split between the Eastern and Western regions, the former usually receiving a relatively larger amount of funds due to their less favourable labour market situation (for example, in 2004, the Eastern regions received 46% of the central integration budget, despite the fact that only one-fifth of the German population live in the former GDR-regions; Blien and Hirschenauer, 2005). In the second step, in each half of the country, the budget was distributed among the regions based on a set formula. The formula was based on four component indicators that were standardised and constructed on the basis of official statistics by the statistics department of the BA (Blien and Hirschenauer, 2005):
- rate of change of employment
- rate of underemployment
- rate of unemployed with special labour market problems
- outflows from unemployment into regular employment.

The elements of the formula were weighted by the size of the region and the 'pressure of the problem situation'. Furthermore, each element could be given specific weights that were set yearly by the Supervisory Board, taking regional policy aims into consideration.\(^3\) In the final step of the

\(^3\) For a detailed description of the formula, see Blien and Hirschenauer (2005).
budget allocation process, the regional budgets were distributed among local offices, by applying the same procedure as in the previous step.

4. Details of the reform initiative

4.1. Brief description of the initiative

The budget setting procedure described in the previous point was developed in 1998 for the sake of simplicity and transparency. Until 2003, only slight adaptations of the formula occurred. The year 2004, however, brought along major changes concerning the role of the lower (regional and local) levels of administration: as the BA was seen as an overly bureaucratic public body that was not client-orientated enough, the reforms were motivated by potential efficiency gains. The government’s intention was explicitly to improve the matching process by making the placement process through employment offices more effective. This was to be achieved by streamlining the public employment services and by converting the former hierarchically organised employment offices into customer-oriented job centres (Kundenzentren) (Konle-Seidl 2008).

Another policy aim was to improve the existing system characterised by poor coordination, insufficient responsiveness to customers, lack of efficiency, and failure to encourage innovation in service delivery (Christensen et al, 2014).

4.2. The rationale behind the initiative

During the 2004 Hartz III reform, the BA was streamlined and modernised along the lines of New Public Management (NPM). NPM originates its roots in institutional economics and managerial economics, and is characterised by the deployment of business principles and management techniques in the public sector. By introducing management practices from the business sector, NPM aims to foster competition and increase cost-efficiency in public administration. It questions the efficiency of a governance structure based solely on hierarchy, as hierarchies are usually less flexible in their capacity to adapt to changing circumstances; thus public sector reforms inspired by NPM usually entail some level of decentralisation in decision-making and budget setting. The introduction of a performance management system is usually expected to increase administrative accountability.

Instead of the principle of ‘management by directives’ (that is, through legislation, directives and guidelines from above), the new mode of governance within the BA relied on ‘management by objectives’ (MBO). MBO principles rely on public choice and agency theories. The process begins with the ‘principal’ (usually a central governmental body) setting the overall policy aims for a particular sub-regional ‘agent’, then these goals are quantified and negotiated along the vertical chain with the stakeholders. The assumed advantages of MBO systems lie in increased transparency and higher effectiveness through local agents being more flexible in the choice of instruments, and improved efficiency and reduced transaction costs (Weishaupt 2010).
### 4.3. Detailed description of the new system

**Hartz III reform in 2004: introduction of the performance management system**

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov (national, federal/ regional, local)</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Ministry for Labour and Social Affairs</td>
<td>federal/central level (Bund)</td>
<td>Setting goals: is not involved in setting goals for the BA concerning insured jobseekers (SGB III). Develops targets on an annual basis together with the BA concerning basic income benefit recipients (SGB II). Allocating funding: since services under SGB III are financed by contributions, the federal government does not have an active role in allocating funding (only approves of the overall budget of the central BA office). For ad-hoc special programmes (e.g. 'Initiative 50 plus' for the older unemployed), the federal government makes additional funds available; local BA agencies are free to apply for these funds. Designing services: the available services are defined in SGB II and SGB III. BA offices/ Jobcentres are free to choose which instruments they wish to apply and how to design them. Internal management: the supervision of the ministry is limited to the question of legality of the activities.</td>
<td>Concerning BA-operations that target the insured unemployed: no active role in performance management. Concerning BA-operations within the Jobcentres that target basic income benefit recipients: A committee of basic income support (responsible for monitoring and advising in key issues) was established at the federal level.</td>
</tr>
<tr>
<td>Bundesagentur für Arbeit (BA) central office (Nuremberg)</td>
<td>federal/central level (Bund)</td>
<td>Setting goals: sets broad objectives at the beginning of the target setting process, and finalises the target levels for each local offices together with the regional directorates.</td>
<td></td>
</tr>
<tr>
<td>Bundesagentur für Arbeit (BA) regional directorates (10)</td>
<td>state level (Länder)33</td>
<td>Setting goals: acts as a ‘transmission belt’ between the central and local level</td>
<td></td>
</tr>
<tr>
<td>Bundesagentur für Arbeit (BA) local agencies (156)</td>
<td>district/municipal level (Kreisen/Landkreisen)</td>
<td>Setting goals: discusses the level of targets with the regional tier. Budget flexibility: can freely allocate resources among measures. Designing services: free to choose the combination of services they wish to offer. 10% of the budget for active measures can be used for innovative programmes.</td>
<td></td>
</tr>
</tbody>
</table>

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33 Although there are 16 Länder in Germany and the number of BA regional directorates is 10.
During the Hartz III reform in 2004, quantitative targets and performance measurement were introduced for the BA. Up until 2013, the target setting procedure was characterised by a ‘top-down approach’. The targets to be achieved by the local agencies were set up by the central BA office in Nuremberg on an annual basis: the list of indicators usually included the average duration of unemployment for the beneficiaries of unemployment insurance benefit (called UB I from 2005 onwards), number of job placements, number of job to job transitions, vacancy filling, unemployment processing in a standard time, and several different measures of customer satisfaction (European Commission 2012).

After the central office set the broad targets to be achieved, they were sent (sometimes, along with binding operational guidelines) to the regional tier. The regional directorates then “translated” the broad targets set by the central to the local level by taking into account the local labour market characteristics and variation in capacities in the local offices. The local offices and the regional directorates then negotiated the final level of set targets, and after aggregation in each region, were sent back by the regional directorates to the central level. Finally, the BA headquarter and the regional directorates discussed and finalized the targets to be achieved (Weishaupt 2010, European Commission 2012). The process of target setting thus relied on dialogue and consensus among all three levels, and the regional level had the task to act as a ‘transmission belt’ between the other two tiers (Weishaupt 2010).

For the ARGE joint agencies (called ‘Jobcentres’ from 2010 on) that were set up in 2005 and provide services under the Second Social Code regulation, the SGB II (targeting long-term unemployed of the basic income scheme), a different system of budget setting and targeting was developed. As these joined-up agencies do not have fiscal autonomy and are financed by federal taxes, the Federal Ministry for Labour and Social Affairs (BMAS) had a more active role in performance control compared to the case of the BA concerning UB I recipients34. Concerning the ARGE agencies, targets were developed together by the central office of the BA (who is, along with the municipality, a partner within the joint agencies through its local offices) and the Ministry on an annual basis. These quantified goals usually regarded the number of UB II recipients, the long-term dependence on benefits and the success of reintegration measures. Based on these target agreements and considering regional characteristics, local BA offices negotiated the specific levels of targets with the regional offices in each district. The controlling reports and statistics (e.g. number of re-integrated jobseekers, useful measures, development of monetary benefits) were published on-line in each month and were publicly available. There was no formal system of sanctions for the jobcentres in case the targets are not reached, although the managers of the ARGE Jobcentres could be sanctioned with a reduction of bonus payments in case of underachievement (Wegrich et al 2013). Since 2010, the Jobcentres - similarly to BA offices that provide services under SGB III - are also allowed to allocate 10% of their budget to developing their own innovative programmes for the long-term unemployed.

Regarding the municipality-run jobcentres (the ‘zugelassene kommunale Träger’), a different system of performance management is in force where the respective state-level ministries develop targets for the opting-out municipalities.

Other relevant changes from 2004 included the establishment of the Kundenzentren at the local level (with the introduction of new customer flow management practices, e.g. a more user-friendly system for making an appointment; relying on a targeting system more heavily to categorise the clients according to their needs; creating separate areas within the agencies for the reception desk,

34 In the case of UB I recipients, the BMAS has only legal and no functional or procedural oversight over the BA. Although some general indicators (‘frame targets’; Rahmenziele) are developed together by the Ministry and the BA, these targets are not quantified and are different from the targets set by the BA itself (described above), and these target agreements have no influence on the work of the BA as no sanctions are formulated or applied in case they are not reached (Christensen et al 2014); thus these targets are mainly symbolic.
for an ‘entrance area’, for a telephone service centre and for self-service desks\(^\text{35}\), and the creation of five **regional purchasing centres** (Regionale Einkaufszentren). These purchasing centres are responsible for conducting the tendering process for training and other employment or placement services, and work in cooperation with the local agencies (and with the ARGE joint agencies, although they are not obliged to use the services of the purchasing centres). The introduction of regional purchasing centres replaced the formal system of contracting-out in which the local agencies were solely responsible for negotiating with private and non-profit service providers.

