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To: Expert panel and participants in seminar *International Advisory Board*
From: Labour market expert Edward Hamilton, Confederation of Swedish Enterprise
Subject: Briefing paper Swedish PES-reform

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Introduction

The Swedish employment service is undergoing change. After years of fierce criticism regarding its effectiveness given the relatively large amount of public money being spent, new initiatives have been taken to change the direction. The Swedish government, with support from the liberal parties, is underway to develop a system with a clearer results-focus. The reform is gradual but will come into terms in 2022.

The Confederation of Swedish Enterprise, and others, have investigated various country-examples as a means to guide and help policymakers with empirical analysis and relevant benchmark-methods.¹

Important cornerstones such as the need to measure results, *star rating*, objective statistic profiling and gradual quality improvement through choice for the individual jobseeker have come out from our explorations. It is fair to say that these elements are incremental in the reform plans now taken place.

Two years ago, an *International Advisory Board* was created with prominent experts from Australia and Great Britain. Both countries have profound experience in *payment-by-results* models and have undergone similar reforms during the last two decades with promising results and with important lessons to learn.

We stressed at the time that the event was not to be of a temporary nature, but a permanent expert panel which – at times – will gather to comment on the reform process and give further recommendations as the reform moves forward.

Since then, the Swedish public employment system has initiated a pilot scheme, called KROM, with a clearer *payment-by-results* scheme than previous arrangements which will now scale up and cover the entire country by the year 2022. Also important, new procured services will entail both matching support and broader active labour market support schemes.

Since 2015 a program called STOM has been in place as well. STOM has relatively similar characteristics albeit with a less aggressive *payment-by-results* profile and lower entry barriers for providers. In total: approximately 70 000 Swedish job seekers are currently enrolled in these two programs.²

¹ E.g. Hamilton, “*Australia’s star rating system*” (2017)

² *PES operation statistics* (February 2021)

Equally important, steps have been taken to develop a statistic profiling instrument to measure an individual job-seeker's distance to the labour market – an important tool not the least against the background of a skyrocketing long-term unemployment after the pandemic hit the Swedish economy.

The ambition is to scrutinize more thoroughly an individual's opportunities as well as obstacles to the labour market so that personally tailored and more effective support services can be arranged on a more systematic basis.

This concise briefing paper is a background description prior to the expert-discussion. It attempts to answer three central questions:

1. What were the recommendations from the expert panel two years ago and have they been listened to by relevant decision-makers?
2. What is the current status of affairs in terms of participants, volumes and – if any – results thus far?
3. Which factors are important to highlight in the coming years as the reform moves forward?

Expert panel's recommendations 2019

The Swedish confederation of Enterprise arranged the first *International advisory board* to supervise the PES-reform process on 20 May 2019.

Three presentations from the experts, primarily centered on country-examples and important core principles, were the essence of the event followed by in-depth discussions. Whilst many details were discussed, five central themes were highlighted:

Emphasize central pillars

Three themes are quintessential to understand to motives behind PES-reforms, and in particular efforts to reach a more results-oriented system.

First, public expenditures and cost effectiveness were covered in detail with special emphasis on the Australian example. Mrs. Kidd, Australia's OECD-ambassador, pointed to significant reductions in cost per outcome during the last twenty years down under.

Also, British experts Finn and Wilson underscored that the *Work program* in the UK has rendered lower costs, in comparison to previous programs, but pretty much the same results. The conclusion from both country-examples were higher cost effectiveness and more "bang for the buck".

Secondly, the importance to measure results were discussed in detail. The Swedish *star rating*, which is instrumental in the coming reform, is indeed inspired by the Australian model but you can see more transparent scoreboards also in the British example.

Third, it is crucial to refine and cultivate existing programs. The expert panel singled out Sweden as one of the countries in the entire OECD with the highest costs as referring to employment wage subsidy schemes. Efforts to make these programs more focused and nuanced should be put in place at the same time as the broader reform takes place.

Manage expectations

The board found common ground in underscoring the importance to manage expectations. Usually, results will take some time – especially with a *payment-by-results* system which can take up to two years to materialize given the front-heavy nature of the scheme.

