



**THE REFORM OF THE DUTCH PUBLIC EMPLOYMENT
SERVICE**

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TABLE OF CONTENTS

1	Introduction	1
2	The new system and how it evolved: a short history	3
3	Centres for Work and Income	8
4	The procurement of reintegration services by the social insurance agencies	11
4.1	Introduction	11
4.2	The 2001 procurement procedure	12
4.2.1	Basic design features	12
4.2.2	Procedure	13
4.2.3	Criteria and score function	15
4.2.4	Bidding	17
4.2.5	Evaluation of Design	19
4.2.6	Outcome bidding process	21
4.2.7	Features and effectiveness of the services provided	23
4.3	The 2002 and 2003 procedures	25
4.4	Conclusions	28
5	Outsourcing of reintegration services by the municipalities	29
6	Beauty contest, auction and quality measurement	36
7	Concluding remarks and recommendations	41
	References	44

1 INTRODUCTION

This paper deals with the reform of the Dutch Public Employment Service (in Dutch: 'Arbeidsvoorziening'). Since 2001 the implementation of publicly funded employment services is largely outsourced to private agencies. This reform follows a general trend in Dutch society to reduce the role of the government. Similar reforms have taken place in public transport and other areas. The general idea is that competition between private providers for public contracts leads to more efficiency and to higher quality of the services.

Already at an earlier stage legislation was changed to give more room to the private employment services market. Before 1991 job brokerage on a commercial basis was not allowed, except for special branches and occupations. With the new Employment Services Act of 1991 the prohibition was abandoned and a license system for private agencies was introduced. Later also the license system was abandoned and market entry became free. The expectation was that this liberalization of the employment services market would give more competitive pressure from the private employment services market to the PES. However, as long as the PES was completely subsidized it had little to fear from private agencies. This induced the government to go further on the road to privatization. The government still thinks that subsidies are needed in the field of employment services, but now service delivery is contracted to private agencies. However, the next step might be a reduction of the subsidies and a further development towards a free market for employment services.

It should be noted that already before 1991, in spite of the prohibition, temporary work agencies (TWAs) were engaged in job brokerage in practice. Often companies used temporary work as a hiring channel. Typically, for a short period a firm would hire a worker from the agency and monitor him on productivity. In case of a satisfactory performance the firm would then employ the worker. On the basis of company surveys we know that the number of job placements through TWAs was of similar magnitude than the number realised by the PES. Therefore, the liberalization of the employment services market did not make a big difference as long as the PES kept its broad range of (subsidized) activities.

The decision to involve private agencies in the delivery of public employment services was of much more significance, because it implied a major transfer of activities from the public to the private sector. In this paper we concentrate on the latter development. However, even here the

break with the past is not complete. Involving private providers in the implementation of public employment services was not something new. Already the Public Employment Service outsourced activities to other providers. Only one-third of the available budget for training was spent on the PES's own training institutions, for example. Also one-third was outsourced to private training providers and the remaining part to (public) vocational schools. Furthermore, in the late 1980s and the early 1990s temporary work agencies were involved in the implementation of a scheme for subsidized temporary work for the long-term unemployed. However, it is fair to say that nowadays the involvement of private agencies is on a much larger scale.

The Netherlands is not the only and not the first country to liberalize the employment services market and to involve private agencies in the delivery process of public employment services. The UK, for example, has a long history in private employment services. However, internationally the Netherlands is one of the few countries that has gone so far as to outsource most of the implementation of its public employment services to the private sector¹.

The paper is structured as follows. In section 2 we give a brief history of the changes that took place in the position of the PES since the early 1990s. In section 3 we discuss the role of the Centres for Work and Income, which is basically what is left of the public employment service. Section 4 evaluates the procurement of reintegration services in the Netherlands as conducted by the agencies responsible for unemployment insurance and disability payment. Tendering procedures as conducted by municipalities are the subject matter of chapter 5. The outcomes of the beauty contest are the subject of section 3. Then, in section 6 we discuss the difficulties in assessing the quality of reintegration services and its implications for tendering procedures in this field. Finally, section 7 contains the conclusions and recommendations.

¹ For a comparative analysis of competition issues in public employment services covering four countries, see Struyven, Steurs and Peters, 2002.

2 THE NEW SYSTEM AND HOW IT EVOLVED: A SHORT HISTORY

Since the early 1990s the organization of public employment services in the Netherlands have been subject to constant change. Until 1991 the structure was fairly conventional with the Public Employment Service (PES) being a directorate-general of the Ministry of Social Affairs and Employment. In 1991 a tripartite structure was introduced and from that moment on the government and the social partners administered the PES jointly. However, the situation was unbalanced as the Ministry, as the sole financing body, was still in control. From a legal point of view it had to check the rightfulness and effectiveness of the money spent on the PES, implying that it also had to check its own actions as a member of the board. This double role and the unequal position of the members of the board led to tensions and inertia. The 1995 evaluation of the tripartite structure analyses the shortcomings of the governance structure (see Dercksen and De Koning (1995)). On the basis of the criticism it was decided that the Ministry would no longer be represented in the board. From then on the Ministry nominated independent experts to represent the government in the board. However, a different development, already started at the end of the 1980s and reinforced since 1994, gradually weakened the position of the PES. Subsidized labour gradually became the most important active measure. As most people entitled to subsidized labour were clients of the municipal social services, and municipalities were an important provider of subsidized jobs, municipalities were made responsible for job creation schemes. What also played a role is that at the time the PES had a strong employer orientation, implying that it did not pay much attention to social assistance clients. The number of subsidized job being limited, it was obviously important that people stayed in these jobs for a limited period of time only, so that others in need of such a job could take their place. Therefore, municipalities also started to make attempts to mediate these people to regular jobs in the labour market. Sometimes private placement agencies were hired to do this job. It implied that already in the first part of the 1990s a parallel PES was developing.

In the second half of the 1990s (starting in 1996 to be precise) dissatisfaction with the performance of the PES, the development of parallel services and the general trend towards privatization induced the government to transfer the budget for ALMPs further from the PES to the bodies responsible for unemployment benefits. In the Netherlands two types exist: social insurance agencies dealing with unemployment insurance benefits and municipalities dealing with social assistance benefits (for those not entitled to social insurance benefits). At the time 5 social insurance

agencies (UVIs) existed: Cadans, Gak, Guo, Sfb and Uszo. The different UVIs operated in different sectors of industry. In turn each UVI was also organised regionally. For the time being both UVIs and municipalities (of which there are several hundreds) were obliged to involve the PES as the only service provider. This obligation was only temporary. Later also private providers could be involved. In a later stage, the part of the PES dealing with reintegration services was privatised. It became known as Kliq and is now one of the private reintegration firms that have to compete for the contracts that are tendered by the UVIs and the municipalities. The first procurement procedure was organized by the UVIs in 2000. The training centres coming under the PES were transferred to the regional centres for vocational education (ROC's).

At the time another player in the field of social security was the Lisv, the National Institute for Social Insurance, which functioned as a kind of regulator². The Lisv developed a set of rules for the competitive procurement of reintegration activities. The UVIs were compelled to follow this procurement procedure when purchasing reintegration trajectories. This set of rules is a type of beauty contest. In the year 2000 the first round of beauty contests have been held. Also municipalities began to organize tendering procedures. However, unlike the UVIs there was no common set of rules concerning the latter procedures.

Since 2000 a number of changes occurred. The five UVIs as well as the Lisv have merged into one organisation: UWV. Furthermore, cooperation between groups of smaller municipalities was introduced in the form of regional platforms. In these platforms municipalities make joint analyses of their regional labour market and what it implies for their reintegration policies. They also exchange information about procurement procedures, although we do not know how far this goes and to what extent municipalities co-operate in the organization of these procedures.

It is important to note that in the new system the delivery structure for public employment services is not completely privatised. Public employment offices still exist. One of their main tasks is to improve the transparency of the labour market by collecting and diffusing information on jobseekers and vacancies. Another important task is the profiling of the people entering unemployment. These are divided into four groups according to their risk of becoming long-term unemployed. Those not in high risks can only make use of the services provided by the employment offices (mainly information on jobs and benefits), which are now called

² Lisv: in Dutch “Landelijk Instituut Sociale Verzekeringen”.

Centres for Work and Income³. Those in high risk of long-term unemployment are sent to the UVIs and the municipalities and are entitled to reintegration services. As was already indicated, the UVIs contract the service delivery to private agencies.

Many among the larger reintegration firms are offsprings from public organisations such as the UVIs and the former PES (this is the earlier mentioned firm Kliq). Other reintegration firms were founded by temporary work agencies. In addition to these organisations a large number of new private firms offering reintegration services, have sprouted up.

Finally, the Council for Work and Income (RWI) exists. Its task is to advise the government in matters of active labour market policy. In this council the social partners are represented and in a way it is a remnant of the tripartite system. The RWI is one of the few organizations involved in this policy field that shows a real interest in evaluation and tries to further the practice of evaluation. The efforts made by the RWI are not completely without results (we come back to the results of some of the studies commissioned by the RWI later), but the fact is that this organization has little power to force the other actors to provide the necessary data for evaluation. The government has even indicated that it wants to abolish the Council, but this is still under discussion.

In table 1 the various organizations involved in the old and/or the new system are listed, and their status (public or private) and function indicated. Clearly absent from the table is the Ministry of Social Affairs and Employment (SZW). Some see the new system as a trick by the ministry to get rid of a policy field that caused the ministry a lot of trouble. High expectations have existed of active policies, but the ministry never succeeded in realizing these hopes. In the current situation, in which the responsibility is delegated to the benefit agencies and the implementation largely outsourced to private agencies, the ministry tends to deny even overall responsibility. Evaluation studies are not commissioned anymore because the ministry does not see this anymore as its responsibility. A department within the Ministry (the Inspection for Work and Income or IWI) monitors the UWV procurement procedure and makes recommendations for improvement. However, it only looks at the process, not at the effects. And even the process evaluation is superfluous and does not make use of theoretical notions about the procurement of public services implementation to private firms.