Changes from 2013: a new bottom-up approach in defining targets and budget setting

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Ministry of Labour and Social Affairs</td>
<td>federal/central level (Bund)</td>
<td>Setting goals: is not involved in setting goals for the BA. Allocating funding: since services under SGB III are financed by contributions, the federal government does not have an active role in allocating funding (only approves of the overall budget of the central BA office). For ad-hoc special programmes (e.g. ‘initiative 50 plus’ for the older unemployed), the federal government makes additional funds available; local BA agencies are free to apply for these funds. Designing services: the available services are defined in SGB II and SGB III. BA offices/ Jobcentres are free to choose which instruments they wish to apply and how to design them. Internal management: the supervision of the ministry is limited to the question of legality of the activities.</td>
<td>Concerning BA-operations that target the insured unemployed: no active role in performance management. Concerning BA-operations within the Jobcentres that target basic income benefit recipients: A committee of basic income support (responsible for monitoring and advising in key issues) was established at the federal level.</td>
</tr>
<tr>
<td>BA central office (Nuremberg)</td>
<td>federal/central level (Bund)</td>
<td>Allocating funding: decides on an overall budget for active measures, based on the aggregated budget plans sent by the regional directorates.</td>
<td></td>
</tr>
</tbody>
</table>

\(^{35}\) For a more detailed description (and an impact evaluation) of the Kundenzentren in English, see Ehlert (2013).
From 2013, a ‘bottom-up approach’ in target setting and budget planning replaced the previous system that was characterised by a ‘top-down approach’. Now the local employment agencies estimate their budget needs in advance for the following year, based on the current stock and the expected inflow of clients, and predicted local labour market developments and their own strategic focus. They also define targets to be reached themselves. In the next step, regional directorates aggregate the budget requests and negotiate the level of targets if needed: if the targets proposed by the local agencies are deemed to be not ambitious enough by the regional level, the local agency has to make an adjustment and increase the level of targets. In case of disagreements, the upper level has the final decision. To control for local differences in labour market characteristics, benchmarking is used between the local agencies (Mosley 2014).

Concerning the joined-up agencies, the Jobcentres (previously known as ARGeN), another set of changes applies. From 2013, the BA and the municipalities negotiate targets with the management of the Jobcenters. For the municipality-run jobcenters (the opting-out municipalities), targets are first agreed between the Federal Ministry of Labour and Social Affairs (BMAS) and the Ministries of Labour of the 16 German states (Länder). In the next step, the respective state-level ministry negotiate the levels of targets with the opt-out municipalities in their region (Christensen et al 2014).

For an overview about the process of target formulation in the UB I and UB II scheme, see Figure 1 (by Christensen et al, 2014) in the Appendix.
4.4. Context of the initiative: where did the idea come from?

In early 2002, the BA gained notoriety when the so-called ‘placement scandal’ (Vermittlungsskandal) broke out: the Federal Audit Court discovered that the placement statistics of the BA were wrongly reported: in fact, only about one-third of the officially reported placements could be considered as legal and real employment (Konle-Seidl et al 2007, Konle-Seidl 2008, Wegrich et al 2013). The scandal prompted the newly re-elected government to set up a committee of experts (headed by Volkswagen-director Peter Hartz) with the task of working out a solution to the problems of the institutional system of the employment policy, as the ‘outdated’, ‘inefficient’ and ‘bureaucratic’ BA was primarily blamed for the low level of employment. Based on the suggestions proposed by the Hartz committee, Chancellor Gerhard Schröder announced the Agenda 2010 policy programme in 2003 that aimed to modernise the welfare system and revitalise the stagnating German economy. The four laws on ‘Modern Services on the Labour Market’ (the Hartz I-IV reforms) implemented between 2002 and 2005 were also in line with the report of the expert committee: Hartz I in 2002 introduced new ALMP measures and a targeting system, Hartz II in 2003 set up new forms of employment and initiated a rise in the number of local job centres, Hartz III in 2004 was aimed at restructuring and modernising the BA along the lines of New Public Management, and finally, Hartz IV created a new institutional system for the activation of the long-term unemployed, the ARGE (constituted by the public employment services and the municipalities) and significantly restructured the unemployment benefit system by merging two existing welfare benefit schemes (creating the UB II scheme; the ‘basic income support for the able-bodied jobseekers’).

The Hartz III reform in 2004 responded to widespread accusations about the BA being a “large, sleepy and inefficient public bureaucracy restricted by law and regulations and a lack of performance measurements and competitive incentives” (Kemmerling and Bruttel 2006, p.94).

4.5. The designing phase

As described in the previous section, the original proposal was framed by a commission of experts headed by Peter Hartz. According to Konle-Seidl (2004), there was broad consensus among the political parties and other stakeholders concerning the necessity of restructuring the BA and creating a system of more client-oriented customer centres.

The new law came into effect on January 1, 2004. Both the introduction of the performance management system and the creation of the Kundenzentren were implemented nationwide, although the Kundenzentren were only established in a few (non-randomly chosen) pilot agencies in 2004, and were established in the rest of the local agencies later in 2005 (Ehlert, 2013).

4.6. Implementation process

The implementation process started with the reorganisation of the central office in the beginning of 2004. As a result, the central office became responsible for strategic goal setting for the whole organisation. In the next step, the Regional Directorates were reorganised by the end of 2004. By the end of 2005, all local agencies were reorganised and the implementation phase ended (Bender et al, 2006).

4.7. Costs of the initiative

The calculated costs of the implementation of one Kundenzentrum are EUR 66.000 (Konle-Seidl, 2004). Concerning the costs of implementing the performance management system or other implementation costs of reorganising the BA, no data is available.
4.8. Who implemented the initiative?

As part of the Hartz III reform, the federal employment agency of Germany was renamed as ‘Bundesagentur für Arbeit’ (Federal Employment Agency) from its previous name ‘Bundesanstalt für Arbeit’ (Federal Employment Office). The new BA is headed by the tripartite Board of Governors (Verwaltungsrat) that has representatives of trade unions, employer associations and public bodies (the latter including several federal ministries, the Bundesrat that represents the states within the Parliament, and a representative of the municipalities). The Board of Governors is the main monitoring, advisory and legislative body of the BA and is mainly responsible for strategic planning. It also has the duty of appointing the three-member Management Board (Vorstand), which manages the BA’s daily operations. At the regional and local level, operations are also managed by three-member boards, which are appointed by the central Management Board (Weishaupt 2010, European Commission 2012). Before 2002, corporatist boards of directors were operating at all three tiers; these were eliminated during the Hartz reforms in order to reduce the influence of the social partners, although they are still represented in the Board of Governors in the central level (Dingeldey 2011).

The central office is located in Nuremberg. There are 10 regional directorates and 156 local offices with 647 sub-offices delivering services (Kundenzentren) nationwide, employing about staff of about 113,000 employees overall in 2010 (Hammerschmidt et al 2013); this makes the BA the biggest public agency in Germany. The BA is funded exclusively by compulsory social insurance contributions of employers and employees. In the year of the Hartz III reform (2004), the whole budget of the BA amounted to EUR 54,489,661,000 (Bender et al 2006). In 2013, the total BA expenditure was EUR 32,574,000,000 approximately (PES business model country fiche).

4.9. Impact assessment

As the German government explicitly tied the implementation of the Hartz laws to an evaluation mandate, all elements of the reforms were evaluated. The state-mandated evaluation of the streamlining element of Hartz III were carried out by an independent research institute, the iso-Institut (Bender et al, 2006).

Although Bender et al (2006) gives an exhaustive description and evaluation on the reorganisation of the BA, it does not attempt to estimate the causal effects of the interventions. To our knowledge, the only impact evaluation study of the Hartz III that used quantitative methods is Ehlert (2013), which evaluated the effect of the Kundenzentren on employment chances, using binary outcomes for ‘regular’ (open-market) employment, subsidised employment and transition from underemployment to regular employment. The paper relied on difference-in-differences methods, and used the observations for local agencies where the Kundenzentrum was established later (during 2005) as control groups in contrast to agencies where the reform was implemented earlier in 2004 (the ‘treated’ group). The results suggest that the introduction of the Kundenzentren led to a small but significant increase in employment inflows and overall employment, measured two years after the implementation (although the significance of the results disappears when applying agency-level clustered standard errors).

