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When to Privatize Public Employment Services

A Comparative Study on Service Design, Incentives, and Outcomes in Sweden

by

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This thesis investigates the impact of privatizing public employment services in Sweden by comparing two service models: Stöd och Matchning (Stom) and Kundval Rusta och Matcha (Krom). The study aims to determine whether a higher share of result-based compensation and greater freedom for providers to design their own measures of service provision under Krom, improve the results of the service. This research evaluates the differences in service design, target groups, outcomes and cost between the two models. The comparison shows that Krom performs better than Stom in terms of both short term and long term employment and educational results. Furthermore, specific providers showed better performance in Krom, suggesting that the design changes significantly contribute to outcome discrepancies. These findings might indicate that privatization with carefully designed incentive structures can enhance the efficiency and effectiveness of public employment services.

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1. Introduction

In the January Agreement of 2019, the governing parties (the Social Democrats and the Green Party) and the cooperating parties (the Centre Party and the Liberals) assert that the Swedish Public Employment Service (Arbetsförmedlingen) is to be fundamentally reformed. The state, through the Public Employment Service, henceforth referred to as PES, will continue to have the authority for labor market policy, but a new system will be developed where private companies will provide job matching services. Job matching services is the traditional function of the PES and it includes being the broker between the employer and the employee.

As part of the effort to reform the Public Employment Service, the agency was tasked on July 4, 2019, with developing and testing a new job-matching service (Regeringen, 2019). The matching service, Kundval Rusta och Matcha (Krom), was launched on March 30, 2020. Krom was designed using the existing matching service, Stöd och matchning (Stom), as a model. Krom has many similarities with Stom. For example, private companies provide matching services, the services are procured through the Law of choice systems (LOV) and payment to providers is based on performance. The services' primary goal is to match unemployed people with employers or education institutions to create a long-lasting occupation as quickly as possible. The aim of redesigning the service was to better align provider incentives with participant outcomes, by introducing a new payment model and to encourage innovation by allowing providers more freedom to design their interventions. Has this policy yielded better support for unemployed in the time of our most dynamic labor market ever?

2. Aim & Research Question

2.1 Aim

This study aims to investigate the impact of the transition from the Stom model to the Krom model on the efficacy of job matching services. Specifically, the aim is to determine whether designing the service with a larger share of the compensation based on results and giving greater freedom to providers to design the service on their own, has enhanced the effectiveness of these services.

Though both services are contracted to private providers, the study aims to contribute to the discussion of privatization of public services. When is it advantageous and when is it disadvantageous? The study

dissects two ways of designing a service contracted to private providers and compares the results of the two. The purpose of this is to find specific differences in service design that can yield large differences in results. Differences, that could have implications on incentives and innovation among providers.

2.2 Research Question:

"What are the differences in service design between the two labor market interventions Krom and Stom and what implications have these differences had on the results of matching unemployed people with employers and educational institutions?"

3. Background

3.1 The January Agreement and the Reform of the Public Employment Service

In January of 2019, the Social Democrats, Green Party, Centre Party, and the Liberals decided that the public employment service (PES), was to be reformed. The aim was for the Employment Service to remain as a controlling agency responsible for labor market policy, but its duties shall be oversight of job seekers and providers, responsibility for statistics, analysis, and digital infrastructure, as well as the implementation of labor market policy assessments (Bennmarker et.al, 2021). The PES will no longer provide support and matching for the unemployed, instead, private providers shall be hired and the unemployed will be supported and matched with employers through them (Bennmarker et.al, 2021). As part of the effort to reform the Public Employment Service, the agency was tasked on July 4, 2019, with developing and testing a new job-matching service (Regeringen, 2019). The matching service, Kundval Rusta och Matcha (Krom), was launched on March 30, 2020. Krom was designed using the existing matching service, Stöd och matchning (Stom), as a model. Stom was implemented in 2014 and ran till the end of 2021.