³ When after six months they are still unemployed, they are also entitled to reintegration services.

It is important to note that none of the major systems changes was made on the basis of solid evaluations. The tripartite structure was evaluated in 1995, but only led to minor changes. A major factor leading to the new structure was the general belief that privatisation leads to higher efficiency and effectiveness. At one point a serious option was even to privatise not only employment services but also to privatise social security. That would have led to a system where the government only determines who is entitled to a benefit and also the level and the duration of the benefit. Private insurance companies would then compete for contracts with branches of industry. These companies would then involve private employment services agencies as far as these agencies succeed in speeding up job entry. However, such a system was seen as too risky. It is also clear that the final design of the system is partly made in view of the interests of the various organizations. For the clients it is not necessarily the best system.

Although the implementation of active policies is largely outsourced to private agencies, the services are still paid for by the government. As was already indicated in section 1, also a private employment services exists that is not subsidized. It mainly consists of temporary work agencies. The primary task of TWAs is to provide employers with temporary workers. However, many employers use this as a hiring device. They use the period during which a worker is hired from an agency to monitor the performance of the worker in view of offering him a permanent contract. As long as the government subsidizes job brokerage and other employment services, job brokerage activities that are not connected with temporary work will be difficult on a purely commercial basis. One could agree that the government subsidies lead to crowding-out effects and that without them more employment services would be provided on a (fully) commercial basis. The main justification for subsidies is that without them disadvantaged groups may not have sufficient access to the employment services anymore. Furthermore, in a completely privatized system a general underinvestment in training of the unemployed may occur. And finally some measures, such as wage subsidies, are by definition government measures⁴.

⁴ Already in the 1990s temporary wage subsidies in the Netherlands were put in the form of exemptions from social security payments and of reduced tax rates. There was no involvement of the employment offices in it anymore. Recently, most of these schemes were abolished. Subsidized labour still exists in the form of special arrangements for the handicapped and local job creation schemes.

Table 1 Organizations involved in social security and active labour market policy in the Netherlands

Organization (in Dutch)	English equivalent	Task	Status
Arbeidsvoorziening	Public employment service (not in existence anymore)	Increase labour market transparency Job brokerage Implementation of active labour market policy	Public
CWI: Centrum voor Werk en Inkomen	Centre for Work and Income (the new public employment agency)	Profiling Increase labour market transparency, Assistance with submitting an application for unemployment benefits Job mediation	Public
UVI: Uitvoeringsorganisatie sociale zekerheid	Social Security Agency (now merged into UWV) Organized on a sectoral basis	Provide benefits to the unemployed and the disabled; Outsource reintegration services to private providers	Public
Lisv: Landelijk Instituut Sociale Verzekeringen	National Institute for Social Insurance (now merged into UWV)	Former regulating body in social security	Public
UWV: Uitvoering Werknemers-verzekeringen	Employee Insurance Programs Agency	Provide benefits to the unemployed and the disabled; Merger of former UVIs Outsource reintegration services to private providers	Public
RWI: Raad voor Werk en Inkomen	Council for Work and Income Involves the social partners	Give advise to the government on active labour market policy	Public
Gemeentelijke sociale dienst	Municipal social service	Provide social assistance benefits; Outsource reintegration services to private providers	Public
Reïntegratiebedrijf	Reintegration firm	Offer services such as training and/or placement services for the unemployed and the disabled	Private

3 CENTRES FOR WORK AND INCOME

In the new structure a Public Employment Service still exists but its tasks are reduced compared to the old situation. The employment offices are still there but are now called Centres for Work and Income. This new name suggests that they also provide benefits, but this is not the case. They only check the entitlement of clients to an employment benefit and refer them to the appropriate benefit agency (the UWV or a municipality). There are approximately 130 CWIs spread over the country, administered by a central organization (also called CWI). There are slightly less than 500 municipalities, implying that most of the CWIs have to work together with several municipalities. There are also six district CWI offices playing an intermediary role between the central and the local level of the CWI organization.

When a new client registers, the CWI:

- determines to which category the client belongs (profiling). The categories indicate the ‘distance’ of the client to the labour market;
- refers the client to the appropriate benefit agency for a reintegration pathway when the client is in high risk of long-term unemployment. The referral is accompanied by an advise about the content of the pathway.

Clients not in high risk of long-term unemployment have only access to the basic services as provided by the CWIs. CWIs, just like the former employment offices, register both jobseekers and vacancies. In the available data system, employers can search for staff and jobseekers can look for vacancies. A lot of it is based on the principle of self-service although CWI counsellors also provide additional services. These services are mainly for unemployed jobseekers such as advise in job search strategies and assistance in using the largely computerized tools available in the centres. In the current situation, where unemployment is rising, priorities tend to shift again towards the employer in trying to register and fill as many vacancies as possible. Counsellors make visits to companies to induce them to notify vacancies. Furthermore, on request the CWIs make selections of registered jobseekers matching the requirements of the vacancy as notified by an employer.

So, one could say that the information and job brokerage functions of the former public employment services have largely remained intact. However, the CWIs are not allowed to provide intensive job counselling services or

training for clients that cannot be directly placed in the labour market⁵. Neither do the CWIs have opportunities to train unemployed clients to reduce mismatch on the labour market or to train workers in danger of losing their jobs⁶. Clients that need services extending the provision of information and job brokerage are sent to the benefit agency (the UWV or the municipality, depending on the type of benefit one is entitled to), which then becomes responsible for the reintegration. They must outsource implementation of the reintegration to private reintegration firms.

We already mentioned the fact that the CWIs profile new entrants into unemployment. This process implies that every new client is put in one of the four possible categories. Category 1 consists of clients that are expected to find a job soon without special help. They are only entitled to the services as provided by the CWI. If after 6 months a category 1 client is still unemployed, he or she is sent to the benefit agency after all for participation in special pathways. For categories 2, 3 and 4 it is already clear at an early stage of the unemployment period that they need more assistance. They are sent to the appropriate benefit agency directly after the profiling. For each of these clients the CWIs gives an advice concerning the content of the reintegration pathway, but this advice is not binding. Category 4 consists of clients with severe social and health problems that need to be solved before job counselling or training comes in sight. Categories 2 and 3 hold an intermediate position. For category 2 clients job counselling aiming at placing them in regular jobs is the most common procedure. For category 3, placement in a subsidized job will be more common. Training is also an option (in fact, for all three categories), but tends to be applied less frequently. The benefit agency is responsible for the reintegration and has the funding for diagnosis, job counselling, training, subsidized jobs or combinations of these options (subsidized jobs only for municipalities, not for the UWV). It must outsource implementation of the reintegration plans to private reintegration plans using procurement procedures. The CWIs cannot act as service providers in this field and cannot compete for these contracts. Category 2, 3 and 4 clients can still make use of the general services as provided by the CWIs, however.

⁵ The CWIs do provide training in job search, however.

⁶ Until recently the RWI possessed a training fund for employers wishing to train an unemployed person. However, recently this scheme was abolished.

The profiling system currently in use is not validated⁷. Benefit agencies criticize the CWIs on the quality of the assessments made. Therefore, the tendency is that the assessment is repeated by the benefit agency, and sometimes again by the reintegration firm hired by the benefit agency. As we will argue later the lack of a good profiling system is an important weakness of the new system. Starting from January 2004 CWIs are allowed to make alternative arrangements with the municipalities about how to proceed with the profiling. It will be possible that municipalities take over responsibility for the profiling. The arrangements made may differ locally.

Currently, the central CWI organization is thinking about a new approach to deal with its clients. Although we lack detailed information about it, the new approach seems to imply that profiling will no longer take place. According to these ideas clients can be referred to the benefit agency if they are still unemployed after at least three months, but before one year in unemployment has expired (in order to satisfy the rule that every unemployed person receives a job or training offer before reaching one year in unemployment). The judgments of the counsellor will probably become decisive for the routing of the client.

The CWIs have a broader task in providing information on labour market and training opportunities. They also offer services in the field of occupational choice and career guidance. Furthermore, they commission studies in the field of labour market analysis and forecasting to help making the labour market more transparent. And finally they took over from the old employment offices the duties concerning lay-offs and work permits for foreign workers. The main difference with the old situation is that the centres do not have the funding anymore for training and other specific reintegration measures.

Increasing the transparency of the labour market is one of the principal aims of the CWIs. Furthermore, job brokerage still belongs to their core business. An interesting question is then how the market shares of the CWIs in terms of vacancy registration and vacancy filling compare to the former 'Arbeidsvoorziening'. Every year a survey is held among companies containing questions about the use of different recruitment channels. It appears that the use of the CWIs as a recruitment channel by companies has

⁷ In the 1990s, still under the old system, the profiling was partly based on a statistical profiling system (De Koning, 1999). For a more general discussion of profiling systems, see OECD (1998). However, when the new structure came into existence updating this system no longer had priority.

continuously diminished since 1994 (CWI, 2003)⁸. In that year 22 per cent of the companies used the CWIs (then still called employment offices); in 2002 it was only 8 per cent. In the filling rate no clear pattern can be observed. It fell considerably in 2001, perhaps as a result of the new structure, but recovered in 2000 to 59 per cent, which was only slightly less than in the mid-1990s. Recently, SEOR has done a comparative study into the way public employment offices in EU countries (and some other European countries, including the countries that will enter the Union next year) deal with vacancies (Van Nes, Korolkova and De Koning, forthcoming). For what purposes do they register vacancies, how do they register them, how high is their market share, etc? Although the figures are not always easily comparable, it appears that the market share of the Dutch public employment service is on the low side. One of the reasons is that, unlike Norway for example, the Dutch PES cannot use newspaper advertisements without payment (for which it has no budget). Furthermore, the frequent changes in the organization and the institutional context may have taken their toll. In countries with more continuity in the role and the organization of the PES, this organization tends to have a higher market share in terms of vacancy registration. However, is a high market share of the PES necessary for it to perform its role adequately? The quality of the services provided by the PES and the types of clients to which the services are provided, may be more important. The drop in the market share may be due to the favourable labour market development. When employment is low employers tend to make less use of the PES.