On the impacts of the introduction of the new target-setting or performance management system, no quantitative (counterfactual) evaluations exist.

4.10. Problems faced during or after implementation of the initiative and how these were solved.

There are some references that report a certain level of staff dissatisfaction within the BA after the performance management system was implemented and the BA was reorganised in 2004. According to Konle-Seidl (2004), staff satisfaction had somewhat (-8%) decreased by August 2004 in the first local agencies where the Kundenzentren were established, probably due to the high
requirements of the restructuring process. Olejniczak and Salmon (2013) also report that, based on a survey conducted by the authors, working conditions and the performance management associated with the New Public Management reforms result in a higher level of stress among the ARGE- (Jobcentre-) staff compared to German workers in general. In contrast, Hammerschmid et al. (2013) report that senior-level executives within the BA assessed the dynamics of New Public Management-driven reforms as relatively successful, were more satisfied with other factors (e.g. clarity and transparency of goals) compared to staff of other public bodies, and felt that performance management was strongly institutionalised; however, job satisfaction was reported to be slightly lower than among executives in other policy fields, due to ‘often being overloaded by work’.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

The reorganisation of the BA was a result of a strong political commitment towards streamlining the public employment services, especially the placement process.

5.2. Lessons for Europe

The governance system of the German public employment services – being set in a federalist country – is a common example of multi-level governance. The political culture of Germany is characterised by decision-making chains that strongly rely on consensus. The governance of the BA mirrors this desire for consensus, as budget allocation and the final level of targets are decided through a series of negotiations between the three levels. As the BA has been operating since 1927 and has always played a special role within the public administration system in Germany (being the most important actor in employment policy and possessing a relatively high level of autonomy), it has a long tradition of self-governance. Therefore, the BA’s example of multi-level governance might be a relevant lesson for countries with similar (federalist) regimes with a strong regional level and with similar political cultures.

5.3. Main strengths and weaknesses

The reorganisation of the BA during the Hartz reforms in 2004 and the successive rearrangements regarding the performance management and target setting system in 2013 has entailed mixed assessments in the relevant literature. According to Weishaupt (2014), the arrangements for the BA’s governance represent a balanced mix of central steering and local autonomy. We can also examine a gradual increase in autonomy of the local level. In the process of target setting and budget planning, regular adjustments are made with lessons learnt. Dingeldey (2011) also emphasises the mixed trends of decentralisation and (re-)centralisation in the BA’s governance. The relatively high level of budget flexibility at the local level (i.e., 10% of the budget can be spent on innovative measures) can be accounted as a step toward decentralisation. On the other hand, the introduction of the regional purchasing centres in 2004 increased the standardisation of services as training and other employment services are no longer contracted out by local BA offices through a negotiation process with local providers, but instead are purchased by the regional level. This new practice is heavily criticised, not only because it has reduced the local level’s autonomy but also because the process of contracting-out has become longer and more bureaucratic than before. Also, this new practice of (re-)centralisation is thought to be less effective in the case of services targeting more disadvantageous groups of unemployed, as the centralized tendering favours cheap suppliers without sufficient integration into local labour markets and specialised services are de-emphasized (Dingeldey, 2011).
Furthermore, some other scholars add that, despite intentions and rhetoric about increasing decentralisation and autonomy of the local level, there is a constant struggle over how much control should be put on the different levels. Despite the principle of management-by-objectives, issuing internal directions is still quite common within the BA, and local offices have only little influence on the formulation of the target values (Christensen et al, 2014).

The performance management system and the target setting process has also been criticised: there are too many indicators that need to be controlled for, which contradicts the principles of management-by-objectives. Also, these indicators might sometimes be in conflict with each other, and tension can emerge concerning what tasks and expectations should be prioritised in case of conflict or lack of resources (Christensen et al, 2014).

‘Focusing too much on the numbers’ (as quoted by an interviewee from the Federal Audit Office in Christensen et al, 2014) can also lead to ignoring other factors a social service provider should pay attention to, that is, long-term goals and targets that are harder to quantify. This can result in cream-skimming, i.e. the selection of jobseekers who are less disadvantaged – for example, higher-educated or possess higher level of employment-related skills, and thus are easier to place – for employment programmes and placement services in order to improve targets. Cream-skimming usually entails another undesirable practice: parking, i.e. leaving the most disadvantaged jobseekers out of employment programmes as they are less likely to find employment on the short run and have less chances to improve the statistics of the BA. Cream-skimming and parking are not only not equitable but also result in efficiency loss, as those who are ‘creamed’ are usually more likely to find employment on their own, i.e. without participation in employment programmes or without the help of case workers. The BA has an incentive to focus only on clients that face less barriers to employment, and park disadvantageous jobseekers who have worse employment perspectives, as after exhausting unemployment benefit (UB I), they are automatically transferred to the unemployment assistance (UB II) scheme, and become the responsibility of the joint agencies (where a different system of performance management is in force) or the municipality-led opt-out jobcentres (Christensen et al, 2014). To counteract the incentives for creaming and parking, ‘average benefit duration’ is built into the set of indicators that determine the performance of local agencies (European Commission, 2012). To have a reliable and sound picture on the actual practice and level of creaming and parking of clients within the BA, an elaborate research using both qualitative and quantitative methods is needed.

To summarise, the governance of the German public employment services agency is highly complex and unique compared with other European countries. Although the reorganisation of the BA during the Hartz reforms was designed with other European examples and trends in mind, because of the federal structure of the state and a strong tradition of central steering, the intended goal of a local level with increased autonomy was achieved only partially. Furthermore, the three tiers of public employment services – the BA (responsible for the short-term unemployed), the joint ventures of the BA and the municipal welfare offices, and the opted-out municipal jobcentres (responsible for the long-term unemployed) – are subject to different legislation and steering structures. Concerning the SGB III system (UB I for short-term unemployed), the BA enjoys high level of autonomy as in practice, the Federal Ministry for Labour and Social Affairs (BMAS) have little influence over its operations. The target setting and budget allocation process involves a series of negotiations between the different layers of administration within the BA: between the local and regional and between the regional and central level. In case of disagreement concerning the budget needs or the specific level of targets, the upper level has the final decision. There are some contradicting professional insights regarding how much actual power the local level has during these negotiations.

The joint facilities that are responsible for the reintegration of UB II recipients do not enjoy a level of autonomy as high as the BA operating within SGB III. As they are financed by taxes, the BMAS initially played a larger role in the governance of the BA, but according to Christensen et al (2013), it is now the local governments (along with local BA offices) that are negotiating targets with the joint
facilities. Finally, the opting-out municipal jobcentres are subject to yet another legislation and steering structure where the state- (Bund-) level ministries are the ones that are part of the target-setting procedure.

6. References


7. Appendix

Figure 1: The process of target setting in the UB I and UB II scheme

POLAND

Flóra Samu

1. Setting the scene

Since the implementation of the 2004 Act on Promoting Employment and Labour Market Institutions, the unemployment rate in Poland dropped by nearly 10 percentage points until the economic crisis in 2008. During the same period spending on active labour market programmes exceeded benefit expenses due to an expansion of PES services (Eurostat 2014). At the end of 2008, unemployment started to rise again, especially among young people.

After the 2007 elections, the liberal-conservative government led by the Civic Platform was committed to introducing a coherent flexicurity strategy (Gwiazda 2011). The National Reform Programme 2008–2011 aimed to expand active labour market policies, and strengthen labour supply incentives (Ministry of Economy 2008), including activation and supply-oriented instruments such as training, retraining and internships.

However, when fiscal conditions worsened in 2011 and 2012, the Ministry of Finance froze a significant share of the main funding source for public employment services, which led to a drastic cut in participation in active labour market programmes (Maksim, 2013). In July 2012, responding to the criticism from social partners on the freezing of funds part of the Labour Fund was unlocked, and the money was allocated directly to the implementation (poviat) level.

Employers’ organisations and trade unions proactively prepared a proposal for establishing a board to manage the Labour Fund and for strengthening social dialogue in policymaking and policy evaluation. In response, the Ministry of Labour and Social Policy proposed comprehensive reforms of public employment services in 2013 to improve the effectiveness of Public Employment Services and ensure wider scope for active labour market policy instruments. The measures introduced in 2014 enhanced the role of voivodeship (provincial) self-government in labour market policy, changed the allocation of the Labour Fund, increased the salaries of local PES employees and established a uniform national data system. The recent reform also improved conditions for outsourcing activation services and for cooperation between the local Labour Offices and regional authorities.

