Public Employment Services
Functions and Innovations

Background
Public Employment Services (PES) in industrialized countries have traditionally provided job-brokering services - arranging for jobseekers to obtain jobs and employers to fill vacancies. Increasingly, they also administer unemployment benefits and provide for the delivery of labor market programs. PES are still in their initial stages in developing countries where many still play the traditional role of job placement and registering the unemployed.

There are several good arguments for the provision of employment services. By transmitting information, they can contribute to labor-market efficiency and transparency. PES can also promote equity in access to the labor market and help disadvantaged workers find employment. Furthermore, in countries that have an unemployment benefit system, public employment services, if well designed, can play an important role in verifying eligibility for receiving benefits and reduce costs associated with unemployment through ensuring rapid matches.

There have been significant innovations in the provision of employment services in the past few years, including the involvement of the private sector in service administration and delivery, especially in developed countries. Focusing on these programs from an institutional perspective, this note describes the various roles played by employment services and recent innovations in the management of these services.

Roles Played by the Employment Service
In most developed countries, the PES now play three major roles - job brokering, administration of active labor market programs, and administration of unemployment benefits.

Job brokering
The PES attempts to enhance the quality and timeliness of job matches through its job brokerage role (i.e. operation of a labor exchange). Informational imperfections can inhibit the matching of jobseekers to vacancies. Better job matches through job brokering lead to both private gains (to both workers and firms) and social gains (through reduced costs associated with unemployment).

Traditional job-brokering involves listing vacancies from employers and obtaining information from jobseekers and matching the two. This may involve registering and advertising job vacancies, interviewing jobseekers and registering information about them, appraising vacancies and jobseekers and matching them, and liaising between employers and jobseekers and matching them.

In many countries, tight human resource and budget constraints often have led to ineffective delivery of these services. This is changing now with the current trend in PES job-brokering services in developed countries moving away from costly face-to-face interactions and towards the extension of self-service facilities for jobseekers. Kiosks, telephonic facilities and, most
importantly, the internet provide this self-service. Jobseekers and employers increasingly contact each other through these self-service systems without the intervention of placement officers. Canada, Japan, Norway, Sweden, and the U.S., as well as some developing and transition countries, have introduced such facilities (see box 1). The electronic revolution is fundamentally changing the nature of job brokering and transforming the intermediary role of the PES to that of providing the self-service infrastructure for employers and jobseekers to use. PES staff are able to switch from traditional job-brokering activities to providing intensive assistance to hard-to-place and severely disadvantaged individuals who cannot find jobs through the electronic services.

**Administering active labor market programs**

In many OECD countries, the administration of active labor market programs (ALMPs) has been a major growth area for the PES in recent decades. The PES usually have a strong knowledge of local labor markets, are aware of employer and jobseeker needs, have a local service delivery infrastructure, and are linked to the education/training network as well as the social assistance network. In the area of ALMPs, the PES can perform some or all of the following roles:

- overall management responsibility for programs whether run by the PES or subcontracted to other service providers;
- direct delivery of services and programs;
- policy input into programs run by other organizations; and/or
- referral of participants to programs run by others.

The main adjustment programs where the PES may be called upon to play a role include job search assistance, training/retraining, and direct job creation programs.

The job search assistance interventions are closely tied to the job-brokering function of the PES. In some countries, these services are offered only to those deemed to be in greatest need - individuals most likely to experience long periods of unemployment and so standing to benefit most from early and intensive job-search assistance. In many countries, especially in the OECD, the PES is using “profiling” techniques to identify such workers (see box 2).

In many countries, the actual delivery of training programs is not seen as one of the core functions of the PES. In these cases, the role of the PES may be confined to the recruitment and selection of candidates for such programs and to help in the placement of trainees in employment when these programs are completed. The role of the PES in training is often contractual, seeking training services from other public and private sector agencies (see box 3).

The most important direct job creation interventions include public works and wage subsidies. In most countries, the primary role of the PES is to refer participants to these programs.

**Administering unemployment benefits**

PES have also started to play a larger role in the administration of unemployment benefit systems. In a few countries, the PES directly administers these schemes. Even when this is not the case, as in most

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**Box 1: The Role of ICT in Employment Services**

Information and Communication Technology (ICT) is increasingly used to deliver PES. Countries such as Australia, Canada and the U.S. have moved public employment services online, providing not only one-way information but self-service transactions (e.g. job matching services) through the Internet. Some of developing countries are following these approaches, e.g. the Philippines with their Phil-JobNet online (www.philjobnet.dole.gov.ph).