There will be pressure to demonstrate rapid results. Whilst efforts should be made to transparently do so, it is important to have patience and let the program come through. The board also mentioned a pilot-scheme as a way forward to test new methods and gradually scale up.

Minimum standards of delivery

The expert panel emphasized the need to have a minimum set of requirements as a complementary ingredient in the results-based compensation system. This is critical not the least for the jobseekers' satisfaction and sense of support – a factor which is fundamental to ensure legitimacy and endurance in the system.

Already in Sweden, minimum requirements are in place as well as basic fees for providers. The issue is more which level such requirements should uphold, as the discussion on STOM and KROM below demonstrates.

Flexible system to adjust to unforeseen circumstances

Moreover, the *International advisory board* stressed the necessity to give sufficient room for maneuver and flexibility to adjust the PES-system to new circumstances and problems which may occur along the way. A flexible model can easier come to terms with operational challenges.

But also, rightly, to be able to tackle new problems arising from new economic variations – an argument which has strong appeal against the background of the current pandemic and the effects on the Swedish labour market.

The panel uttered their own experience to follow relevant country-examples along the way, take impression, evaluate, and adjust throughout the reform process. Gradually, valuable knowhow and core competence will grow as a result. Professional public management and competence in the procuring authority is quintessential to succeed.

Control mechanisms and monitoring

The expert panel reached consensus in the necessity to develop control mechanisms and monitoring channels. This is important to ensure trust in the emerging quasi-market, but also confidence from society at large.

Therefore, extra resources to follow up and control providers should be allocated, and distinct signals should be embraced - especially when new actors enter the playing field.

Swedish public employment system under transformation

The current reform process can perhaps best be described as an evolution, not a revolution. Private providers have had a natural role in the Swedish PES-system for decades, starting with procurement of vocational training during the eighties and then during later years through matching support.

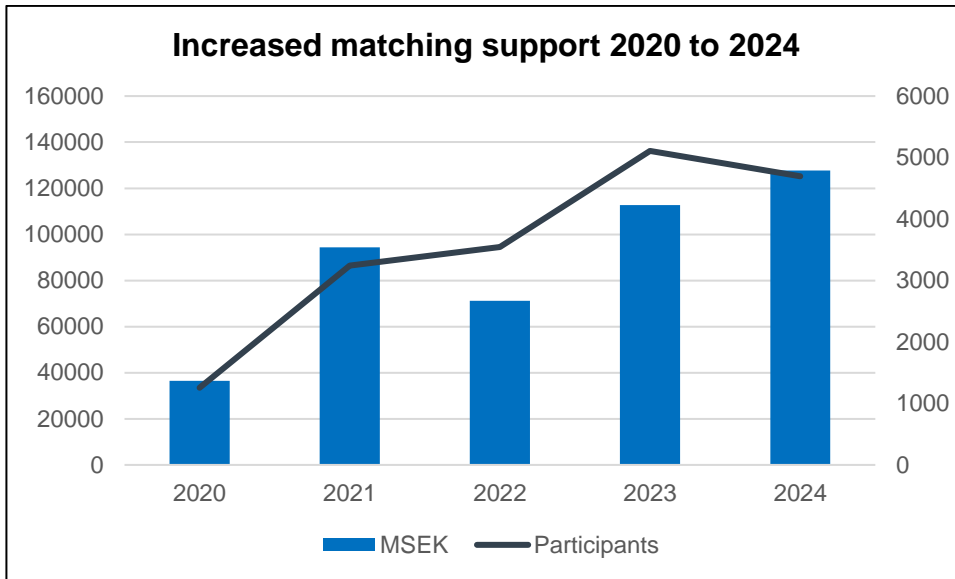
Private staff companies, recruitment firms and search companies have been around for decades, spurred not the least by the deregulation in 1993 which opened for temporary work agencies to flourish.

Furthermore since 2010, the Public employment service can use a system based on choice for the individual jobseeker as a means to strengthen results and invite a broader mix of providers to contribute. After a sloppy start has the initial problems with control functions and follow up gradually improved, which the National audit office concludes see below.

A more explicit political desire to use private providers in the PES -system was uttered in the so-called *January agreement* in 2019. There is broad parliamentary support to enhance the results in the active labour market policy at large and to use private actors on a broader scale, with clearer results mechanisms.