3.2 How to choose a provider?

Krom and Stom is a service that is built upon the law of freedom of choice (LOV), which means clients can choose their provider, just as one chooses their school or health care provider (Arbetsförmedlingen, 2022). This is fundamental in building a competitive market which incentivizes providers to get better

results. After clients have been assigned Krom as their service, the clients get to choose their provider by informing the PES which provider they want (Arbetsförmedlingen, 2022). In some cases this does not happen and then the client gets assigned the provider which is closest to where the clients address is. The total share of clients in Krom who makes an active choice is 74% (Arbetsförmedlingen, 2022).

4. Theory and previous research

4.1 Research problem

Previous studies indicate that the effects of hiring private providers of public services are difficult to measure. A general conclusion from theory is that private providers have a stronger incentive to keep low costs, but on the other hand, the critique is that this incentive might have negative implications on the quality of the service. To know which is true in the context of labor market programmes, empirical testing would have to be done. What I am interested in is if we find different efficiency results in the different ways of structuring the services procured by the private providers.

4.2 Conditions Favoring Private Provision of Public Services

In many cases of economic theory, deciding when to use public or private providers of public services, one argument for private providers has been competition. One can argue that with a competitive market of private providers, incentives for cutting costs will appear for companies to stay competitive because private companies have an interest in making a profit. This in our context of labor market intervention means procuring more effective transitions for unemployed people to occupation per invested SEK (Lundin, 2011). While this may be true, there are scholars, like Hart et.al (1997), who argue that the same mechanisms of competition increasing incentives of cutting costs can arise through competition amongst public providers. Furthermore, Hart et. al (1997) suggest that there can arise a monopoly within the private competitive market which can even inhibit competition. On the other hand, the positive externalities of competition within the private sector cannot be dismissed according to Hart et. al (1997).

4.21 Conditions Favoring Public Provision of Public Services

The question that then might arise is under what conditions we do not want to hire private providers for these public services? According to Schleifer (1998), this would be when there are big possibilities for the private providers to compromise the quality of service to keep more of the allotted resources as profits. This is a common dilemma in other sectors of public management as well, schools and healthcare for example. The argument is that in markets where there are bigger possibilities of compromising the quality of the service in order to make higher profits, the provision of the service would be better suited for the public providers. There are other frictions that can worsen the case for private providers. These could be an ineffective choice system, monopolistic markets, or simply markets with not enough competition, ie, not enough providers to choose from (Schleifer, 1998).

4.3 The Contract Between Public Sector and Private Companies

When hiring private companies to provide services for the public sector, there will always be an established contract between them. This is to ensure that the private company provides the service in the manner that the state intends it to. In the contract, it must be stipulated what is expected of the provider and how much the provider should be compensated for the service. To fully ensure that the compensation is used for its intended purpose, to provide the service, one could argue that the contracts have to have many regulations and conditions so that the private provider has to do exactly what the state intends. On the other hand, one might argue that more “freedom” for a provider to design the measures of its service will have positive effects on the quality, because it leaves room for innovation and cost-cutting (Hart et al, 1997).

4.31 Compensation models

It is also interesting to look at the compensation models for private providers. As mentioned, there is little difference in results between public and private provision of services historically, but results might differ from service to service depending on the structure. When it comes to private providers of labor market services in Sweden, PES tends to structure the services’ payment models with a share of basic compensation per client for providing the service and a share of result compensation that will be paid when the client reaches the goal of employment (Crépon, 2018). In theory, this would be a solution to link the state’s and private providers’ incentives together, which can mitigate any uncertainties the state has

about the quality of the private provision. This is because the provider's intention should be to provide a high-quality service since it is more profitable to do so.

According to Crépon (2018), however, there are examples where results-based compensation is not necessarily a better solution. The first example is when results-based compensation relates to short-term labor market outcomes. For example if providers got compensated in full when the client has only worked one day. Because this might conflict with more sustainable long-term outcomes. This conflict could arise if providers prioritize quickly placing job seekers in employment without considering the quality of the match between the job seeker's qualifications, the job requirements or the job's durability (Crépon, 2018) .

The second issue raised by Crépon (2018), is that results-based compensation is generally linked to outcomes without considering how the transitions might look in the absence of an external provider. It is very probable that a client finds a job and gets employed on their own after one meeting with the provider. How much of that result can be attributed to the meeting with the provider and should the provider be compensated for this?