4 THE PROCUREMENT OF REINTEGRATION SERVICES BY THE SOCIAL INSURANCE AGENCIES⁹

4.1 INTRODUCTION

In this chapter we evaluate the procurement of reintegration services as conducted by the social insurances agencies or UVIs. We concentrate on the 2001 procurement round, as most information is available for this round (section 4.2). We deal with the basic design, the procurement procedure, the criteria to choose between providers as well as the score function, and the bidding process. We also give an evaluation of the design and discuss the

⁸ The increasing use of the Internet is not responsible as other recruitment channels do not show such a structural decrease.

⁹ Partly based on Dykstra and De Koning (2004).

outcomes. The 2002 and 2003 procurement procedures are discussed in section 4.3. The conclusions are summarised in section 2.4.

4.2 THE 2001 PROCUREMENT PROCEDURE

4.2.1 BASIC DESIGN FEATURES

The 2001 procurement procedure was held in 2000 and the contracts came into effect in 2001. The Lisv developed a set of rules for the competitive procurement of reintegration services. The UVIs were compelled to follow this procurement procedure when purchasing reintegration trajectories. In the year 2000 the first procurement round was held.

The reintegration firms bid on a lot consisting of clients who have to be reintegrated. In their bids, they describe the reintegration services they will deliver in order to reintegrate these clients and the price for these services. The procedure contained no specific requirements for the description of the lots. In the lot descriptions the UVIs only defined the groups of clients and the number of clients per lot. The clients were in most cases classified by industry sector, region and if they were unemployed or disabled. Generally, the composition of the lots was therefore very heterogeneous. This made it next to impossible to make fine tuned bids for niche markets. Only in a few cases, the lots consisted of a narrowly defined group of clients. In order to make such lots sufficiently large, these lots were however not classified by region.

The Lisv defines a number of criteria on the basis of which the bids must be judged. These refer to both the price and the quality of the services. Therefore, the procurement procedure can be seen as a beauty contest. In case of an auction, a detailed set of quality requirements by the Lisv and the UVIs would have been needed, particularly in terms of the output (minimum standards for placements results of more or less homogeneous groups)¹⁰. Then, the bidding would have referred to the price only. Later in the paper we come back to the question whether an auction is to be preferred over a beauty contest.

¹⁰ Furthermore, sub-categories can be distinguished within both the class of auctions and that of beauty contests. See the introduction in Janssen (ed.), 2004.

4.2.2 PROCEDURE

The Lisv procurement procedure, generally speaking, follows that of the European Service Directive. The UVIs can choose from two procedures: an open procedure and a restricted one¹¹.

In the open procedure the reintegration firms can directly make a proposal based on the request for proposal, which were made public in the national Dutch newspapers. The UVI must then choose the winning bid from all proposals offered. The bids are first evaluated according to certain qualifying criteria. The intention of the qualifying criteria is to weed out those firms, which – so the UVIs expect – cannot handle the trajectories successfully. The bids that pass this test are then evaluated according to the bidding criteria.

In the restricted procedure there are two phases: pre-qualification and the contest itself. In the first phase the reintegration firms can show their interest for one or more lots. Based on the qualifying criteria, which were made public, each of the UVIs select a minimum of 5 reintegration firms, which are granted the opportunity to make a competitive bid. From these bids each UVI chooses the winning bid, based on the bidding criteria.

Two UVIs (Gak and Cadans) used only the open procedure, while Guo, Sfb and Uszo, used only the restricted procedure. Because Gak and Cadans are by far the largest UVIs, this resulted in more than 80 percent of the competition for the trajectories being conducted according to the open procedure.

The Lisv prescribed certain qualifying criteria to the UVIs. These were basically the same as the bidding criteria. The UVIs were free to add more qualifying criteria. In most cases only very formal criteria were added. Gak for instance added several dozen of formal criteria. If a bid failed on one of these criteria it was ruled out. In addition Gak also took a very formal stance. If the slightest piece of information was missing from the bid, it could not be added later.

¹¹ Additionally the Lisv procurement procedure opens the possibility for an experimental procedure. In this procedure it is possible to grant a maximum of 2 contracts to bids which – by the rules of the game did not fulfil all the criteria or come out as winners. The Lisv wanted to give the UVIs the possibility for experimentation with procuring reintegration trajectories for clients who are extremely difficult to place in the labour market. The value of these contracts may not be more than € 201.000. Taking account of the fact that in total some three hundred millions of euros was involved in the procurement procedure, this experimental procedure plays a very small role in the course of affairs.

The procedure as implemented by Gak misses the goal it was meant for, namely to select the credible bids. It is questionable in how far there is a correlation between the degree of having ones paper work in tip-top shape and the credibility of ones bid. We expect that the marginal value of information gained through adding additional criteria will quickly diminish. Applying many formal criteria then becomes an inefficient procedure in assessing the credibility of bids. The procedure also carries high administrative costs for firms bidding as well as for the Gak.

Other UVIs took a much more relaxed viewpoint. Certain omitted items could be added to the file later on in the process. The widely differing procedure leads to the fact that similar bids are treated in very different fashion. These differences are harmful for the transparency of the market. This is illustrated by the fact that more than 80 percent of firms that did not pre-qualify believe that the UVIs committed errors in the pre-qualification procedure (Vinke and Cremer, 2001).

The open procedure has the advantage of generating a large number of bids, which in itself enhances competition. With each additional bid the chance of finding a very high quality one increases. The mirror side is that the chance of winning a bid is relatively low for an individual firm. It then makes sense for a bidder not to put too much effort in the bid. This will reduce the quality of the bids made. An additional disadvantage of the open procedure is that the process is much costlier. This applies for both the reintegration firms and the UVIs. The reintegration firms have to make more complete bids than is the case in a restricted process. In addition, for the bids to be qualifiable all formal requirements have to be fulfilled. This results in extra administrative burden The UVIs in turn have to examine more bids fully. This also results in higher administrative costs.

All lots were put up for sale simultaneously. This resulted in a large amount of work that had to be done in a short period of time for the reintegration firms as well as the UVIs. One can thus expect the tendency to arise that both bids and evaluations will be quick and dirty, resulting in low quality bids and low quality evaluations.

Even though the UVIs explicitly requested for bids for specific sub-lots, the reintegration firms have barely made such offers. Nearly all bids were made for the entire lot. Attempts to show a certain affinity with specific groups of clients within a lot could hardly be discerned from the bids made¹².

¹² KPMG/BEA (2001).

4.2.3 CRITERIA AND SCORE FUNCTION

The Lisv procedure defined five bidding criteria: four quality criteria ('expertise personnel', 'results achieved in the past', 'throughput time', and 'percentage of clients placed in job') and price. The UVIs were not permitted to add extra criteria. However, they were allowed to stipulate the bidding criteria more specifically. Each UVI made additional specifications to the bidding criteria. Despite the Lisv stating that UVIs were not allowed to add extra criteria, which are not in line with the criteria as set out by the Lisv, Gak and Guo added one criterion, namely the dropout rate.

It is highly improbable that the ranking of the bidders on each criterion is the same. Some bidders might offer higher quality, while others may try to compensate a (somewhat) lower quality with a lower price. Therefore, one needs to have some kind of weighting procedure or score function to come to a decision.

Next, we discuss the criteria and the score function in more detail. We group the criteria into four categories: structural criteria ('expertise personnel' and 'results achieved in the past'), structural criteria ('throughput time' and 'drop-out rate'), performance criteria ('placement results') and price.

Structural criteria

The criteria 'expertise personnel', and 'results achieved in the past' refer primarily to the bidding reintegration firm. These criteria are rather signals of quality than actual quality. They signal whether or not the reintegration firm can do the job or not if it wins the bidding competition.

When assessing the structural features the UVIs placed very different weights on expertise personnel and results achieved in the past. According to KPMG/BEA (2001) Cadans put much more value on expertise on personnel, while on the other extreme Gak did not value expertise at all, but only looked at results in the past. The other three UVIs held intermediate views.

Process criteria

The criteria 'throughput time' and 'drop-out rate' provide characterisations of how the reintegration firm handles the reintegration process of its clients in the case it wins the lot.

The Lisv procedure contained no specific definition of the criterion 'throughput time'. Consequently, the UVIs and the reintegration firms

defined it very differently. Some UVIs and reintegration firms defined throughput time as the entire time between registration of the client up to placement of the client in a paid job, excluding time spent on education and training. For others, however, it relates to the waiting time between the various stages of the process. To us the most straightforward definition of throughput time is the length of period during which the UVI is dealing with the client, i.e. the time it takes to place a client. To say the least, it is remarkable that this criterion was not defined. This makes comparison between bids hard to do.

The drop-out-rate is the percentage of clients, which for some reason leave the trajectory *prematurely*. Two of the UVIs, Gak and Guo, used this criterion, which was not included in the list specified by the Lisv. Therefore, Gak and Guo acted against the rules as developed by the Lisv. It is not clear why this criterion was added. From previous evaluations of labour market measures we know that often participants leave a measure owing to the fact that they found a job (De Koning et al, 2002). This is particularly so in case of training measures. Therefore, dropout does not always point to a problem.

Performance criteria

The procedure defines only one performance criterion: the percentage of people placed in job. The Lisv defined placement to be the case when the trajectory of the client results in client working in paid employment for a period of at least 6 months. From the supplemental explanation given by Lisv it becomes clear that the definition refers to the signing of an employment contract by a client for that period and not that of actually working for that stretch of time.

In a bid the reintegration firm has to specify the percentage of clients it believes it will place within one year¹³. The bidder has to state that he can place a minimum of 35 percent of the clients in paid employment.