The current government plans to implement a more thorough reform in 2022, based on payment-by-results, more transparent *star rating* and statistic profiling to measure an individual's distance to the jobs market.

Perhaps the most suitable way to describe the political ambitions can be seen below in the following expenditure prognosis from the Swedish public employment service during the winter 2021.



As can be noted, both the number of participants and money spent on the program will increase by fivefold in the coming years.³ It shall be said that 2020 as a starting point doesn't give the entire picture due to significant budget cuts in the years before, but it does give a clear indication where the reform is going as well as the scale.

It is worrying to identify the stagnant, even negative, trend during 2022 in terms of both volumes and money spent. This issue ought to be addressed.

³ PES prognosis February 2021

STOM – Support and matching since 2015

The support and matching program, called STOM, has been in place since 2015. It is, in a way, an embryo for a more results-based system. During 2021, this scheme will be gradually replaced by a new program called KROM, with a clearer *payment-by-results* design.

It is crucial to assess the merits in the STOM scheme to understand which foundation a new PES-reform will be arranged upon.

The Swedish national audit office has scrutinized the STOM-program with an extensive report in May 2020. A dozen reports of this nature have been published during the last decade, covering the most central active labour market programs – and often with distressing results. Arguably, the report presented last spring was the *first* report in ten years' time which actually pointed to promising results.

Helena Lindberg, Auditor General, states that “the overall conclusion is that the Public employment system in several parts have designed a choice-system in an accurate and appropriate way”.⁴

The audit office emphasizes that the rating-system, now comprising 4 stars, helps to steer participants to providers with higher ratings. This in turn, is an elementary function to drive performance, results, and quality.

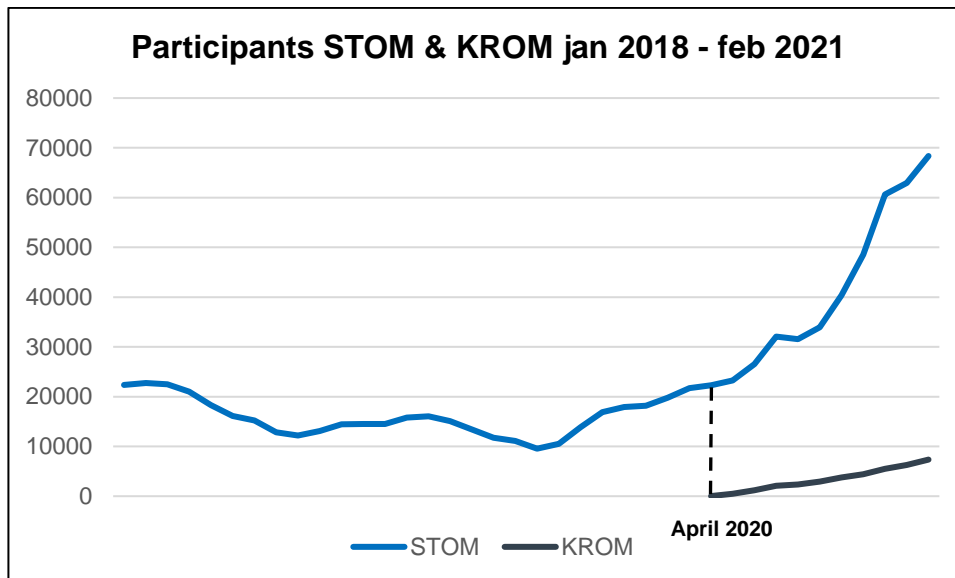
In fact, a provider's increase from two to three stars leads to 23 percent more jobseekers finding their way to it. Similarly, an increase from three to four leads to 28 percent more participants. This result is in line with previous research and a prerequisite to reach to most fundamental value of the reform: namely to reach better cost-effectiveness.⁵

There are other important findings to highlight. Foreign born individuals from outside the EU and jobseekers with lower qualifications also chooses providers with higher scores, although a little bit less than other job seekers. Previous research has pointed to a larger difference (e.g. Gerdes). Finally, the *star rating* is reliable when compared to jobs incomes registered in the Swedish tax authority, according to the Audit office.