Although the recent Polish reform includes elements of both vertical and horizontal integration, we focus on the vertical elements, which were more important and also more likely to yield lessons for other New Member States.

2. Main agents involved in managing the benefit system and providing employment and social services

In 1999 new levels of local government were established with the devolution of social policy tasks to regional and local governments. Voivodeships (provinces) and poviats (counties) are mainly responsible for employment policy and gminas (municipalities) take most responsibility for social

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36 These were part of the “amendment of the Act on employment promotion and labour market institutions”, which came into effect on January 1st 2014.

37 The reconstruction of the PES system started at the beginning of 2000, and was completed in 2004.
assistance (Kalužná 2009). Institutions in both systems are independent and arranged in a hierarchy based on administrative relations. (Ingłot 2008)

The key decisions for employment policy are made at central level at the Department of Labour market within the Ministry of Labour and Social Policy (Departament Rynku Pracy, Ministerstwo Pracy i Polityki Społecznej). All PES offices must follow some central rules (eg. the minimum number of staff they should employ, the central funding necessitate benefit payment first, the rest can be used for ALMP spending etc.). The second administrative level is Voivode, the representative of the Government in the Province, in which 16 regional PES (Wojewódzki Urząd Pracy WUP) operate. WUPs are subordinate to marshals of the provinces and co-ordinate employment policies in a given region. At sub-regional (poviat) level 340 PES (Powiatowy Urząd Pracy - PUP) take responsibility for unemployment services, benefit payment, development of local strategic plans and evaluate the effect of the programmes and report to the local mayors (poviat starosts).

Institutions have high levels of performance responsibility and programme, procedural and staff flexibility, but moderate operational flexibility due to financial insecurity.

The administration of social assistance consists of a central ministry level (Department of Social Assistance and Integration - Ministry of Labour and Social Policy; Departament Pomocy i Integracji Społecznej - MPiPS) which defines general social policies. As of the early 2000s, Regional Social Assistance Centres (Regionalny Ośrodek Polityki Społecznej - ROPS) develop regional strategies, and offer advisory services to institutions at lower levels. The social assistance centres at municipal (gmina) level (Miejski Ośrodek Pomocy Rodzinie/ Miejski Ośrodek Pomocy Społecznej - MOPR/MOPS) have no role in labour market integration specified by law.

The Minister for Labour Affairs, together with the administration supporting it (Ministry of Labour and Social Policy) have a duty to prepare and coordinate the labour market policy of the state. Central government have disposal of financial resources as the Labour Fund. A strategic document at central level determines instruments, tools and methods stimulating the development of employment service institutions. The ministry is responsible for planning and implementing tasks - in order to reduce unemployment, mitigate its effects, and improve the activation of the unemployed - performed by labour market institutions and co-financed by the European Social Fund. Laws made by the ministry clarify and define standards of services provided by employment agencies (eg. types of interventions, target groups, eligibility criteria, the minimum staff size, acquired qualifications etc.). Ministry is in charge of implementing and developing information and communication systems in the public employment services to ensure a coherent system for labour market support.

Voivodeship (representative of the Government in the Province) within the scope of labour market policy supervises the implementation of tasks by the marshal or starost, provincial or poviat employment agencies and other entities. The management of the resources allocated for employment policies is shared between the Minister and the voivodes. Organizing and financing trainings of WUPs and PUPs are voivodes’ responsibility.

Provincial Employment Agencies (Wojewódzki Urząd Pracy - WUP) determine and perform local programs and strategies of development concerning the regional labour market. Programs and strategies are performed based on the province development strategy and provincial strategy within the scope of social policy. The voivodeship action plans define priorities in terms of types of interventions, projects, and target groups - in compliance with the national strategy and after

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38 Only a small number of employment support programmes managed by social assistance services. These social integration centres (CIS) and social integration clubs (KIS) were introduced in 2004, and provide social employment with counselling and occupational training for one year.

39 PES offices are mostly financed by local government budgets.

40 Marshals (heads of the regional executive, indirectly elected by the regional parliament) share authority at regional level with Voivodes (governor, appointed by the central government).
consultation with powiat self-government entities and social partners - considering province development. WUPs distribute resources from the Labour Fund and from the ESF - the latter used also for support groups who are not targeted by the central strategy, initiate researches and pilot projects as well as workshops and trainings for PUPs in order to develop the performance of activation programmes. Within the scope of WUP, Information and Vocational Career Planning Centres are available, that support actions of PUP within the scope of vocational guidance for unemployed, searching for a job and employers.

**Poviat Employment Agencies (Powiatowy Urząd Pracy - PUP)** implement programmes promoting employment and activation of local labour market. After the shift of employment service competences from the state to a local level in the 1990s, services provided by the PUP were more closely adjusted to local level needs. PUPs keep a record of unemployed job seekers and employers, pay benefits for unemployment, develop and monitor individual actions plans and deliver labour market services (counselling or training). The operational costs are born by the respective territorial self-government, therefore local PUPs not only work independently of each other but may also follow very different practices.

**Employment Councils** as advisory bodies play **considerable role** in the decision making process in the field of labour market policies and education at central, regional and local level as well. Meetings with the social partners (the representatives of trade unions, employers’ organizations and non-governmental organizations) are held at least once in three months.

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41 Other interested organisations may be invited to the meetings.
3. Brief description of the status quo before reform

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov (national, federal/regional, local)</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
<th>Performance management tools (financial incentives, admin incentives, e.g. firing low-performing managers, monitoring performance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Labour and Social Policy – Department of Labour Market (MPiPS)</td>
<td>National</td>
<td>in the National Action Plan for Employment (KPDZ) - determine operational standards - allocate funds: Labour Fund, Minister’s Reserve, ESF (the total amounts to be transferred to the head of the voivodship)</td>
<td>initiating research projects</td>
</tr>
<tr>
<td>Voivode</td>
<td>Regional</td>
<td>supervise the regional implementation tasks by the marshal or starost</td>
<td></td>
</tr>
<tr>
<td>Voivodship Labour Office (WUP)</td>
<td>Regional</td>
<td>WUP strategy program setting regional goals (in compliance with at least one national goal), defining performance indicators for projects not aiming centrally defined target group) - co-ordinate employment policies in a given region - allocating ESF &amp; subordinate to marshals of the provinces</td>
<td>Operational costs, including staff are born by the respective regional (voivode) government. initiating research projects</td>
</tr>
<tr>
<td>Poviat Labour Offices (PUP)</td>
<td>Local</td>
<td>PUP strategy program in cooperation with WUP: setting local goals implementing programmes</td>
<td>Operational costs, including staff are born by the respective local government.</td>
</tr>
</tbody>
</table>

This original structure suffered from several inefficiencies:
The fragmented system of institutions responsible for social policy, low quality of strategies, lack of coordination between strategies

The delivery of public employment services is highly decentralised, and the limited coordination among labour offices impedes successful activation (Kalužná 2009). Until 2014 the Polish PES did not have target setting system.

Centralised financing and lack of performance-based incentives
In contrast to the previous point the allocation of funding was done by the Ministry of Labour, but was not tied to specific performance targets. Former criticism drew attention to the strategy development procedure where target setting was affected by the desire of the EU funding, rather than local needs. (Trappmann 2011) Due to this reason very general provisions - in all social policy areas - have been distributed by these documents to leave options open to justify the application for any grant. (Mandes 2013) Apart from the perverse incentives around obtaining EU funding, the lack of collaboration - as a result of high institutional autonomy - were the most frequently cited

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42 Greatly affected by the scarcity and uncertainty of financial resources. Uncertain in a sense that financing of active labour programmes depend on the central budget.
problems. (Karwacki et. al 2010). This, as well as the objective of acquiring ESF resources meant that broad-scale superficial regional goals were set in the regional plans instead of focusing on local problems.

Understaffing of PES offices

The operational cost of WUP and PUP are mainly born by the provincial or local self-governments. The PUP faces extremely high staff turnover, (50% in 2005) because of the poor wage conditions that PUP may offer. (Klauzná 2009).

Unwillingness to cooperate between PUP and social assistance institutions

The cooperation between social assistance institutions and public employment services - more specifically between the ROPS, ROEFS\textsuperscript{43} and the WUP at regional level as well as between PUP and MOPR/MOPS at local level\textsuperscript{44} - are confined to formal administrative activities. As a result of the disincentives of the collaboration from the PUP's perspective (eg. the customers of social assistance depicted by PUP's employees as 'difficult cases', who spoil PUP's performance statistics (Mandes, 2013)), those who receive social assistance can be excluded from employment support services.