Developing countries are exploring the role of ICT for new forms of PES delivery with increased focus on the customer. Given low Internet penetration rates in these countries, alternative delivery channels are needed including call centers and self-service kiosks in public places, such as shopping centers, libraries, telecenters, and schools. Mobile service centers, i.e., vans with a satellite dish and computer technology, are being used in countries like Brazil to reach out to rural areas.

Poland offers an example of how to build on existing infrastructure. The Ministry of Labor and Social Welfare has a new project in which self-service kiosks will be connected to the existing job databases and provide job-matching and related services to jobseekers. This is a follow-up project to the automation of some 450 local labor offices throughout Poland, under which ICT supports job matching, vocational training, and unemployment insurance claim filing and the entry or update of personal data and the approval of eligibility, calculation, and payment of unemployment benefits.
OECD countries, registration with the PES for job placement is a precondition for benefit payment. The PES also supports unemployment insurance by monitoring continuing eligibility and job-search verification. This involves developing standards and enforcing sanctions to ensure that unemployment benefit claimants actively look for work and accept suitable job offers. This is critical for minimizing the disincentive to work created by the availability of unemployment benefits. This monitoring function has become increasingly important in many countries where unemployment benefit eligibility has been tightened.

Finally, in a few OECD countries, the PES does administer the entire unemployment benefit system— including tax collection, benefit determination, benefit payment, and eligibility and job-search verification.

**Box 2: Worker Profiling and Reemployment Services**

A few OECD countries have introduced variations of worker “profiling.” In the U.S., through the Worker Profiling and Reemployment Services (WPRS), states are taking pre-emptive action to assist the unemployed to reduce the amount of time out of work. Profiling is done on the basis of a statistical model which estimates the probability that a jobseeker will exhaust his/her entitlements. The model uses information on level of education, job tenure, changes in employment, changes in previous occupation/industry, and the local unemployment rate. Those identified by the model to be at high-risk are referred to compulsory reemployment services— e.g., job search assistance and training tailored to their individual needs. A similar type of system is also in place in Australia and Canada, where models are complemented by more qualitative information provided by the employment service.

Profiling is most useful in countries that selectively, rather than universally, offer jobseekers access to job search assistance or training services during the early stages of the unemployment period. In many European countries, e.g., France, Germany and Sweden, these services are offered to all the unemployed as soon as they register. Hence these countries find little use for profiling as a tool to assess those that receive services. However, these countries may find profiling useful in assessing the needs of clients and in recommending the most cost-effective combination of services for individuals. In many developing and transition countries, with stringent resource constraints, profiling has the potential to provide a systematic basis for allocating scarce finances.

**Box 3: PES in Training Provision**

The relationship of the PES to training providers is becoming more indirect— focusing on financial, administrative, and contractual aspects rather than on operational aspects. It involves purchasing training services from other public and private sector agencies. The training contractor may also provide additional counseling services and may be required to accept negotiated responsibility for placing a portion of trainees into jobs. Increasingly, employment services are linking payments to output indicators, like job placements, rather than to input indicators, such as number of workers trained.

PES roles regarding training vary in different countries. For example:

- In Finland, training courses and places in them are generally purchased by regional PES offices.
- In Austria, Germany, and Norway, the PES purchases most of its training needs in the marketplace.
- In Sweden, the PES annually purchases a large number of training courses, most of them designed for a specific target group. Increased competition in the provision of training between public and private providers has played a crucial role in bringing down average training costs and improving quality.
- In Poland, training programs are purchased from other training providers through public tender and the PES co-operates with training institutions.

The multiple objectives of the PES have led to tension over their relative importance. Witness the continuing debate over whether the PES should administer the unemployment insurance. Those against the PES having this role argue that placement work tends to be reduced in importance with excessive emphasis on unemployment insurance— particularly in downturns— and that it then becomes seen as an unemployment service, with the result that both jobseekers and employers become reluctant to use it. The other main conflict arises out of attempting to balance equity and efficiency goals. Since employers are usually reluctant to hire the more disadvantaged jobseekers, efforts by the PES to serve this equity objective are likely to be resource-intensive with relatively low returns. On the other hand, focusing services on the more employable will more easily lead to positive results in an efficiency sense, but at the cost of assisting the most difficult to place (the so-called “creaming” phenomenon). In many countries, private-sector providers
are increasingly serving these more employable clients, leaving the less employable to the PES. While this may be a effective division of tasks, a focus on the hard-to-place workers can make employers more reluctant to turn to the PES for job applicants, hence leading to a reduction in the role and effectiveness of the PES.