⁴ Expressed in press statement, based on report from *Riksrevisionen* 2020:13 (May 2020)

⁵ Gerdes, working paper 2014:2 “*Does Performance Information Affect Job Seekers in Selecting Private Providers in Voucher-Based ALMP Programs*”

This is not to say that the system is perfect. The audit office points accurately to the necessity to further improve control mechanisms and follow up. Even though the monitoring system is well ahead as in comparison to ten years ago, much more energy and resources need to be put in place – especially when the programs scale up.



As can be seen above, the programs have managed to enlarge services to the benefit of jobseekers during the last year. The system is flexible enough to rapidly adjust to greater volumes. Moreover, both providers and the Swedish PES has managed in a short time span to work out operational strategies to take advantage of the digital opportunities which have raised in the aftershock of the Covid 19-crisis.

KROM – a pilot scheme with strong merits

The new pilot scheme KROM was launched in April 2020. This program originates from the same set of principles as STOM, yet with clearer results focus. The program will scale up during 2021 and cover the entire country by the end of the year. It replaces, gradually, the STOM-program.

As can be seen below in red, the incentive model is more front-heavy in the KROM-arrangement.

	STOM - 1	STOM - 2	STOM - 3	STOM - 4		KROM - A	KROM - B	KROM - C
Daily fee	100	200	185	280		55	62	90
Basic fee	12 000	24 000	22 200	33 600		7 260	8 184	11 880
Bonus	12 000	15 000	16 000	18 000		20 300	32 400	38 000
Speed	-	-	-	-		7 260	8 184	11 880
Total sum	24 000	39 000	38 200	51 600		34 820	48 768	61 680
Res. rate	50 %	38 %	42 %	35 %		79 %	83 %	81 %

Importantly, different variants of profiling and statistical instruments to measure jobseekers' distance to the labour market have been used during the last ten years in the Swedish PES. Both STOM and KROM is built on a "mini-Australian" model in which participants get individually tailored support organized in four separate streams in STOM and three streams in KROM.

Providers get in turn their replacement fees depending on the relevant stream and based on the jobseekers' distance to employment. A correct and robust assessment of an individual's need and distance to the jobs market is thus crucial to direct participants to the right streams.

Evaluations have, historically, pointed to insufficient implementation and a clear hesitation among PES-staff to use it. Authors have pointed to a distinct culture of "grassroot bureaucrats".⁶

Arguably a superficial conflict of interest has existed between those who want to keep profiling solely in the hands of the individual employment services staff. On the other side is a school of thought wanting more objective measures and instruments to take the upper hand.

The latest development in the Swedish PES seems to be a combination of objective measurement, but the final mandate is with the individual PES-personnel.

⁶ For example in Assadi's study "A question of profile: how do PES-personell use profiling?" (IFAU 2014:1)

Martin Kruse is acting head of administration and one of the architects behind the STOM-program. He states that "100 percent of participants in KROM gets an initial assessment through the statistical instrument, but the instrument is a supporting tool for the individual PES-official, not a determinant in itself".

Last year when the instrument was implemented, some problems occurred which affected some individual jobseekers' assessment and therefore their placements in the relevant streams.⁷

Martin Kruse stresses that "We will scale up the method (statistical profiling) and, yes, there might be a need for adjustments in the future, but in many ways this is natural given the learning process inherent in using a new tool. There is of course a risk for 'childhood diseases', but we will handle them along the way".

To measure results is a key factor and a driver for increased quality and better results. There is a concern that the change from STOM to KROM may lead to a period of uncertainty for providers and also for participants.

Kruse explains the reason why: "The rating results cannot be presented yet given the nature of the *payment-by-results* model and the relatively long duration of the service. Indeed, the results need to be accurate, fair and transparent, and also be stabilized based on a sufficient amount of results. I estimate that the first results in KROM will be presented during 2022".

Entry barriers are higher in the KROM-scheme, but also its flexibility, according to the PES management: "We have raised the bar substantially if you compare to STOM. This means that the rejection rate for providers has been higher than previous program".