Lack of comparable data as hampering performance evaluation of PES offices

Decentralisation of PES hinders the collection and comparison of data while the scope of data is determined by regional labour offices due to regional situation and needs. Hence, the available administrative data was of poor quality which rendered both performance and policy evaluation very difficult.

4. Details of the reform initiative

4.1. Brief description of the initiative

The changes in 2014 aimed to modernise the Public Employment Service along several dimensions. First, it strengthened vertical co-ordination between regional and local level PES. Second, it widened the role of the regional employment offices (WUPs), with greater autonomy in distributing funds. Third, it introduced performance-based management, along with performance based target-setting. Fourth, it set universal operational standards which came hand-in-hand with a new profiling system for unemployed. These last two changes were also underpinned by a newly developed ICT system including a nationwide data management system. Finally, the reform seeks to improve horizontal co-ordination with regards to long-term unemployed, and aims at more individualised activation services including increased outsourcing.

4.2. The rationale behind the initiative

Most of the more recent reforms inspired by the New Public Management (NPM) including – among others - performance-related pay, management-by-objectives (MBO), the strengthening of executive agencies to implement public policy (the marshal of the WUP), privatization (private or non-governmental actors be charged with running employment services besides local government entities). NPM borrowed management approaches and techniques from the private-for-profit sector and it dominated the PES modernization of most OECD countries from the 1980s as it provides an alternative way to increasing cost-effectiveness without extremely narrowing welfare entitlement. (Weishaupt 2010)

MBO ideas based on a system of targets and indicators rather than regulations provided by respective ministries (Weishaupt 2010). The 2014 reform introduced performance targets, while strengthening target-setting system (a correspondence required in reform strategies), respectively,

\textsuperscript{43}\textsuperscript{ Regional Centre for the European Social Fund (Regionalny Ośrodek EFS)

\textsuperscript{44}\textsuperscript{ PUP has a statutory obligation to cooperate with the gminas.}
in order to increase transparency in finance and higher effectiveness through better targeting (Weishaupt 2010).

Quite common notion that the elimination of hierarchical relationships between central level, WUP and PUP led to the loss of control of the whole system (Grotkowska et al. 2007), but it is also believed that the lack of decentralization produces less flexible capacity to adapt to changing circumstances in the local labour market (Góra 2007), thus NPM approach usually allow some level of decentralisation (Weishaupt 2010, Mosley 2011) beside standardization of PES operation and services in order to increase administrative accountability. In previous years\(^{45}\), a side effect of the standardization activities was the growing bureaucratization, which is burden on the efficiency of PES office staff\(^{46}\) (Kalužná 2009).

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\(^{45}\)The main standards required are set centrally and defined in the Act of 20 April 2004 on employment promotion and labour market institutions and broadened with amendments in 2007, 2010, 2013.

\(^{46}\)Only one-fourth out of 20 thousand office staff is directly involved in job placement. (Kalužná 2009)
4.3. Detailed description of the new system

<table>
<thead>
<tr>
<th>Unit of gov</th>
<th>Level of gov (national, federal/ regional, local)</th>
<th>Involvement in setting goals, allocating funding, designing services, internal management</th>
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</tr>
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<tbody>
<tr>
<td>Ministry of Labour and Social Policy – Department of Labour Market (MPiPS)</td>
<td>National</td>
<td>in the National Action Plan for Employment (KPDZ) - determine operational standards (broadened in 2014) - allocate funds: LF Minister’s Reserve ESF (the total amounts to be transferred to the head of the voivodship)</td>
<td>initiating research projects since 2014: performance based financing (based on the number of the unemployed and the unemployment rate; and the job finding rate of ALMP participants three months after the end of the programmes) and monitoring performance of the WUP and PUP through a nation-wide data system</td>
</tr>
<tr>
<td>Voivode</td>
<td>Regional</td>
<td>supervise the regional implementation tasks by the marshal or starost allocates KFS</td>
<td></td>
</tr>
<tr>
<td>Voivodship Labour Office (WUP)</td>
<td>regional</td>
<td>WUP strategy program in cooperation with PUP (new): setting regional goals (in compliance with at least one national goal), defining performance indicators for projects not aiming centrally defined target group) - designing activation services (new) - co-ordinate employment policies in a given region - allocating ESF &amp; KFS fund (new) based on performance indicators - subordinate to marshals of the provinces</td>
<td>Operational costs, including staff are born by the respective regional (voivode) government. initiating research projects since 2014: monitoring performance of the PUP through a nation-wide data system</td>
</tr>
<tr>
<td>Poviat Labour Offices (PUP)</td>
<td>local</td>
<td>PUP strategy program in cooperation with WUP: setting local goals Implementing programmes (The 2014 reform promotes cooperation with NGOs, private employment agencies)</td>
<td>Operational costs, including staff are born by the respective local government.</td>
</tr>
</tbody>
</table>

Before the 2014 reform the PUP had a relatively high autonomy: the main decisions in labour market policies were adopted by the PUP and the ministry (MPiPS). In 2014, vertical coordination was improved by increasing the role of the regional governments and giving them more autonomy in initiating regional level programmes as long as they follow the National Action Plan for Employment (Planu Działań na Rzecz Zatrudnienia - KPDZ). To intensify the vertical integration of independent PES institutions the following rules have been enacted. Firstly, in order to match some central level objectives with local needs and extend the time span of planning, strategic documents must be well coordinated. Second, the reform requires the WUPs to develop an employment and social policy strategy that must identify regional problems and adequate solutions. Third, the PES
reform obliges WUPs to involve local Employment Offices (PUPs) in the regional planning phase. Finally, at all administrative levels, strategic plans must contain at least one provision in compliance with the strategy at the higher level.

The 2014 changes have widened the role of the regional employment offices (WUPs), as they now also distribute the funds of newly introduced National Training Fund (Krajowy Fundusz Szkoleniowy, KFS). This is a separate part of the Labour Fund used to finance the continuing education of employees.

The reform has also introduced performance-based funding: according to the new regulations, ALMP funding at a given local job centre (PUP) will depend on input and performance indicators (e.g. the number of the unemployed and the unemployment rate; and the job finding rate of ALMP participants three months after the end of the program). Furthermore, the recent reform encourages the outsourcing of activation services for clients classified by the new profiling system as ‘unemployed far from the labour market’, as outsourced services related to this group may now be financed from the Labour Fund, and not only from the local budget as before.

Finally, financial incentives have been provided to increase horizontal co-operation between PUPs and social welfare centres to provide an extensive support for unemployed isolated from the labour market. Those Poviat Labour Offices (PUPs) who implement new Activation and Integration Programme (PAI – Program Aktywizacja i Integracja) independently receive less state subvention than PUPs who implement the programme in cooperation with social welfare centres.

4.4. Context of the initiative: where did the idea come from?

Council of Ministers (Minister of Labour and Social Policy Władysław Kosiniak-Kamysz) adopted a draft framework for the amendment of the Act on employment promotion and labour market institutions, which aims to increase the efficiency of labour offices in July 2013. The improvement of the PES efficiency was not promised by any party manifesto, but can be paralleled by the pension reforms of the Tusk government, since the new system of 2014 accentuates the employment of the people over 50.

The main reason of the reforming of the public employment services might have been the public opinion that the greatest problem in Poland was the high unemployment rate and the poor situation on the labour market. Furthermore, it has been evidenced many times that the PES perform poorly and are not financed properly. (Kaluzá 2009, Sztandar-Sztanderska 2013) International country-specific recommendations have been focusing on this problem. (OECD 2014, EC 2013).

In order to analyse daily functioning mechanisms of local and regional labour offices 6 research projects (funded by European framework Programmes and various Polish research grants) were carried out in 2007-2013 (Sztandar-Sztanderska 2013) Ineffective communication has been evidenced between labour offices and employers by the experiment so there was reliable evidence available at the time on problems that prompted a reform.

The predecessor of PES reform might be an administrative reform affecting the whole public administration. A performance-based budgeting system was introduced in 2012-13 in public administration, whose purpose was to improve allocative and operational efficiency (OECD 2014).

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47 PLN 100 million (EUR 25 million) in 2014 (~ 1-2% of the Labour Fund).
48 Negative sanction (exclusion from tender offers) as well as positive incentives (bonus) can be applied.
49 The researchers sent fake job offers to all labour offices via e-mail. Some 60 percent of poviat labour offices did not respond to a prospective employer at all. In the remaining cases, career officers requested additional forms to fill in before an offer is made available to the unemployed.
The draft guidelines of the draft law amending the Act on employment promotion and labour market institutions and some other acts (2013)
- low employment in Poland
- low labour market participation of disadvantaged groups
- insufficient effectiveness and quality of the activities/services in the labour offices
- a low rate of learning possibilities for adults
- overregulated principles of employment agencies
- insufficient scope of protection employment agency's clients
- need to adapt the EURES network according to the European Commission's guidelines.