Price

In the Lisv procedure price is defined rather loosely as the price of an average trajectory. Most bidders - in their bids - simply present a list of products and services, which can be used in the trajectories of clients. The

¹³ The period of one year is counted separately for each individual client. The period starts at the moment that the mediation plan of an individual has been approved by the UVI. The period also does not include time spent on educational activities.

number and kind of products and services will vary per client. The Lisv expects the UVIs to make an educated estimate of the quantity and quality of the necessary products and services for the clients in the particular lot. The bidders do not have to quote an average price. They only have to quote price per product and service.

Score function

The decision procedure is typical for an un-weighted beauty contest.

- The score per attribute is determined judgmental. Ratings reflect the subjective views of the awarding authority.
- The total score is determined judgmental. Ratings reflect the subjective views of the awarding authority.
- There is no exact representation of the relationships between the attributes.
- Bidders do not know the exact algorithm used by the awarding authority to calculate the total score.

The Lisv determines the winner to be determined on the basis of the most economic bid. What most economic bid means or how it should be made operational is however not prescribed or described. The evaluations also do not make clear how the UVIs tackled this problem. The evaluation by KPMG/BEA (2001) suggests that the UVIs had some sort of weighting for the attributes. From the evaluations, however, it does not become clear whether the UVIs adopted weights, or what these weights were. In each case, the bidders did not know them at the time of bidding.

4.2.4 BIDDING

The format used

The format of the competition is a simultaneous sealed bid type. In this format each bidder places only one bid. The bidders present bids in a sealed envelope which are opened publicly at a pre-specified time by the awarding authority. The bid includes both offers on quality and on price. The winning bidder is obliged to produce the services at the offered level of quality and price.

In general the more information that is provided in the bidding competition the more transparent is the contest and the better-informed bids can be made. A disadvantage of the simultaneous sealed bid format is that it

precludes bidders learning from one another¹⁴. Bidders have no information on other bidders' estimates of the value of a particular lot. This can give rise to the so-called "winner's curse". The winning bidder is the unfortunate one who, out of ignorance underestimates the costs of the lot. In order to decrease the possibility of making a loss on the particular lot, bidders will adjust their quality bids downwards and their price bids upwards¹⁵.

If bidders are inexperienced, they may be less likely to correct for winner's curse, which may yield a high quality and low price bid. An additional reason why inexperienced bidders may offer high quality and low price is exacerbated by the fact that newcomers have little working experience to show in the area of reintegration. Working experience is one of the criteria on which the bids are judged. In order to make competitive bids newcomers will have to especially compete on other quality criteria than working experience and on price.

However, an internal note from the Dutch Ministry of Social Affairs and Employment suggest that bidders were quite informed about the prices of their competitors. It says that the smaller reintegration firms were simply following the price set by the market leaders, that is the former public reintegration firms. Therefore, the problem of the winner's curse may not be that important in this case. If the Ministry's note is right, we may doubt whether the price has played an important role in the procedure at all.

Other possible formats

The only format used by the UVIs was the simultaneous sealed bid format. Besides this format other ones may be possible such as a sequential format. In this format first a quality bid is made and in a second stage a price bid is made. The second stage can be conducted in two ways: as a one-off financial bid or as one in which sequentially higher price bids can be placed.

The format with the one-off financial bid resembles a sealed bid auction with a bid handicap, while the format with the sequentially higher price bids resembles an English auction with a bid handicap. In both formats ones'

¹⁴ In the restricted procedure the UVI makes a short list of bidders. If the awarding authority informs the bidders which firms have been short-listed this can be of some aid to the bidders. They at least know whom they are bidding against. In the open procedure even this information is lacking.

¹⁵ A lower quality bid implies lower placement rate, higher throughput time and higher drop-out rate.

quality score in relation to the highest quality score bid determines the bid handicap.

The main advantage of these formats is that they provide much more information to the bidders. Besides knowing which parties are partaking in the bidding, the bidders also know how the others have scored on the quality dimension. This knowledge can be used in the financial bid. An additional advantage is that these formats should reduce the danger of the winner's curse arising. In comparison to the simultaneous sealed bid format this will lead to higher quality and lower prices being bid for the trajectories.

A favourable feature of sealed bid formats over open bid formats is that sealed bid formats are generally considered less prone to collusion between bidders. Bidder's defections from collusive agreements (that is the submission of a bid with higher quality and/or lower price than the collusive agreement) are harder for other bidders to prevent in a closed format than in open bidding system. The danger of collusion arising is probably quite low. The reason is the sheer number of lots (several hundred) put on the market in combination with the large number of bidders. This combination makes it highly unlikely that stable collusive agreements will come about. In the case the tender procedure used is open the likelihood of collusion occurring will be even smaller than when using the restricted procedure, due to the larger number of bidders per lot.

A possible disadvantage of the sequential formats in comparison to the simultaneous one are the costs involved. The costs for conducting the sequential open format for both the UVI and the reintegration firm are likely to be higher than the costs involved using the simultaneous format. The costs for the simultaneous sealed bid format and the sequential sealed bid format will presumably not differ strongly. For some bidders it may in fact be cost saving. When being informed about the quality scores of their competitors they may quickly make the decision to opt out and not make a price bid.

4.2.5 EVALUATION OF DESIGN

The quality criteria are very different by nature. The structural criteria relate to the supplier and only indirectly to the product or service, while the performance criteria relate directly to the product. Put differently, structural features are means by which a goal can be achieved. It is the performance, one could argue, that matters. However, it is also important whether the promised performance is credible. If one bidder promises better outcomes

than the other, but the latter seems to be more reliable on the basis of its experience and track record, one might choose the more reliable candidate.

However, if too much weight were put on structural features, newcomers would stand no chance. The very purpose of the procurement procedure is to increase competition by offering new providers a chance. From this perspective it is odd that the largest UVI, Gak, put so much emphasis on previous results achieved by reintegration firms. This effectively shut out newcomers. The Cadans approach, which focused more on the experience of a reintegration firm's staff, seems to be more reasonable. Newcomers can and in fact did attract experienced staff from former public and private providers. Therefore, the last mentioned approach seems to offer the best compromise between introducing effective competition on the one hand, and on the other ensuring that a winning firm has the capacity to operate successfully.

The fact that competition was only increased to a limited extent is one drawback of the design used. A second drawback is unclear definition of criteria. Particularly unclear is what is meant by throughput time. As to the placement results a minimum figure of 35 per cent within one year was required. However, this figure seems to be extremely low. In the case of unemployed clients, even clients that are not treated have a higher chance of finding a job¹⁶. Therefore, the minimum percentage of 35 does not mean a lot. The third drawback is that it is unclear how the UVIs weighted the score on the various criteria.

Also regarding the implementation of the procedure weak points can be mentioned. First, in the rules that the Lisv developed the qualifying and bidding criteria were mixed up. UVIs could add qualifying criteria to the ones prescribed by Lisv, but in practice only formal ones were added. The largest UVI did this to the point that formal qualifying criteria received more weight than the bidding criteria.

A second weak point in the implementation is the fact that with the exception of a few cases the lots were defined for heterogeneous groups of clients, such as 'the' unemployed or 'the' disabled. It was therefore not

¹⁶ An evaluation of measures co-funded under the European Social Fund (ESF) reveals that in the period 1997-1998 placements rates were 50 per cent or higher (De Koning et al, 1999). It should be noted that in the years following 1998 the labour market further improved. In 2001 the labour market conditions were such that even disadvantaged groups could be placed relatively easy. However, soon after the situation changed and unemployment increased rapidly. Nowadays, reintegration firms have a hard time placing their clients.

possible to make fine tuned bids for niche markets. With these heterogeneous lots the danger of cherry picking seems to be real. Making pay dependent on placement results might have reduced this risk, but the contracts contain few, if any, of such incentives for the reintegration firms. The more heterogeneous the content of a lot is the greater is the uncertainty of the bidder about the value of the lot. In order to prevent the winner's curse arising, the reintegration firm will bid lower on quality and higher on price. As a result, bids may actually yield a lower quality and higher price and thus higher costs for the UVIs than in the case relatively homogenous lots were put up for sale.

All in all we are bound to conclude that beauty contest design and implementation reflect serious flaws.

4.2.6 OUTCOME BIDDING PROCESS

Expertise personnel

Whether or not a certain affinity with a specific sub-group of clients could be shown barely influenced the final score in the bid assessment of four of the five UVIs (all but Guo). This point was never made specific as an explicit criterion. With regard to experience of personnel or results achieved in the past, the point was in a few instances raised. These minor points were however insufficient for a bidder to clearly distinguish itself from a competitor on these grounds. An innovative niche player thus has little opportunity to identify himself as such. This makes it problematic to achieve the objective of increasing the number of innovative niche players.

Eliciting information

The UVIs put several hundred lots up for sale. This should give them ample opportunity to acquire information from the bids. This kind of information increases the transparency of the market. UVIs obtain more insight in the costs of integration services for various types of clients. However due to the fact that the contents of the individual lots are very heterogeneous and ill defined it is difficult to compare bids between lots. Bids can then only be compared one lot at a time. This limits the amount of information that can be elicited from the bids. More information could be elicited from the bids if the lots were defined more tightly and made more homogenous. With closer defined product combinations the costs for each such combination becomes better known. Instead of being a rich data source the large number of lots then become a costly low information affair. The poor definition of the lots is thus a missed opportunity for increasing the transparency of the market.

Fallacious comparisons

The procedure is rigged against firms specialising in difficult market segments; i.e. with clients that are difficult to place. The results for these difficult market segments are low while the costs are high. When these offers are compared to other bids, which involve a mix of easy and difficult groups of clients, and the evaluator does not account for these different mixes, the bids of specialised firms will be turned down. Taken at face value the results of the specialised firms are worse while their price is higher. This obviously is a fallacious comparison.