**Recent Innovations in the Management of PES**

The next two sections consider some recent innovations in the management of the PES. These include decentralization, service integration, performance targeting, and the introduction of market signals in the operation of the PES.

**Decentralization**

One of the most noticeable trends has been the decentralization of program management, administration, and responsibility to regional or local levels. Under most decentralization arrangements, the central PES remains responsible for overall budgets and funding, policy setting, and evaluation. Much of the detailed design and implementation, however, is left to regional and local offices to tailor programs to their needs. Consequently, they have greater discretion in the use of funding. Decentralization has long been a feature of the PES in the U.S. with states given broad latitude to develop programs that meet the local labor market needs. Similarly in Norway, Germany, and the U.K., decentralization is becoming the norm with local offices given more discretion to spend funds in ways that best meet local needs.

While decentralization has its obvious benefits, it is a more difficult environment in which to manage, requiring less detailed operational control from the center, greater reliance on performance management measures, and an open line of communication between the center and the local offices.

**Integration of Services**

A major issue facing the PES is how to integrate its many services so as to ensure efficient delivery. Two new approaches have been developed – one-stop centers and tiered service delivery.

**One-stop centers**. The advent of the one-stop centers reflects the growing acceptance of the difficulties that customers face when dealing with a variety of bureaucracies whose services overlap and interact with one another. In these centers, a number of services are delivered from the same premises in order to serve the customer most efficiently. The U.S. has been a pioneer of this approach with centers throughout the country performing functions including job-search assistance, employment counseling, job referrals, assistance in filing unemployment benefit claims, and information on training opportunities. Similarly, in the U.K., the local Jobcentre is recognized as a one-stop for employment services, referral to training and unemployment benefits, with benefit agency staff working alongside PES staff. In Germany, staff in employment offices have access to multiple IT application modules (e.g., job matching, UI claim filing) to allow them to service customers more efficiently. Some developing and transition countries have also been experimenting with implementing one-stop centers (see box 4).

**Tiered service delivery**. PES can be organized into “tiers” with some general services available to everyone (e.g., job brokerage services) and more intensive programs only available to clients identified as needing those services. This approach can be linked to worker profiling to identify the level of need for clients and the interventions that are most suitable. Tiered service deliv-

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**Box 4: One-Stop Shops: An Example from Turkey**

The Automation of Local Labor Offices Project (ALLOP) is a good example of one-stop PES delivery. ALLOP includes an integrated ICT platform. Thus, one employee supported by appropriate technology is the contact partner for all requests of a job-seeker. This single-point-of-registration system is based on a common database for modules including labor market information; job career counseling; unemployment benefit calculation, and the Active Labor Market Program Application System.

The integrated system is uniform in all 117 local labor offices which are linked through a wide area network. Thus, labor mobility is supported by the possibility to match jobs throughout Turkey. In addition, the ICT system improves the process of collecting, processing, and distributing statistical labor market data which can be consolidated and delivered to policymakers through electronic channels.
ery can help allocate scarce public resources as efficiently as possible. For example, in Sweden, self-service is provided over the internet and over six per cent of the labor force accesses these services on a monthly basis. This system is complemented by call centers at the local and regional level where more individualized services - such as job-search assistance, vocational guidance, and referral to other programs - can be provided.

Performance Targets

Monitoring performance targets is a standard procedure used in public administration where external benchmarks such as profitability or market shares are normally not available. Administrative data are generated by PES activities (e.g., number of individuals served, types of interventions, follow-up, etc.) at various levels. By using such information on a comparative basis, some internal measurement of the effectiveness of PES operations can be made.

While performance indicators can simply be used as ex-post information, the more policy-relevant application is to move from ex-post indicators to ex-ante targets. By measuring performance against such targets, management tools can be applied — ranging from discretionary budget allocations to more formal reward/penalty arrangements — to raise efficiency.

The use of performance targets became more prominent with the decentralization of employment services in several countries. A typical approach has been for the central government to formulate or negotiate national performance targets with the PES agency and for the central PES agency to “translate” these targets for its regional and/or local offices, often on the basis of an agreement between the various levels (see box 5).