4.5. The designing phase

The proposal was framed by internal experts of the Ministry of Labour headed by Władysław Kosiniak-Kamysz (Minister) and Jacek Męcina (Secretary of State). The reform was prepared in cooperation with the Minister for the Economy, the Minister for Education, the Minister for higher education, the Minister for rural development and the Minister for regional development.

Neither the PES senior management nor social partners or other stakeholders were involved in defining and agreeing the goals, performance indicators and quantifiable targets.

Poland's political landscape was relatively stable in 2013 and there was consensus among the political parties regarding the necessity of the PES reform.

The employment organizations, the Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan) and the Employers of Poland (Pracodawcy RP) regarded the increase of the bureaucratic tasks as a threat and did not find the initiatives that would support the collaboration public and private institutes sufficient.

Trade unions have phrased several objections regarding the reform in September 2013. The Independent and Self-Governing Trade Union Solidarity (NSZZ Solidarność) was still criticising the poor financing, which cannot be ignored if they want to solve the problems of the Polish labour market. The All-Poland Alliance of Trade Unions (OPZZ) criticised the bonuses of the PES staff which were financed by the Labour Fund, and the Trade Unions Forum (FZZ) disapproved the outsourcing of responsibility to private employment agencies. All three suggested that the new Social dialogue should control the distribution of the labour fund.

In order to increase the scope in which public and non-public entities perform labour activation services another pilot programme - ‘Partnership for work’ (Partnerstwo dla Pracy) - was carried out in three provinces (Podkarpackie, Mazowieckie and Lower Silesia) between March 2013 and July 2014. The pilot project, prepared by the Ministry of Labour and Social Policy, has facilitated to develop new mechanisms for cooperation of provincial and district labour offices with private employment agencies in order to eliminate efficiency reducing mechanisms through the effect of the market regulation. As a part of the pilot basic (counselling, job search, work maintenance assistance) and another additional services (eg. motivational workshops, vocational training, computer training, job training, assistance with disabilities etc.) were provided by private operators to increase access to personalised services necessary in the activation process. Three province have been selected to participate in ‘Partnership for work’ pilot program and have been evaluated with resulting indicators and SWOT analysis () and other research carried out under the Project 1.16

59 The average duration of unemployment was the highest in Mazowieckie and Podkarpackie in 2011 (12,2-12,8 months). Lower Silesia has had the highest share of people over 50 years old within the registered unemployed (28.1%). Unemployment rates have varied (Mazowieckie: 9.9% - one of the lowest in the country; Lower Silesia: 12.5% – country average; Podkarpackie: 15.7% - one of the highest in the country).
"Coordination for active inclusion" which is co-financed by the European Union under the European Social Fund. CAWI\textsuperscript{51} and desk research methods has been mainly applied in these reports.

4.6. Implementation process

A process of implementation in which the Ministry and the WUP office participated was started in February 2014. The implementation of some elements could be done quickly (database, profiling, target setting), whereas the implementation of others took more time (outsourcing, the implementation of collaboration).

The outsourcing of activation services to private or non-public institutions has not been finished yet because alterations are being installed in the funding of private employment offices. In 2014 financing the PUPs based on their performance rate was initiated transitionally. In order to make the transition smoother 75 percent of the former central income of the local PES was ensured by the state (Wiśniewski and Maxim 2013, Sztandar-Sztanderska 2013).

4.7. Costs of the initiative

There is no information so far on how the running costs of the system changed after the initiative, the only information that could be found was the planned cost of the new system.

According to the justification of the amendment the new system did not result in an increase of the Labour Fund expenditure in 2014 compared to 2013. The inadequate financing is being corrected by activation instead of using surplus money, which means that the budget spent on the passive LMP decreases due to the more efficient performance but the workers' contribution to the LF will increase. The income estimated in the draft law is a yearly 300 million PLN, which will be spent on staff bonuses as well as researching and auditioning expenses. (MSLP 2013d). However, the contributions to the Labour Fund are getting less and less due to tax benefits initiated in order to increase employment among people between 30 and 50.

Profiling system, operational standards and client advisor

The quality improvement of PES offices – through the (1) introduction of the institution of a client advisor, (2) improvement of new standards of operation of employment agencies and the (3) new concept of profiling the support granted to the unemployed - has not resulted in the spending of the Labour Fund. Still 5\% of the Labour Fund are dedicated to subsidise operational expenditures at local governmental level whether it is new or former task. There is no information on how the retraining costs of the client advisors changed after the initiative, if there was any at all (MSLP 2013d).

KFS

The creation of the KFS will entail a minor outlay in the amount of 100 million PLN (~23 million EUR) in 2014 and 200 million PLN in 2015. Additional costs will be pay 3 employees to handle KFS in the Ministry, which is estimated at approximately 51 thousand EUR (~1400 EUR x 3 persons x 12 months) + 6 thousand EUR (3 people x 2000 EUR) one-off costs of implementing of physical means (ie. desk, computer software etc.) + 45 thousand EUR (3 x 1200 EUR x 12 months - the cost of maintaining three jobs). This was paid from the state budget. KFS measures provide support in the form of training and other forms of qualification annually approx. 3.3\% (182 thousand) of working people aged 45+ (approx. 52 million EUR per year, assuming that the average cost of the PUP training contract per person is 300 EUR, and the employer's contribution is 20\% of the cost of the training) (MSLP 2013d).

\textsuperscript{51} Computer-assisted web interviewing where PES offices were surveyed about the effectiveness of the cooperation with non-public institutions.
EURES
Additional compensation expense has incurred with a new employee who handle the new tasks of EURES in MLSP. The cost was estimated at approx. 15 thousand EUR (1300 EUR x 1 person x 12 months) + 2 thousand EUR for single workstation equipment (ie. a desk, computer software, etc.) + 13 thousand EUR (1 person x 1100 EUR x 12 months) for the cost of maintaining one job) (MSLP 2013d).

New ALMP measures
New ALMP measures has a minimum financial limit, which have to spend on new forms of activation, such as
(1) grant to telework,
(2) provision of activation for people after a child care or other care break
(3) funding of remuneration of employment above 50 years of age
(4) the refund of social security contributions for the unemployed under 30 years of age who is taking first job
(5) training for unemployed up to 30 years of age
(6) cover the cost of renting an apartment for the unemployed under 30 years of age taking work away from home

New Action provides a total spend of 500 million PLN from the Labour Fund. (MSLP 2013d)

Outsourcing of activation services
34 million EUR has been allocated in 2014 for expenses related to the outsourcing of activation services.

Cooperation of district labour offices, social welfare centres and municipalities
In order to inspire new forms of cooperation between district employment agencies and communes an activation and integration programme (PAI) has been carried out. Under the program (PAI) the amount of expenses in connection with the activation were borne by the employment office and municipality. The scale of the state subvention depended on whether the program was carried out independently by the district or in cooperation with the social welfare centres. In the latter case not just the 60 percent of the costs of socially useful works was covered from the Labour Fund, but 100 percent of reintegration services for 2 month.

In order to estimate the financial impact PAI program has the following assumptions:
1) The number of families who received unemployment assistance in the form of benefits (cash, in kind and services) was around 620 thousand (in 2011) and 360 thousand families received assistance in the form of periodic benefits granted due to unemployment.
2) Within a block ACTIVATION the amount of expenditure incurred for socially useful work was determined on the basis of legislations (eg. length socially useful work duration (up to 10 hours per week) and the amount of benefit entitlement unemployed for the performance of socially useful work 1,5 EUR/hour of which 60% was covered by the Labour Fund)
3) Within a block INTEGRATION amount spent on financing activities was determined based on the following assumptions: the unemployed will participate in at least 10 hours per week of classes reintegration; average hourly labour coach 15 EUR. One coach works with a group of approx. 10 people. (MSLP 2013d).

Widening access to information on jobs
The cost of creating a new database (CBO3P jobs) estimated to be at approx. 800 thousand EUR. It was covered from EU funds. (MSLP 2013d).
4.8. Who implemented the initiative?

Public Employment Services in Poland is formed by the provincial and poviat employment agencies appointed by the self-government authorities of the appropriate level. The Minister of Labour is responsible for the implementation and the development of information and communication systems in the public employment services and maintenance of the online job offers database.

Voivode is the representative of the Government in the Province, and its tasks is the supervision of implementation. The supervision is led by the marshal or starost, provincial or poviat employment agencies and other entities.