Lack of quality specification

The lack of quality specification results in cherry picking. Since the reintegration firms are accountable on a total percentage of all trajectories within a lot it makes sense from a cost perspective if reintegration firms conduct as little as possible effort in the high cost trajectories. As little as possible is then a minimum set up in the contract or it can be some self-imposed minimum, which makes them credible to the UVIs.

Difficulties for entrants

It can be easily argued that entrants in this market for reintegration services have less information about which groups are more difficult or relatively easy to reintegrate in the labour market. Incumbents have more experience in this respect. This makes it that it is easier for incumbents to pick the cherries than for entrants. Accordingly, newcomers tend to have higher prices so that innovation does not come about so easily.

Tackling cherry picking

The present approach to cherry picking is by means of regulation and monitoring. A simpler approach would be to ensure that cherry picking simply couldn't come about. This is the case of perfectly homogenous groups. In homogenous groups there are simply no cherries to be picked. All group members are identical. Of course some degree of heterogeneity will always exist within a group. In making lots on which can be bid it is essential to strive for clients having the same background characteristics. These can be education, age, sex, profession, physical handicap, psychological handicap etc. In order to achieve homogeneity it may be necessary to make small groups. The question, of course, is whether it is possible to identify and measure all the relevant factors that determine job chances. We come back to this point in section 5.

Market outcomes

Until 1998 Gak-Labour market integration (Gak-Lmi, a branch of Gak) conducted the reintegration of disabled people to a new employer. In 1998 Gak-Lmi was separated from Gak and placed within the PES. The UVIs were compelled to buy a minimum of 80 percent of the trajectories from the PES. The other trajectories could be bought from private reintegration firms.

We do not know the exact market shares in 1999 per reintegration firm. It is nevertheless obvious that major shifts in shares have taken place. A few years ago Kliq, which then was part of the PES, was virtually monopolist. Its drop in market share has continued in 2000. The other former public reintegration firms Argonaut (ex- Gak) en Abp witnessed increasing market shares in 2000. Most of the firms which were operating in the market in 1999 won a number of trajectories in 2000.

In total 36 percent of trajectories were contracted to the former public reintegration firms. The degree in which UVIs have contracted trajectories to the former public reintegration firms varies from 10 percent for Cadans to 57% for Uszo.

The fear that reintegration firms, which were formerly part of the UVIs, would be favoured is partly justified. In the case of Gak, Uszo and Guo the reintegration firms receiving the largest number of trajectories are the former partners (Argonaut, ABP Reïntegratie and Relan respectively). Sfb and Cadans haven't dished out trajectories to their former partners.

Remarkable newcomers are Alexander Calder, Serin, Fourstar and Creyfs Interim. Cadans has by far contracted the most newcomers, which is not surprising given the fact that this UVI attached little weight to past results.

4.2.7 FEATURES AND EFFECTIVENESS OF THE SERVICES PROVIDED

Hardly anything is known about the services provided. A study by Heyma et al (2003) is the only available source. This study was commissioned by the RWI to investigate how lots could be substantiated using data on the characteristics of individual clients, the provision of services to these clients and their ex-ante job entry chances. The data apply to clients that entered unemployment or disability in 2000 or 2001, implying that a considerable part was reintegrated under the 'old' regime. Table 2 gives the available

information on the types of services provided. The information is given for two types of clients: the unemployed and the disabled¹⁷.

In the table clients are categorized according to the services provided to them. For some of them only a diagnosis was made. Others received a wide range of services. A problem with this information is that we do not exactly know what the various terms mean. The term ‘strengthening’, for example, is a literal translation of the Dutch word ‘versterking’. Heyma et al suggest that ‘strengthening’ may also include certain types of training¹⁸. Probably, training provided to unemployed clients is mostly job search training. Job-related training aiming at increasing a person’s job competences seems to have been applied to the disabled more frequently, although we lack further information.

Table 2 Types of services provided to clients in 2000 and 2001 (percentage of the clients to which a specific set of services was offered)

Type of services	Unemployed	Disabled
Diagnosis	5%	11%
Training	0%	29%
Practical experience	-	2%
Job mediation	15%	31%
Strengthening	38%	10%
Training and strengthening	7%	17%
Strengthening and job mediation	19%	-
Training, strengthening and job mediation	16%	-
Total	100%	100%

We refer to the set of services provided to a client as ‘the product’. According Heyma et al the average price of the products is € 1052 for 2000

¹⁷ The term ‘disabled’ may suggest that the persons involved have a serious (physical or mental) health problem. Although this is indeed the case for many of them, there is also a considerable number that is (again) able to work and can be re-integrated in the labour market.

¹⁸ Heyma et al make a distinction between training and schooling, but do not define these terms.

and € 1232 for 2001. We don't know why the average price has increased so much between the two years. Without further information it would not be right to blame it on the new procedure. It may also have to do with a change in the composition of the client group and a need for more expensive instruments. It is important to note that training costs are not included in the prices. This information is not available. But on the basis of what we know we can conclude that at least in those cases where no training was provided the average service provision cannot have been very intensive.

Of the total group of clients falling under the 2001 procurement procedure, approximately one-third found a job, which is almost the same as the minimum requirement made by Lisv. Given the fact that Heyma et al use data on people starting their benefit period in 2000 and 2001 and assume that treatment takes place six months after entering unemployment, their analysis of the placement results largely applies to reintegration under the 'old regime'. On the basis of their data they find that 43 per cent of the unemployed clients treated, found a job within one year after entering employment; for the disabled this is 25 per cent. So, although Heyma deal with a somewhat different population, the two sources point to similar placement results. However, given the differences it is not possible to make an exact comparison.

It is also difficult to compare these placement results with the results found in earlier evaluations. In the latter evaluations the post-programme job entry rates found are usually higher, but the participants involved, the labour market measures involved and the data collection methods used are different. So, basically we don't know what the impact of the privatisation on the placement results has been.

4.3 THE 2002 AND 2003 PROCEDURES

In the mean time, the UVIs have merged into one organization called UWV. Owing to this merger there is much more uniformity in the 2002 and 2003 procurement procedures, even though the 2002 procedure was still conducted by each UVI separately.

For 2002 this uniformity did not mean less complexity. The number of lots was no less than 572. Firstly, 53 target groups were defined. Secondly, each of the six UWV districts had a separate procurement procedure. And finally, often a target group in a district was divided in a number of trenches. Taking into account that the estimated number of clients was not higher than 60.000, the conclusion is that on average the lots are very small.

In total 41 providers were contracted, often for a number of lots. On average a provider deals with approximately 1500 clients. However, there is a huge variation. Some providers deal only with several hundreds of clients, while others take charge of thousands of clients. There is no information about the placement results for individual providers. Therefore, it is not possible to investigate whether size matters to the outcomes. One might expect it to be easier for providers with larger market shares to collect information about vacancies. Furthermore, companies in search for personnel may find it easier to deal with these larger providers as the latter offer more choice. On the other hand, smaller providers may be able to offer specialized services that are more effective for specific groups of clients.

The large number of lots created practical problems in the selection process. According to a process evaluation by the IWI (2002) the regional selection committees were unable to deal satisfactory with the applications. Owing to that the central level of the UWV organization was dissatisfied with the outcomes. A number of providers with a good reputation were not selected, which led the central level to adjust the choices made by the regional committees. However, the criteria used in the final decision process were unclear. Therefore, the IWI has criticized the transparency, the lack of uniformity and the efficiency of the selection process.

However, also the contract arrangements made between the UWV and the providers are subject to criticism. Although the contracts make payment dependent on performance in principle, there are ways by which providers can avoid penalties for poor results. They can, for example, refuse clients that do not seem motivated. The IWI states that on the basis of the available information cherry picking has probably frequently occurred. However, if we compare the 2001, 2002 and 2003 procedures the tendency definitely to make payment increasingly dependent on placement results.

For a number of target groups, contracts with more than one provider have been made in the 2002 procedure. In these cases there is room for clients to choose between different providers. The choice is made in consultation with the case managers who must approve the choice. The freedom of choice is limited by the fact that the contracts imply that a provider gets a certain number of clients. However, there is a tendency to increase the opportunities for clients to choose.

We can also observe that in the second round of procurement services the newcomers seem to have gained a strong market position at the cost of the firms associated with the old system such as Kliq. Therefore, in terms of market efficiency the situation may have improved, although we lack the

information to be sure of that. The first round still favoured the reintegration firms originating from the 'old' public organizations in the field of social security and employment services.

On the whole, we tend to conclude that in practice the improvements of the 2002 procurement procedure compared to the one for 2001 were probably small. As to the 2003 procedure we do not yet have information about the market outcomes. The description of the 2003 procedure suggests that it is simpler and therefore more workable. However, neither for the 2002 nor for the 2003 procedure, anything is known about placement results. There is no sign that the basic weaknesses have been improved. The UWV still lacks a system to determine the ex-ante job entry chances of the clients, that is: the job entry chances they would have had without treatment. This information is necessary to determine to what extent treatment induces an increase in job chances. Neither do we see systematic attempts to make ex-post evaluations. The study by Heyma et al shows how it could be done and the RWI, which commissioned this study, is a strong advocate for such analyses. But so far neither UWV nor the Ministry has changed its attitude towards evaluation. The study by Heyma et al also shows how complicated the data collection process has become as parts of the data have to be obtained from several actors.

We previously mentioned that the tendency is to make payment to the reintegration firms increasingly dependent on (gross) placement results. However the disadvantages of such a system have become apparent, now that the Dutch labour market situation has seriously deteriorated. The number of unemployed has risen sharply and the number of vacancies has dropped. In this situation it becomes increasingly difficult for reintegration firms to place their clients. Reintegration may not be a profitable activity anymore. Furthermore, it is unlikely that under the given circumstances the efforts of these firms will result in a short-term reduction of the total number of beneficiaries. If they succeed in improving the chances for their clients it probably goes at the expense of other categories of jobseekers. Owing to this, one can observe the following tendencies:

- if reintegration does not result in short-term success the tendency is to reduce the efforts in this field;
- there is a tendency to concentrate on services that optically lead to short-term success and to cut in types of service provision that are more costly and take more time such as training (see Gelderblom, De Koning and Zandvliet 2003, and other studies referred to in this report);
- reintegration firms have a hard time in reaching the targets.