Unfortunately, internal performance indicators are not without problems. By their very nature, they are dependent on administrative data, which are not always available. Also the performance indicators from administrative data do not show the actual impact of a particular PES service: e.g., meeting a target for share of long-term unemployed job-seekers in total placements does not say much about the success of the PES office in reducing long-term unemployment. Further, meeting a specific target may contribute to the neglect of other urgent policy needs. For instance, a plant shutdown in a single-company town may require special programs for workers who are threatened by unemployment rather than a focus on the placement of long-term-unemployed mandated by a performance indicator. Also, there will always be a risk that PES staff will “adjust” to targets even if they do not accurately reflect the greatest local needs.

Overall, the basic shortcoming of using internal performance targets to raise PES efficiency is the absence of external benchmarks against which performance can objectively be measured. This has

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**Box 5: Examples of PES Performance Indicators**

**Agreements in France.** Since the early 1990s, the government has signed agreements with the PES with the ultimate objective of transforming the service into a modern, client-oriented service provider. The following quantitative targets are specified: increasing the PES market share of notified vacancies to 40 per cent of total vacancies in the economy; tripling the number of notified vacancies for executive staff; and reducing the incidence of very long-term unemployment (two years and more) by one percentage point each year. Within the framework of these national targets, a series of operational indicators are established on an annual basis at decentralized levels. PES offices in each region, department, and local district participate in the annual negotiation process in which detailed performance targets are set. Once these targets have been agreed, their implementation is followed by regular meetings and reports at the national and regional levels. Financial incentives are offered to offices that meet their targets, but there are no sanctions for those who fail to do so.

**Performance targets through profiling in The Netherlands.** The Dutch PES is run by a Board in which government officials are not represented. In allocating an annual budget to the PES, the government distinguishes between a basic budget for normal job-brokering services and a performance budget. For the latter, a new type of performance measurement has been introduced. The key performance indicator is “distance from the labor market” which can best be translated into “employability.” The unemployed are profiled according to four categories of employability, two of which refer to jobseekers who it is judged will only become employable after either a short or a long intervention (called ‘reintegration plans’) by the PES. Performance targets are then expressed as numbers of reintegration plans put in place as well as the share of persons who profited from a reintegration plan and actually found a job.
prompted some countries to look for alternative solutions. One is to introduce market signals into the operations of the PES.

**Introducing Markets into Employment Services**

To improve program effectiveness and to ensure that customer focus is a primary objective of employment services, many countries have been trying to increase competition in areas that, until recently, were dominated by public monopolies. Many OECD countries have made at least some PES activities contestable - that is, that the PES can be challenged ("contested") by other providers who may be able to offer the same services at lower costs or with better quality. This has been accomplished through the use of market mechanisms such as contracting-out, and separating purchasers from providers of public services. Another approach has been through the liberalization of rules and regulations governing private employment agencies to allow them to compete in the placement market with the PES.

**Market Mechanisms**

Market signals have been introduced into PES operations in many OECD countries. The most common are contracting out (for active labor market programs), vouchers (for training), and user charges (for placement).

Contracting out involves competitive bidding processes for the delivery of goods and services associated with PSE. This has been used extensively in the provision of training. As just one example, the Swedish PES purchases courses from both the public training centers and private providers. This has resulted in an almost-50-per-cent drop in the market share of the public providers since 1990 and a 20-per-cent drop in the unit cost of training. The savings are due to both competition in the provision of training and an increase in the procurement skills of the PES.

When contracting out, it is important to ensure that valid comparisons are made between in-house and external bids; otherwise, it may be difficult for private providers to compete against huge public institutions in the provision of services. Other keys include specifying contract requirements in terms of outcomes and not inputs, monitoring performance, developing the necessary skills for contract management, and, most importantly, fostering competitive markets for the provision of the service.

Vouchers have received a lot of publicity as a means of creating incentives for suppliers to provide services that are relevant to the needs of the purchaser. Recipients of vouchers can "shop around," thereby introducing competition on the supply side. To involve the voucher holder in the process, it is common in many OECD countries to oblige the individual to provide some co-payment along with the voucher in the purchase of the labor market services.

The effectiveness of such schemes can be enhanced by careful design. In particular, it is important that the voucher holder have access to information on program options and to have genuine choice among providers. Indeed, where the PES controls access to services or provides its own, it may have little incentive to provide all relevant information to the voucher holder. However, where the PES does offer training or other programs that are also offered in the private sector, the use of a voucher should lead the PES to operate in a competitive manner, opening up alternative suppliers and also improving the quality of its own programs.