Public employment offices at poviat and provincial level are liable for specifying and coordinating the local and regional policy of the labour market, according to the needs of a local market. Province marshal (WUP) or poviat starost (PUP) can order the implementation of different tasks to other entities within the scope of public procurement procedures. Since the 2014 reform they initiate and implement research and analysis used in activities carried out by employment agencies. Powiat employment agencies are responsible for implementing regional programs based on the agreement concluded with the provincial employment agency.

5. Assessment and conclusions

5.1. What helped/hindered the launch of the initiative and its successful implementation?

The idea of linking other entities in activation of long-term or isolated unemployed can be rated as an innovation, but some mechanism hindered its successful implementation. Firstly the detailed conditions of outsourcing services seem too onerous for medium and small service providers. It can lead to an exclusion of organizations with special knowledge and experience working with specific groups of unemployed. Secondly, large numbers of people increase the risk of uniformity instead of individual based support, and this problem was not treated at all in the current legislation change. Thirdly, there is still lack of incentives for cooperation with other actors. And finally the combination of result-dependent remuneration and strong penalty for failure to achieve declared performance indicator means too high risk for some entities. (Sztandar-Sztanderska 2013)

Activation and Integration Programme (PAI) can be seen as another attempt to implement statutory mechanisms for PUP and social centres joint operations. The weaknesses of the programme can be that PUP only has the right to outsourcing one kind of instrument (socially useful work) therefore limits possibilities to take professional jobs. In addition, low-paid jobs up to 10 hours per week weighted less in the performance indicator, and the remuneration accordingly. Secondly the rules allow the participation of some NGOs in the programme only if social centres and the PLO do not sign the agreement. (Sztandar-Sztanderska 2013)

Implementation of the more individualized and flexible profiling system could have been prepared better with more training for the PES staff and greater involvement of experts and social partners. Barriers of activation could have been avoided such as stigmatization of people classified as "isolated from labour market" or enunciate 'low willingness to work'. However the new system can be evaluated as a cost-effective measure while it reduces spending on unemployed 'in the best position' (Profile I.) (Sztandar-Sztanderska 2013)

Indicators on which funding from the state depends are inaccurately constructed. Performance based financing does not take into account the direction of the outflow and favours offices in which

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52 Strict criteria regarding the minimum number of participants and infrastructure requirements

53 The two month-long PAI programme is not enough for lock every day practices.
staffing situation is better (having lower ratio of the number of unemployed per one client advisor), therefore better results can be achieved with discouraging further registration instead of hire more employee or improve the employability. (Sztandar-Sztanderska 2013)

The concept of customer advisors can help the unemployed to access information and provide more tailor-made services but in the new system there is no possibility of changing the customer advisor. Shortage of staff, inflated expectations of employees with inaccurate resources has not solved yet. (Sztandar-Sztanderska 2013)

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ITALY
A series of aborted legislative reforms in the field of social and employment policies

Donika Limani, Anna Orosz

1. Setting the scene
Coordination of employment and welfare policies and especially service provision in Italy has been a fundamental element of the government rhetoric since the regulatory framework changes of the early 2000’s. The reasons for the lack of efficient and smooth integrated service delivery mechanisms, despite of the numerous recent legislative reforms aiming at integration, are manifold. The three most important ones are: (i) strong subsidiarity principle embedded in the culture and thus affecting policy-making, (ii) inefficient law-making (lengthy transposition of national into regional law, unclear or missing guidelines for the regional practical implementation) and (iii) sharp separation of service delivery and benefit provision from financial resource allocation functions. Therefore, the success of the regional implementation of any kind of integration reforms depends largely on the quality of local governance and local milieu. Besides these, policy reforms aimed at integration, were marred by a weakness of long-term vision and strategy.

2. Brief description of the status quo before reform
The labour market in Italy is characterised by polarisation both across regions and between social groups. Geographical polarisation in terms of labour market participation is well-documented: in the southern regions, total employment rate did not exceed 40-45 per cent, while it is 65-67 per cent in the Northern regions and somewhat lower, but still considerably higher than the southern figures, are the Central regions’ statistics in the 2000’s. The overall activity rate has been stable at approximately 63-64 per cent in the recent years but it is much lower than the EU28 average activity rate (70-72 per cent). There is also a dichotomy between the ‘insiders’ generally described as overprotected by the welfare regime and the outsiders with irregular work contracts, low access to welfare support and, with – in European terms - exceptionally high levels of long-term unemployment. The dichotomy is generally between male, prime-age workers in government or manufacturing jobs on one side (insiders) and women, young and elderly on the other side (outsiders). The lack of an incentive based system for promoting the labour market participation of disadvantaged groups (as well as limited public childcare service provision) further adds to this strong disparity between insiders and outsiders. The government spends approximately 0.35-0.37 per cent of its GDP on active labour market policies (ALMP), which is much lower that the EU15 average around 0.55 per cent (Eurostat).

The Italian welfare state is labelled by Esping-Andersen as the Mediterranean model, characterised by a very strong role of family relations. This means that in terms of welfare policies, Italy -
traditionally lacking the appropriate resources for the financing of social expenditures\(^\text{57}\) - relied on the male-breadwinner model and the support of the ‘family’ and the Catholic church in protecting its citizens. The central administration’s limited role in social policies indicates citizens’ exposure to the financial stability of their families in times of economic hardship. Given this strong reliance on family connections, the state does not provide sufficient financial support to the families in general (Bertolini, Del Gaudio, & R. Graziano, 2011; Borghi & Van Berkel, 2007). The Italian welfare system also lacks a minimum-income scheme, which would function as a last safety net for the particularly disadvantaged groups (Graziano & Madama, 2011). Monetary benefits rather than in-kind benefits dominate the system, whereby activation and integration through service provision receives very limited weight. The disparity seen in form of employment contracts between outsiders and insiders is also present in the welfare programs where permanent workers are sheltered from shocks and the rest, typically the youth and women are under-protected.

The regulatory background affecting the labour market in the 1990’s can be described as obsolete (i.e.: vocational training policies dated back to 1955, no major reform of the social assistance system despite the fast-changing socio-economic landscape). Law and policy-making is dominated by the subsidiarity principle: regions have autonomy in implementing centrally geared policies in accordance with the local needs and circumstances. Law-making process in general can be described as a result of delayed and conflictual negotiations (i.e.: enactment of the Biagi labour market reforms in the early 2000’s) and policy reforms are usually built layer by layer, lacking a long-term perspective and concrete design elements for the effective transfer of tasks from the central government to the regions (Bertolini et al., 2011). Design of practical measures following regulatory changes is usually also a quite lengthy process, with one of the major barriers to progress in the transposition of national law into regional law and then effective implementation on the regional level. At the same time, financing of the regions comes from the central administration. The lack of well-coordinated policies coupled with unpredictable central financial transfer patterns makes effective policy implementation on the regional level difficult.

3. Details of the reform initiative

3.1. Main labour market reform attempts in the past two decades

Following the introduction of the European Employment Strategy in 1997, several new labour market regulations have been introduced in Italy. However, most of them have not provided remedy for the deep-rooted problems of the Italian welfare support system.

The \textit{Treu law} (196/1997) enacted by a centre-left government, mostly aimed at the deregulation of employment protection legislation, which had traditionally been very strong in Italy.

In the same year, the \textit{Bassanini Law} (469/1997) was enacted with a wider range of reforms:

- Transfer of the authority from the state to the regions in relation to placement, employment services and active labour market policies
- Decentralisation of the PES and vocational training
  - Earlier PES was seen as an institution absorbed in bureaucratic controls and administrative tasks, reaching a very moderate fraction of the unemployed
  - Establishment of the regional employment offices
  - Stronger emphasis on activation policies mainly financed by ESF funds: 1997-2003
- Assigned private actors with an intermediary role between labour supply and demand

\(^{57}\) Note that the hidden economy accounts for a large proportion of the Italian GDP (especially in the Southern regions: 23-27 per cent of the GDP, which is approximately twice as high as the EU average) also limiting state resources.
Decision whether to provide employment services in-house or contracted out, lies within the competence of the region.

Increased the number of actors involved in service delivery.

Programmazione Negozia (PN, Planning in Partnership) – formalized in 1996 - was an initiative that embodied the idea of individualised assessments and solutions as opposed to the traditional top-down approach regarding development strategy and policy-making (Milio and Simoni 2004). The rationale behind the initiative was to address the regional disparities while acknowledging the socio-economic differences that exist between the North and South. Territorial Pacts and Integrated Territorial Projects were an integral part of this program established with the purpose to align different policy fields and to strengthen cooperation at the sub-regional level. They were financed by the central government and involved the local partnerships between private and public actors. However, consequences of the initiative remained small in scale, the TIP consisted of mainly a set of procedures, which did not have practical consequences on service delivery.