There seems to be no awareness of the wider significance of labour market programmes and the possibility that they may have important macro-economic effects.

4.4 CONCLUSIONS

A few years ago the government decided to outsource the delivery of reintegration services for the unemployed and the disabled to private agencies on the basis of a tender procedure. The government's expectations were that by introducing competition the effectiveness and the efficiency of the services would be enhanced. On the basis of the available information, however, it seems to be unlikely that this goal was indeed achieved. On the basis of the previous sections we can at least draw this conclusion for the 2000 procurement round as conducted by the social security agencies.

Particularly unsatisfactory are the minimum requirements set regarding the job entry rates of the clients. The reintegration firms had to guarantee that at least 35 per cent of their clients would be placed in the labour market. However, as an average score this is very low. Probably, the same or even a higher percentage of the clients involved would have found a job without 'treatment'. Recent information about the actual placement figures indicates that these will probably not be much higher than the required 35 per cent.

The lots were in general heterogeneous, which makes the transparency for bidders, with regard to what they are exactly bidding on, low. Because lots are heterogeneous little can be learned about the costs of different types of clients and whether it is cost efficient to specialise in certain client groups instead of non-specialisation. The procurement design offers a lot of opportunities to reintegration firms for cherry picking or 'creaming' as it is usually called in the evaluation literature on active labour market policies. One might fear that under the present conditions the outsourcing of reintegration services to private companies has led to lower chances for the most disadvantaged clients. Investigating this point should be an important aspect in an ex-post evaluation of the procurement procedure.

The criteria used by the UVIs to evaluate the bids as well as the weights attached to the criteria were unclear. We don't know to what extent the UVIs used a structured decision-making procedure. In any case the reintegration firms were not informed about it. In the hypothetical case that the same group of firms is bidding on two identical lots offered by two UVIs, there is no guarantee that the same firm will win both lots. For a contest to be efficient this is.

In addition to obscuring the market rather than making it transparent, the procedure also leads to unnecessary costs for bidders. UVIs used different procedures and criteria and bidders had to fine-tune their bids to each separate UVI. Even for identical lots, bidders will have to provide different bids to different UVIs. In certain cases information was asked from bidders with very low relevancy to the beauty contest.

All in all we conclude that instead of enhancing transparency the procedure chosen obscured the market. It is difficult to imagine how the procedure could have contributed to a more effective and efficient delivery of reintegration services. What is also disappointing is that on forehand little thought was given to the possibilities of learning from the new procedure. One did not make the necessary preparations for an ex-post evaluation that could throw light on the net effectiveness of the service provision. Although a study comparing content, quality and costs of the various service providers is envisaged, the available information may not be sufficient to come to reliable conclusions.

Although the UWV has learned from the experiences in the 2001 procedure and made a number of improvements in the 2002 procedure, it is unlikely that the latter procedure has produced much better results in practice. However, we don't have any information on the placement results of the contracts made under the 2002 procedure. For the 2003 procedure, which seems to be more workable than the 2002 procedure, no information on outcomes is yet available.

5 OUTSOURCING OF REINTEGRATION SERVICES BY THE MUNICIPALITIES

A brief description of procurement procedures in six municipalities

Contrary to the procurement of reintegration services for social insurance clients, no common framework exists for the procurement by municipalities of reintegration services for social assistance clients. Each municipality has its own way of dealing with it and is inventing the wheel. No general inventory exists of how municipalities deal with the procurement. In a recent study De Koning et al (2003) give a short summary of the situation in six municipalities. The main purpose of this study was not, however, to analyse procurement procedures. This was a by-product of the study, of which the main aim was to develop econometric benchmark analyses to compare the performance of municipalities in reducing the number of social assistance beneficiaries by activating measures. Both frontier analysis and DEA have been used. This work is still in an experimental phase. During

the study in-depth interviews with six municipalities have been held. The six consist of three pairs. Each pair of municipalities consists of look-alikes in terms of size, regional function and other characteristics. However, they differed strongly in one respect: one performed favourably in the benchmark and the other unfavourably. One of the purposes of the interviews was to find out whether the differences in performance were due to specific factors not included in the models. Among the aspects covered in the interviews was how the municipalities dealt with their clients and how they organized the tendering process for reintegration services. Although the sample is very small, the results give some indications.

Table 3 contains a summary of the results. The results give a clear indication of the huge variation in procurement procedures. One municipality has even sourced out the assessment of clients. The private agencies involved determine what must be done with the clients and outsource implementation further to reintegration firms. In this case control by the municipality is highly indirect. In other municipalities civil servants do the client management and determine the individual need for reintegration of their clients and then involve reintegration firms for the implementation. In those cases the municipalities keep in direct control. In most cases case management is already existing or in development.

Most contracts with the reintegration firms contain regulations according to which a bonus or a penalty can be given, depending on the placement results. However, it is also clear that information systems are still far from ideal. Few municipalities have a follow-up system on the basis of which individual clients can be monitored. In some cases such a system is under construction. Placement results are often based on the reporting by the reintegration firms.

Most municipalities have a rather loose way of defining their target groups. Ex-ante job entry chances are unknown, implying that placement targets, if any, are not based on realistic expectations. None of the six municipalities had any idea about the net effectiveness of the reintegration services.

Table 3 Characterization of current implementation of reintegration activities

Municipality	Score benchmark-analysis 1998-2000	When change to procurement procedures?	Characterization of procurement procedure	Way of determining the target groups	Role of client management	Information systems	Role of incentives and testing of outcomes
Municipality 1a	Favourable	In 2002	Open contracts with six reintegration firms; each client manager can choose from two of these firms per client group	Has remained unclear	During benefit period a client keeps the same case manager	No follow-up system for clients	System with bonuses and penalties Results determined on the basis of reports by reintegration firms
Municipality 1b	Unfavourable	In 2002. Still in developing phase	Selection of reintegration firms partly based on targets set by the latter. If the firms do not reach their own target, it gets a penalty. Selected firms are guaranteed a certain number of clients to be treated	Through an analysis of the composition of the client population; not on the basis of job entry chances Uses CWI categorization	In the process of introducing integral client management. Client manager is responsible for all aspects of social assistance relevant to the client	Different systems next to each other. No ideal situation.	Penalty if targets are not reached; frequent reporting and efficiency analyses
Municipality 2a	Favourable	In 2001	Beauty contest following a European tendering procedure with five lots	On the basis of: - CWI; categories - REA target group	Development case management in progress	Development client follow-up system in progress	System with bonus and penalties; results determined on the basis of reporting by reintegration firms. Premiums and subsidies for clients only in case of job placement

Table 3 (continued)

Municipality	Score benchmark-analysis 1998-2000	When change to procurement procedures?	Characterization of procurement procedure	Way of determining the target groups	Role of client management	Information systems	Role of incentives and testing of outcomes
Municipality 2b	Unfavourable	Already in period 1998-2000. In 2000 new organisation	Parts of reintegration pathways purchased from different providers, both private and non-profit organizations involved. Second procurement procedure in operation	No information	Only for reintegration; before 2001 integral case management	Under development. Since January 1 2003 new system. Problems to get management information	Business-like approach. Monitoring on a monthly basis, quarterly progress reports and final evaluation. Also bonuses for clients
Municipality 3a	Favourable	Already since 1998 outsourcing to private reintegration firms	Currently procurement of complete service packages	Often on the individual level by case manager. Referral of clients to reintegration individually. No overall view (see also situation concerning IT)	Integral client management.	Data system on benefits and client follow-up system fairly unrelated. Ad-hoc solutions	In principle, pathways are only finished when the client has found a job
Municipality 3b	Unfavourable	In 2001	Two main contractors responsible for diagnosis and case management Specific reintegration activities are outsourced further to seven reintegration firms. Only new clients fall under the new approach	On the basis of CWI categorization	Contracted to private companies. Each client has a specific contact person in the municipal department	Unsatisfactory; insufficient management information. Since January 1 2003 new system	Testing of contractual arrangements. Main contractors are paid on the basis of performance. The latter also pay the firms they contract on the basis of the successfulness of the activities carried out

Source: De Koning et al (2003).

A more detailed account of the procurement procedure in one municipality

The previous section only gives a rather superficial account of procurement procedures as used by a number of municipalities. However, more detailed information is not available. For one (medium-sized) municipality (not belonging to the group of six dealt with in the previous section) we dispose of an internal paper describing the procurement procedure the municipality **intends** to hold. As an illustration we will treat this procedure in more detail.

The contracts are about the reintegration of 300 clients. The clients are divided into 6 lots:

- category 2 clients (75);
- category 4 clients of which lone parents (25);
- disabled clients in category 4(25);
- category 3 and 4 clients below 23 years of age (25);
- other clients in category 4 (75);
- other clients such as clients without a benefit (25).

Reintegration firms can bid for each lot separately. The contracts refer to a period of two years. The procurement procedure is a beauty contest. The bids are judged on the basis of price, (50 percent weight), quality (40 per cent weight) and degree of acceptance of the plan as set out by the municipality (10 per cent weight). Quality is determined by: quality of the methods used for the reintegration, placement results, quality of the staff and quality control. However, the quality criteria are not precisely defined. The same is true of the third criterion (degree of acceptance). Therefore, the procedure leaves considerable room for interpretation as to which bids are the best. Just as in the case of the UVIs and the UWV, the format of the competition is a simultaneous sealed bid type, where each bidder places only one bid. If the procedure were to allow sequential bidding, the competing firms would learn more about the municipality's preferences and would be able to make more realistic bids.