"Also, we require stronger references and historic records to qualify. At the same time, we give a little more flexibility in the content and services which the procured actors are expected to deliver – for example a somewhat greater flexibility in the use of key-competences", concludes Martin Kruse.⁸

In fact, out of 130 applications from providers, only 51 were accepted – a rejection rate of just over 60 percent. The PES management also signals positive sentiments as to the reaction of the market. As for now, there are 48 companies engaged in the system. So far, there has been enough providers

⁷ Reported by PES 3 September, the problem affected 13 percent of registered jobseekers in KROM.

⁸ The author interviewed Martin Kruse on 19 March 2021.

in all relevant areas to fulfill the need. This indicates that the market responds fairly well to the new conditions stipulated in KROM.⁹

There are clear concerns from observers whether the shift from STOM to KROM will go as smooth as the planners hope. There are regional differences with cities such as Västerås in the forefront which has demonstrated rapid upscaling of volumes to KROM, when STOM phases out.

At the same time, other cities and regions lag considerably. Also, some providers utter concern about insufficient IT-infrastructure and bureaucratic hurdles which in turn may hinder a friction-free transformation from STOM to KROM.¹⁰

⁹ Interview in *Inköpsrådet* (19 Feb 2021)

¹⁰ Information to the author from providers in conversations during March 2021.

Governmental investigation regarding municipalities' participation

An ongoing debate in Sweden regards the role of municipalities in an emerging PES-system. An official investigation has proposed several changes in the legislation as a means to strengthen and clarify their eligibility in PES-procurements.¹¹ Even before the legislation is put in place, several local entities have shown an interest to participate.

The motivation is a concern about the potential risk of “white spots” in certain delivery areas. Yet, during the Corona crisis the role which digital channels have played make this worry excessive. In fact, 99 percent of the adult population lives in places where private providers exist today.¹² And experience from job security council TSL – an entity owned by the social partners with private providers delivering not too different matching services – demonstrate no such concern.

Professor Olle Lundin, one of the most prominent legal experts in Sweden as regards judicial technical aspects on procurement methods, has argued that it is strictly illegal for municipalities to act as providers according to existing law.¹³

Also, several actors including trade unions such as LO (part of ETUC) have raised concerns about an eventual communalization, should lawmakers make this move. The employer side on their part is strictly against any change in this direction given the problems of distortion of competition and an emergence of an uneven level playing field which undoubtedly will come out of this should the proposal be reality.

¹¹ SOU 2020:41

¹² *Riksrevisionen* on STOM (May 2020)

¹³ *SVT Blekinge* (February 2021)

Summary and topics for discussion

The Swedish public employment system is developing towards more of diversity in terms of delivery of services. There is political pressure to increase cost effectiveness and strengthen results. Meanwhile, long-term unemployment increases drastically because of the after-effects post-Corona.

During the last decade, Sweden has taken initiatives to develop *star rating*, new instruments to measure jobseekers' distance to the labour market and efforts have been made to clarify the role between procurement, control mechanisms and delivery of services.

The Swedish national audit office has applauded the system at large. And during the last 24 months, a pilot scheme has been put in place which in many ways responds to the expert panel's recommendations during the spring 2019.

Both volumes and the number of participants enrolled in independent providers will increase in the coming years. The market is stabilized and there are encouraging signals from both providers and the responsible authority.

Yet, by 2022 the share of matching services in the programs discussed is only 27 percent of the total program cost and a temporary draw back – as can be seen in the forecast – can render negative market sentiments. As a comparison controversial employment wage subsidy schemes such as *Extratjänster* will reach the same cost level in 2022.

The number of participants will hardly reach 100 000, which would entail only 20 percent of the total registered unemployed in the system at large. At the same time, there is disturbing political initiatives to open the gate for municipalities to enter the scene.

The next two years will be crucial to step up the reform process and making sure that central components of technical nature reach the goal. It is also important to further clarify priorities in terms of budget and identify the scope of the matter at hand.

Finally, decision-makers need to make sure that the signals to the market and relevant stakeholders are clear and distinct, not the least in relation to municipalities' potential role in the emergence of a modern PES-system on

the Swedish jobs market. Last but not least, efforts to increase control measures should be given clearer priority and more resources in the coming years.