These legislative reforms have not led to consequences in the institutional or service provision setting in Italy. There would have been a strong demand for the practical considerations/details of the regional implementation of the reforms, but these were in short supply. Thus, the reforms had limited impact apart from shifting the public discussions in the direction of activation, subsidiarity principle and the involvement of third-party actors in service provision.

In 2001, the newly elected right-wing coalition carried out a constitutional reform (Reform of Title V of the Constitution), specifically addressing the unclear division of roles between the state and regional level institutions. According to this legislation, the state was authorised to set minimum standards with regards to civil and social rights; employment policies were designed to be the responsibility of provinces, while social services were the sole responsibility of the regions and municipalities. The reform was widely perceived as unsuccessful in reaching its aims. In 2007, still no national minimum standard was in place yet (Bertolini et al., 2011; Genova, 2008).

The so-called Biagi Act (30/2003) came into force after a long negotiation process following the signature of the White Paper on Labour Market in 2001. The Act was basically intended to continue and complete the Treu and Bassanini laws. The White Paper described strategies that aimed at

- increasing the overall employment level,
- increasing labour market flexibility (introduction of several new forms of employment contracts),
- increasing the share of workers in stable employment and
- promoting labour market access of disadvantaged groups (women, sick, disabled, etc.) through tax incentives

In addition, the act aimed at modernising the system of employment services and improve the targeting of active labour market policies. The act has been mostly implemented and the following years showed significant labour market improvements. Unemployment dropped and labour market participation of disadvantaged groups started to grow. However, without appropriate impact assessments it is difficult to say to what extent these improvements were a result of a general economic upturn or of the Biagi reforms. The most popular critique of the reform is that it achieved labour market flexibility through a strengthened protection of the insiders and through the limitation of the protection of the outsiders (Jessoula, Graziano, & Madama, 2010), otherwise known as "flexibilization at the margins".

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58 Named after Professor Marco Biagi, who was the main author of the White Paper on Labour Market, assassinated by a group of terrorist in 2002.
A possible attempt to address the aforementioned issues was the *Elsa Fornero 2012* reform during Mario Monti’s technocratic government (Fornero 2013). Structural weaknesses in the Italian labour market together with pressure from EU for more fiscal responsibility legitimized labour and pension reforms even in the eyes of opposition parties.

The labour reforms to ease the disparities between insiders and outsiders in the labour market by eliminating the mobility and unemployment benefits for the employees with permanent contracts on one hand, and offering more social protection for the flexible employees by instating a new social protection benefit (Blossfeld et al 2012). While the reform also aimed at redesigning ALMPs, reshaping the role of employment services by restructuring their organization, stressing the importance of cost-effectiveness analysis and of increased professionalism in job-centres and realizing, possibly within a single agency, a better coordination between passive and active labour market policies, these elements of the reform plan failed due to the opposition met by Regions.

A set of new legislative measures (Del Rio Law 56/2014, revisions of Title V and “Jobs Act”) may result into a different distribution of powers which will have implications for projecting and implementing reforms in the future. While there is no direct mention of active policies and employment services, there is talk of unifying policies at the state level which will pave the way for more serious effort to be undertaken. This can already be noticed in the proposition of the “Jobs Act” for the creation of a National Agency for Employment that works by a principles of activation rather than purely benefit oriented and has supervisory, not solely coordination functions (Vesan 2014).

### 3.2. Main social assistance reforms in the past two decades

The necessity of reforms in the field of social assistance was recognised already in the 1980s. The socio-economic landscape has changed drastically (smaller families and thus an emerging need to provide more protection for them, increasing female labour market participation, aging population, etc.), with new types of social risks emerging, calling for the development of modified welfare support schemes.

The *Onofri Commission* in 1997 was one of the first important attempts to identify the major loopholes, and to reform the social assistance system in Italy. Set up by the centre-left government as an independent advisory body (including established academics and practitioners) the Commission pointed out several weaknesses of the system, namely, the very low level of social expenditures, poor targeting, the institutional and functional fragmentation of the benefit system and at the need to shift policies away from monetary to service provision.

In the setting of a visibly fragmented institutional structure and uncoordinated labour market policies, one of the most important legal reforms was carried out in 2000, in the *Law 328/2000* on integrated system of social services and interventions, which aimed at the following:

- defining a national minimum quality standard of social services;
- shifting attention to activation, horizontal integration of all services, and
- launching the principle of ‘solidaristic federalism’ in the provision and design of social policies.

More importantly, the law transferred all responsibilities related to social assistance provision from the state to the regions. Strong political dissent was present during the enactment of the law, many claiming that the law promoted a federalist division of responsibilities, while it should have, instead given more autonomy to the regions. Once again, due to the very general description of the legislation, practical implementation followed only in exceptional cases. Subsequent legislation did not contribute to the clear-up of the situation either, leaving the field of social assistance with strong institutional and functional fragmentation, unclear division of responsibilities, inefficiencies and low level of benefits provided for those in need (Bertolini et al., 2011; Borghi & Van Berkel, 2007).
Another important element of the Italian welfare system is the lack of a universal minimum income scheme that would act as a last resort type social safety net, to those threatened by destitution and social exclusion. The integration efforts described above were complemented with the attempts to creating a more universal accessibility to the social assistance support. There were considerable efforts in 1998-2001 to test the potential effects of the implementation of a minimum income scheme (reddito minimo di inserimento). Based on the principles of universality and homogeneity (overcoming territorial, institutional and other potential sources of discrimination), this system aimed at coupling the minimum income scheme with activation programmes. However, the initiative was aborted with the election of the Berlusconi government in 2001. Its failure may – at least partly – also be attributed to the prevalence of public attitudes regarding the traditionally strong role of the family and the church and other charities in Italian society (Aurich & Heidenreich, 2013; Genova, 2008).

During the Elsa Fornero reforms, there were various efforts directed at improving the social assistance system as well, by the introduction of Aspl and mini-ASpl (Social Insurance for Employment), with Aspl lasting 12 months for workers up to 55 years of age and 18 months from 55 onwards and mini-Aspl covering at lower the groups with less experience in labour market and no prior social protection rates. The benefits were usually conditional upon efforts to participate in labour market.

3.3. Consequences of the reform

Most of the legislative reforms enacted in this period were not followed by practical implementation. The task of carrying out these reforms was – in most of the cases – assigned to the regions. However, as clear guidance on how to align the different institutional structures and policy fields on the regional level was lacking, the legislative reforms led to unsuccessful and inconsistent implementations on the regional level and to the lacking synergies between different policy fields and alignment of structures.

Protection and security was not paid enough attention in policy-making. Complementing welfare policies, had been described as fragmented and complex systems, lacking a systemic coordination. In addition, employment policies covered only a marginal share (~10 per cent) of the unemployed. More generous benefit provision is usually targeted at the insiders of the labour market. Social assistance policies have not improved the situation of the less advantaged groups and those at the brink of impoverishment.

Emphasis on in-kind benefit provision and integration measures has remained low, as well as the degree of targeting and personalisation of services.

Employment Protection Legislation reforms (increasing flexibility) mainly resulted in increased protection for those with stable positions on the labour market, and more flexibility for the outsiders, who were anyways exposed to the weak Italian social protection system. There are indications that the share of precarious work relations has increased in the period of frequent reforms. (Simoni 2009).

The Elsa Fornero 2012 reforms appear to have had marginal positive impact on labour market outcomes, but no conclusive statement can be made without a proper evaluation. For example, apprenticeships and permanent contracts increased and there was an increase in the inclusion of workers in the safety net with the help of new solidarity funds. While ASpl and mini-ASpl extended the social protection schemes to the more disadvantaged groups, active labour market policies, however have not yielded the preferred results (Fornero 2013).
4. Assessment and conclusions

Importance of coordination in regionally fragmented countries is especially pronounced. The Italian case highlights the preconditions of successful integration reforms:

- Both vertical and horizontal integration
- Right incentive systems in place. The incomplete reforms in labour market lead to implementation and incentive issues in the agencies created which are designed for dynamic labour market context. The lack of infrastructure (i.e. no unified and detailed databases) and the burden of inefficient administrative tasks further adds to the delays in implementation (Sachi and Vesan 2011).
- Long-term vision in policy making
- Detailed guidance on the steps necessary for the regional implementation of national policies
- Increased attention to regional disparities (economic, social, cultural, etc.)
- Consideration of traditional division of responsibilities when designing new policies
- Attention to setting minimum standards and monitoring when strong regional autonomy
- Long-term perspective
- Broad political support.

5. References


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