The reintegration firms are supposed to use three types of services: (i) placement in an regular job; (ii) placement in a subsidized job, and (iii) social activation. The contracts contain targets with respect to the placement rates. For category 3 clients, for example, 55 percent must be placed in a regular job and 35 per cent in a subsidized job. In 10 per cent of the cases placement activities are allowed to fail. Reasons for failure can be that the client has dropped out (maximum of 5 per cent) or that it simply proved

(too) difficult to place him (maximum of 5 per cent). However, when more than 5 per cent of the clients drop out, it is still possible that the firm gets paid. This is the case when drop out is due to unwillingness of the client. In order to get paid the reintegration firm has to report the matter to the municipalities at an early stage and, after consultation with the municipality, put sufficient effort in the case. Therefore, in practice actual placement figures may be lower than the target values without any financial consequences for the reintegration firm.

Clients, on the other hand, have the right to complain to the provider about poor service provision. The provider must develop a procedure indicating how it deals with complaints. It must also register the complaints. Furthermore, every quarter the provider must send this registration to the municipality.

The activities of the reintegration firm starts with an assessment phase that takes no longer than 2 months. This diagnostic phase results in a reintegration plan for the clients. The municipality must approve the plan. In this phase it may already appear that some clients are unwilling or cannot be helped for some other reason. The placement targets mentioned before only refer to the approved reintegration plans. After approval the client must be placed within a period of six months. A placement only 'counts' when the client stays in employment for at least six months. When more clients are placed in regular jobs than the target rate, the firm gets € 900 for every additional placement. When the placements stay below the target a fine is imposed of € 900 multiplied by the difference between the target and the actual result. The price will be determined in the beauty contest and is not yet known. On the basis of what we know about previous beauty contests it will probably be something like four thousand euros per client. Therefore, the level of the bonus and the fine is relatively high. It is unclear how the fact that the municipality has already set specific placement targets as well as a system of bonuses and fines can be reconciled with the use of placement results as one of the criteria for choosing between different bids. The detailed description of client profiles, tasks and targets comes very close to an auction, while the article describing how the bids are to be judged clearly implies a beauty contest. The two seem to be mixed up.

Service provision includes activities to remove factors hampering labour market participation (family situation, health situation, social skills, etc.) as well as placement activities. The municipality arranges child-care facilities, financial help for clients with debts and the availability of subsidized jobs. Training is excluded from the normal service provision. Only in special cases the municipality is prepared to provide additional funding for training. Clearly, it will be the exception rather than the rule.

The client managers of the municipalities are supposed to keep track of the clients. Each quarter they receive a progress report from the reintegration firm. At least some of the information is put in a database containing individual data about the treatment offered, whether the client was placed, how much time it took, etc.

The previous paragraphs may give a better understanding how municipalities currently deal with the obligation to organise procurement procedures. This example of a medium-sized municipality points to a certain progress in the way municipalities take care of this obligation. However, on a number of important points serious questions remain. First of all the procurement procedure is not theoretically efficient and does not give sufficient guarantees that the best bid wins and that the winning bid is realistic in terms of service level and price. Secondly, the definition of the client profiles is almost entirely based on the profiling made by the CWI. However, their profiling procedure is flawed, which is now generally recognized. Therefore, the placement targets set may not correspond to realistic a priori assumptions concerning the easiness or the difficulty to place the clients included in the various lots. Both in absolute and in relative terms the targets come out of the blue. It is also clear that the reintegration activities have a short-term orientation and are not taking possible discrepancies between labour demand and labour supply into consideration. Training will hardly be offered.

Concluding comments

Although our analysis is based on a small sample of municipalities the results point to considerable weaknesses of the procurement of employment services by municipalities. It casts doubt on the belief that such procedures would improve the quality and reduce the costs of employment services. A more general consideration is whether a good labour market policy is at all possible from a purely local perspective. So, even when the procedures were efficient, they would not guarantee a good labour market policy.

Starting from 2004 municipalities will receive one budget out of which they have to pay social assistance benefits and another budget from which they can finance reintegration activities (including job creation schemes). If a municipality spends less on benefits than the budget accounts for, it can use the difference to its own choice (for additional expenses on reintegration, for example). The national schemes for subsidised labour will be abandoned. The government hopes that this new system will provide more incentives to municipalities to reduce the number of beneficiaries and to put more emphasis on placement in regular jobs than in subsidized jobs (although municipalities are free to develop their own schemes for

subsidised labour). Some fear that in the present labour market situation with high unemployment and fewer vacancies, this will induce municipalities to spend less on reintegration activities (particularly on training).

Some of the reintegration firms hired by the municipalities also work for the UWV. An interesting question is how they prioritise the different categories of clients in their work. At least to some extent the different categories compete for the same kind of jobs. Competition issues will also arise when a municipality (or the UWV for that matter) defines different lots containing groups of clients that look for the same types of jobs. The problem of ‘fishing in the same water’ is particularly pressing in the current situation.

6 BEAUTY CONTEST, AUCTION AND QUALITY MEASUREMENT

Would auctions have given better results?

The purpose of outsourcing placement activities to private agencies is to improve the efficiency of the services, to raise their quality or to have both of these improvements. Although we lack information on the impact of the procurement procedure on the effectiveness and the efficiency of reintegration services, the previous sections make it at least improbable that such an improvement really occurred. We have pointed to a number of weaknesses both in the design of the procurement procedures and in the way these were implemented. However, could making use of an auction instead of a beauty contest have prevented these problems?

The main difference between an auction and a beauty contest is that in the former case quality is taken as given and the bidding is solely on the price, while in the latter case both quality and price determine the choice made by the contracting agency. In case of an auction bidders should fulfil two requirements:

- the guarantee that the quality of the services exceeds the minimum level as specified by the contracting party;
- a certain experience of their staff to make their bid credible.

The contract could then be given to the bidder with the lowest price. Such a procedure seems to be much simpler and transparent. One does not need a score function.

However, at closer look things are not that easy. The problem lies in ensuring a minimum service quality level. As we will show now, it appears to be extremely difficult to measure quality in the field of reintegration services.

What is quality in relation to reintegration services?

The purpose of reintegration services is to increase the transition rate from inactivity to employment for the target groups of these services. In the Netherlands target groups for these services are the disabled, the long-term unemployed and short-term unemployed in high risk of long-term unemployed. What is aimed at is a positive *net* effect: the difference between the transition rate with and without the services. We know that without the application of the services still at least some people from the target groups would find a job¹⁹. Therefore, reintegration services must be judged on their net effectiveness. Placement figures as such are meaningless.

We know quite a lot about the net effectiveness of reintegration services or measures. It has been investigated in many studies covering many countries. From a methodological point of view two types of studies can be distinguished. The first type tries to assess the impact of reintegration by estimating econometric models using aggregate data. A summary of the literature can be found in De Koning (2001). The second type uses a control group design based on micro data. For this part of the literature we refer to Heckman et al (1999). In both cases the overall conclusion is that the net impact of reintegration measures is small. In some cases participation in a measure appears to prolong unemployment duration rather than shortening it. The net effects on job entry chances tend to be higher for disadvantaged groups such as the long-term unemployed, but even here the average impacts found are of limited size and the variation in the effects considerable. Some reintegration instruments may give better results than others. According to the literature inventory made by Martin and Grubb (2002) job mediation is more effective than training and wage-subsidies, at

¹⁹ Particularly in the United States experiments have been held in which a measure is applied to a randomly selected group of unemployed participants, which is then compared to a (also randomly selected) control group of unemployed non-participants. Invariably we can observe that also from the latter group a considerable percentage finds a job. For further reading we refer to Heckman et al (1999).

least in terms of short-term job placement results²⁰. In defence of training one could argue that most evaluations of this instrument (as of other instruments for that matter) only measure short-term outcomes, while a substantial increase in competences as a result of training might not so much reduce the length of the current unemployment spell, but rather reduce the probability of future unemployment.

The design of the 2001 procurement procedure discussed in the previous sections does not give any guarantee for positive net effects. Also in view of the placement outcomes we consider it to be unlikely that the effects are better than before 2001; they may even have been worse. The tendency in the 2002 and 2003 procedures to make payment to the reintegration firms increasingly dependent on placement may lead to better outcomes, but information about it is lacking. The impact of performance-based payment may be reduced by the fact that reintegration firms can to some extent refuse clients. The performance-related payment only applies to the clients that actually enter a reintegration pathway.

How could we get a reasonable chance of positive net effects?²¹

How should the procedure be altered in order to get a reasonable chance of positive net effects? What we need is a good estimate of the job chances that the clients would have had without treatment. Based on data from the recent past such estimates could be made. Separate estimates could be made for different groups of clients, taking account of the fact that job chances depend strongly on characteristics such as age, gender, education, ethnic origin and handicap. From this information, sensible minimum requirements could be derived for different groups of clients. For each group treatment should result in job chances that are as least as good as in the case without treatment. Such a procedure would acknowledge that for particularly disadvantaged groups placement figures less than, say, 35 per cent might already be satisfactory; while in other (presumably most) cases much higher placement figures must be expected. So far, client heterogeneity owing to the previously mentioned characteristics has only

²⁰ For the Netherlands few results are available concerning the net impact of job mediation. The study by Heydra et al (2003) is one of the few exceptions. It confirms the conclusions from the international literature that at least in terms of short-term effects mediation is more effective than training. However, as in most other Dutch evaluation studies no correction for selection bias was made in this study and there were shortcomings in the data. As we indicated earlier, the primary purpose of the study by Heyma was not to measure net impacts.

²¹ Partly based on De Koning and Van Acht (2000).

partly been taken into account in the procurement procedure. And as far as it played a role, it was not based on statistical information. However, the information for estimating ex-ante job entry chances is available and examples are available how it could be done.