User charges have not been used widely for a number of reasons, one being Convention 96 of the ILO which prohibits the charging of user fees for PES services with the view to making a profit. It also reflects the obvious point that most unemployed have limited resources. Nevertheless, user charges do exist in some countries (on a cost-recovery basis), mainly for those who wish to avail themselves of public placement services. User charges are becoming increasingly common for firms that use resource-intensive PES services. For example, in countries such as Belgium, employers pay the PES for intensive screening of job candidates and for outplacement services. Little evaluation has been done relating to the impact of user charges on enhancing the efficiency of the PES. Still, some evidence does suggest that PES do become more accountable on the introduction of these fees.

**Private Employment Agencies**

There has been considerable debate about the role of private employment agencies (PEAs). Some OECD countries continue to restrict their market access although the dominant trend is in the direction of a lib-
eralization (see box 6). The ILO has recently adopted the Private Employment Agency Convention relating to fee-charging private agencies.

While competition from PEAs may enhance the efficiency of PES operations, opponents argue that a monopoly position is necessary for the PES to fulfill its role of providing universal and cost-free services for all, including the hard-to-place unemployed. In this view, there is little incentive for the private sector to place the disadvantaged into jobs, and that this can best be achieved by cost-free placement services available for all job-seekers so that the long-term unemployed have a reasonable chance at competing for job vacancies. This argument has been extended to justify an obligation to notify vacancies to the PES in some countries.

These concerns can be addressed through design mechanisms. For example, governments have sought to stimulate competition through payment of fees to private employment agencies to place disadvantaged job-seekers as opposed to solely funding the PES to place them. In the Netherlands, the PES has paid a subsidy to temporary work agencies that take the long-term unemployed on their payrolls. Similarly, Australia has embarked on an ambitious reform of its employment services where the provision of these services is contestable to both public and private providers (see box 7).

It is therefore possible for governments to achieve both equity and efficiency goals without having a monopoly on either the design or delivery of placement services or indeed labor market programs more generally.

Another trend that is becoming more prevalent, especially in OECD countries, involves the PES operating under autonomous tripartite administrations. Involving employer organizations and trade unions in overseeing the PES commits their support to the operation of the agency. The remit of such administrations varies from country to country, with some, such as in Germany and Spain, responsible for a much wider range of activities than just the job-brokering role. The success of such an approach is obviously dependent on the degree of consensus between social partners and the government. While this may not always be easy to achieve, some countries have used innovative arrangements to deal with this issue. In Norway, for example, while the PES is mandated to report to a tripartite board, the board cannot give instructions to the Direc-
tor-General. The board is instead used as a forum for discussing ideas and giving feedback. In the Netherlands, there are no government representatives on the board – instead, there are independent experts and industry and worker representatives.

Conclusion
Most of the experiences discussed in this note are from developed countries. Still, they have important lessons for developing countries:

Country context. Employment services should be designed and reformed keeping the country context in perspective. Reforms and innovations have succeeded in situations where they have taken into account the demands and constraints faced in the country. For example, it is crucial that adequate capacity – personnel, infrastructure and technology – exists prior to implementation.

Integration of services. In many OECD countries, PES now provide access to multiple services, often offered on an integrated basis. Apart from the traditional job-brokering role, many PES also play an effective role in the management of unemployment insurance and active labor market programs. As this note has emphasized, programs increasingly are delivered by various providers in the public and private sectors.

Selectivity. As options for provision of services have proliferated, PES have become more selective in the services that they themselves deliver. This selectivity involves not only what types of programs to be delivered but also the choice of target groups and the coverage of programs.

Market-based approaches. PES performance has improved in many countries since the adoption of market-based approaches. The possible competition from the private sector together with contracting out a few services through bidding processes, the introduction of vouchers allowing service seekers to choose provider, and charging user fees of those who require special services have all resulted in greater choice for customers and in cost efficiency in PES provision.

Monitoring and Evaluation. When PES systems are systematically monitored and evaluated, the lessons learned are very useful in reforming program design and implementation details. Better monitoring and evaluation has also paved the way for contracting out some services to private providers where public sector delivery was ineffective or inefficient. Although monitoring and evaluation received limited attention when PES was a virtual public sector monopoly, it has now become an essential tool in improving PES delivery.

Annotated Bibliography