Although the individual characteristics mentioned account for some of the variation between individual unemployment spells, a considerable part remains unexplained by them. Probably, psychological factors and other factors that are difficult to measure are also important determinants of unemployment duration. To some extent the latter factors are taken into account in the profiling procedure as conducted by the employment offices. On the basis of this procedure, which is mainly qualitative by nature, a decision is taken which new unemployed clients are sent to the UWV and the municipalities. However, nothing is known about the validity of the risk assessment made by the employment offices. It would be better if the risk assessment was made on the basis of a statistically validated model including a whole range of factors varying from such factors as age and education to psychological factors.

Estimates of job chances can only be made based on data from the (recent) past. However, after the contracts with the reintegration firms are made, the labour market situation may change. It is possible to include contingency arrangements in the contract to deal with this problem. On the basis of past data the job chances can also be related to the general labour market situation. Then, the contracts made with the reintegration firms may include rules how the minimum requirements regarding job chances are adjusted with the state of the labour market.

If we would alter the system in that way, we would still leave it to the UWV and the municipalities to decide which services to apply to a specific group of clients. Quality would even be more ensured if we would know in advance which services are most effective for a given group of clients. Then, the UWV and the municipalities could prescribe to the reintegration firms, which services to use. In that case an auction would become possible in which the reintegration firms would only bid on the basis of the price. The question is: how can the UWV and the municipalities find out what is best? In principle, an experiment could provide the information needed. In the United States several examples of such experiments can be found in the field of reintegration measures. In such an experiment both a group of participants and a control group are randomly selected from the target group. Specific services (training, for example) are provided to the participants and not to the control group. Then, both groups are monitored for a sufficiently long period to see whether the participants have higher job entry rates than the controls. If needed several types of services could be

tested for several groups. On the basis of the outcomes a decision could be taken which types of services are most appropriate for the various groups. Furthermore, the experiment would also indicate the expected placement rates which could serve as minimum requirement in the bidding process. A disadvantage of UWV and the municipalities prescribing the types of services may be that there are few possibilities for reintegration firms to develop new products.

So far, experiments in the field of labour market policy involving random assignment have not been applied in the Netherlands. The most important reason seems to be that it is legally impossible to exclude individuals from ‘treatment’. Then, we would have to choose the control group from the ones that did not wish to be “treated” or are not selected for treatment by the authorities. However, this is most likely a selective group making the comparison with the participants difficult if not impossible. Although methods have been developed to deal with this type of selectivity, these are far from reliable. A second reason not to conduct an experiment is that it takes too much time. Although both arguments against conducting experiments are not convincing to us, they do seem to be to the authorities. Then the non-experimental approach mentioned earlier could be a reasonable alternative.

Assessing quality ex-post

For several reasons it is important to make an ex-post evaluation of the service delivery. First, even if – owing to an experiment – an ex-ante estimate of the net effectiveness was available, the ex-post results could differ from it. Second, at least ex-post placement figures are needed to determine whether reintegration firms have fulfilled the placement criterion. Such information is also important for future tendering procedures, in which credibility will most likely be one of the criteria. And last but not least, an ex-post evaluation may throw light on different implementation strategies as used by the various reintegration firms. Information about which strategies lead to the best results may contribute to the overall effectiveness of the reintegration services. For each contract between an UWV/municipality and a reintegration firm, information on costs, service content, number and characteristics of clients and placement results are available. A comparative analysis based on this data seems to be highly relevant. We don’t know, however, whether the available data is sufficient for a solid analysis.

The available information makes it possible to compare the results if the various service providers. It is also important to compare the job entry rates of the clients of the reintegration firms with those of unemployed and

disabled persons that were not treated. Such a comparison would give us an ex-post estimate of the net placement effects. We don't know, however, whether it is possible to form such a comparison group and whether sufficient data is available. Clearly, the authorities did not envisage such an analysis.

7 CONCLUDING REMARKS AND RECOMMENDATIONS

Given the delegation of reintegration services to the benefit agencies and the requirement to outsource implementation to the private sector a number of improvements are possible. These we discuss first. However, in our view the current system suffers from a number of basic deficiencies requiring system reforms. These will be discussed next.

Recommendations within the boundaries of the current system

In our view a restricted procurement procedure must be preferred. Such a procedure consists of two stages: the qualifying stage and the bidding stage. It is important that the awarding authority, the UWV or a municipality, defines quality as good as possible. In order to do that it should make an ex-ante assessment of the job chances of the various client groups. On the basis of such an assessment requirements regarding placement results could be set that give a reasonable guarantee for positive net effects of the reintegration services. Bidders should, of course, be informed about the outcome of this assessment. Although one could envisage that the bidding focuses then completely on the price (in which case we would have an auction), we tend to prefer a beauty contest in which quality and price both determine the outcome. The reason for that is that by taking quality into consideration reintegration firms are stimulated to innovate their service provision. In view of the generally disappointing results of activation and reintegration services, there is a need for such innovations. Furthermore, quality as such may be important and, for instance, underinvestment in training must be avoided. The question of credibility should be dealt with completely in the qualifying stage and should then be left to rest. The criteria used in the qualifying stage should be such that newcomers are not excluded almost by definition. The procedure should result in a sufficient number of competitors (five to seven) for each lot. To be efficient lots have to be homogeneous. Furthermore, weights have to be made explicit.

However, independent of the question whether there is an auction or a beauty contest it is essential that the organization buying the services knows which percentage of clients would find a job without the services. In principle, this is one of the things profiling should do. However, the

profiling system currently used by the CWIs is purely qualitative and as far as we know it is far from reliable. UWV does not have a system of its own and we did not come across any municipality with such a system. However, the necessary data and methods are available.

It is important that on beforehand the awarding authority makes arrangements for the collection of the necessary data for an ex-post evaluation. Furthermore, benchmarking of reintegration firms and of municipalities is highly informative. These evaluation activities should provide information on the net placement results, the performance of the various service providers and the variation in quality and implementation strategies (as determining factors of the placement results). However, what strikes the eye most in the new system is the lack of information about its performance. The agencies in charge of reintegration are not very keen to provide information about the results of the reintegration activities they outsource to private providers. Very few attempts have been made to measure the impacts of the activities. And as far as information about the activities is available it is often considered as confidential. Ultimately the ministry is responsible as provider of the funding for the reintegration. However, neither the ministry seems to be convinced of the need for information. Actually, the official point of view is that given the fact that the system has been decentralized and privatized, also the responsibility lies with the actors in the field. It is now up to the market, so they say. This is a very naive view on the private procurement of employment services. If those in charge of the procurement process don't have any idea about the effects of the interventions on job entry rates, it is difficult to see how they can guide it in such a way that there is a reasonable chance of success. Private providers do not have an interest in providing high quality services for low costs if they are not judged.

Clearly, a satisfactory design and implementation of a procurement procedure in the field of reintegration services is highly demanding for the awarding authority. It seems to make sense to make use of external expertise on procurement and evaluation. Furthermore, one could think of the government providing advise and even imposing requirements regarding the procurement procedure. This seems to be particularly relevant for the smaller municipalities.

Some of the problems identified in this paper can be seen as child diseases of the new system. Comparing the 2000, 2001 and 2002 procurement procedures by UWV one can observe a certain improvement, although the potential improvements in the 2002 procedure have probably only partly been realised. An interesting development is the increasing opportunities offered to clients to choose between different providers and to influence the

content of their reintegration pathway. In this way the system may develop features similar to the Australian system (see Struyven, Steurs and Peter, 2002). Also on this point, however, it is important to see what will happen in practice.

System weaknesses

However, the question remains whether the awarding authority itself has a sufficient incentive to get a maximum result out of the procurement procedure. This is at least unclear. The incentive structure would be clearer if both the delivery of benefits and reintegration services would be outsourced to private companies. The role of the government could then be restricted to developing a set of rules such as the entitlement criteria for a benefit. In the United States examples of such a system can be found. However, the question is whether in such a system reasonable guarantees can be given that sufficient effort is made to help the most disadvantaged groups. In theory such a system may work, but in practice this will highly depend on how the government manages the process. On the basis of past experiences high hopes are not justified here.

Another basic point of criticism is that benefit agencies approach reintegration from a rather narrow perspective. If they have at all a clear incentive, it is to reduce the number of beneficiaries. However, in the current situation with high numbers of unemployed people and low numbers of unfilled vacancies it does not seem realistic to assume that reintegration will lead to such a reduction in the short-run. Perhaps municipalities may value the significance of subsidized labour to the community. But an one-sided orientation on subsidized labour may be dangerous as it may keep people out of the regular labour market permanently. A narrow perspective on active policies does not take account of the potential long-term macro-economic effects it can have by improving the employability of unemployed and other inactive people. Such a narrow perspective may lead to a general underinvestment in active policies and in particular of the training instrument.

Another negative feature of the new system is that it offers hardly any services to employers. If an industry cannot attract a sufficient number of qualified workers or if many of its workers are redundant and have to be replaced to other sectors, they cannot make a deal with one or a few organizations. The CWI can only offer few services. The responsibility for reintegration services is distributed over hundreds of municipalities. Only the UWV is a large partner organized on the national level.

Therefore it's crucial that the Ministry of Social Affairs and Employment changes its current laissez-faire attitude and takes up its coordinating role.²² Furthermore, the CWIs should get more opportunities for services to both jobseekers and employers. The job brokerage activities must be enhanced. It is not necessary to increase the own capacity of the CWIs. It is also possible that they involve private agencies. Given the fact that the CWIs have the disposal of information on individual jobseekers and vacancies, and are engaged in job brokerage themselves, they are more qualified and equipped to outsource job mediation and training to private providers than the benefit agencies. In our view a considerable part of the funding for active policies (but not all of it) should be shifted to the CWIs with the obligation to involve private providers using procurement procedures. The benefit agencies should then only deal with specific reintegration measures for specific groups (for example subsidized labour for highly disadvantaged groups and job mediation activities to stimulate the transition from subsidized to regular jobs for these groups).

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²² Such co-ordination is also necessary for a better implementation of the ESF programme, which appears to be very difficult in the current fragmented system. There are some signs that the ministry is re-considering its low-profile attitude in the field of evaluation.

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