Crépon (2018) furthermore suggests that the way of establishing contracts with compensation more or less contingent on results, raises significant risks of undesirable behavior from providers. These risks could involve providers prioritizing job seekers who are expected to find new work relatively quickly, and also taking on many job seekers who are perceived to be further from the labor market to benefit from the base payment while giving them minimal support. I will refer to the first example of undesirable behavior as *cherry picking* and the latter as *parking*.

To summarize theoretical views, the expected effects of hiring private companies are mixed. Generally, private providers are thought to have stronger incentives for cost-efficiency and innovation due to competition and profit motives. However, these same incentives can also lead to quality compromises if profit takes precedence over service delivery. Therefore the suitability of private provision differs from market to market depending on how big the possibilities are of either positive or negative effects of this incentive. This raises the desirability of empirical research which will be investigated in the next section.

4.4 Empirical Results From Previous Studies

There are studies evaluating the effects of private providers of employment services in Sweden. Previous literature shows no clear differences between public and private providers in terms of helping job seekers find employment or start studying. The studies have mainly investigated the effects of the services individually, rather than comparing the results to isolate the specific factors that have been successful.

Liljeberg et al. (2012) examined job coaches from 2009 to 2014. The study showed that those who received coaching from private providers and those who received support from Arbetsförmedlingen staff transitioned to work at about the same rate, however, job seekers with private providers were more satisfied with the service. Similar results on satisfaction are found in Lundin (2024), with data from the service Krom.

A study that aimed to isolate the effects of job matching services conducted by private contractors from Sweden is Bennmarker et al. (2013), which evaluates a trial operation involving private employment agencies in Sweden in 2007-2008. This trial offered the unemployed the option to use private employment services that have a result-based payment scheme, meaning private companies got a share of their compensation based on whether the clients came into employment. The findings indicate that there were no significant differences in employment outcomes between those who chose private versus public employment services. This is also an attempt to answer the question concerning private or public provision but makes no remark on the matter in which the contracts are established.

The service model which was tested in Bennmarker et.al (2013), has significant differences to Stom and even more from Krom. One significant difference was the number of firms competing for clients between 2007 and 2008, two, when the study by Bennmarker et al. (2013) was conducted, compared to the services Stom and Krom with more than 100 providers. This has implications on the firm's incentive of performance since a freedom of choice system with 100 providers to choose from should lead to clients choosing providers with a proven record of good work (Lundin, 2011), meaning providers need to show results in order to stay competitive. Not only did the model tested in 2007-2008 only have two providers, but it also lacked the freedom of choice system. Instead, the firms received clients in accordance with the law of procurement (LOU). Furthermore, the payment scheme was vastly different in the model tested in 2007-2008 (Bennmarker et. al, 2013). In Krom, the share of compensation that is basic compensation is much lower and the share of result compensation is much higher (Arbetsförmedlingen, 2021b). This presumably means the firm's incentive for finding prolonged employment for the client is much higher in Krom and the profitability of not succeeding is lower.

Studies conducted in the same field internationally show similar or worse outcomes for private employment services. Rehwald et al. (2017) found in a randomized study on job seekers with university degrees in Denmark that private providers provided more intense and earlier service, but there was no difference in the likelihood of getting a job. Behaghel et al. (2014) found in their experimental study in France, which tested an intensive employment program provided by both private and public employment services, that the public program increased transitions to work at double the rate compared to the private program. Worth noting is that the design of the services and contracts with the providers differ substantially between different countries and therefore it is not surprising that the results differ so much.

A recent study has investigated the extent to which the "support and matching" service (**Stom**) gives participants the best conditions to find a job or education. Riksrevisionen (2020) concluded that Arbetsförmedlingen designed a system that provided job seekers with good conditions to achieve the service's objectives, but they saw room for improvement in areas such as accessibility of information about providers. This investigation did not, however, analyze the impact of participating in the service in consideration of participants' job prospects. This means it did not take into consideration the demographic characteristics or previous experiences of the participants, which are highly relevant when assessing one's job possibilities.

By interviewing administrators from PES during Krom's trial phase in 2020 and 2021, Benmarker et. al (2021), concluded that Krom had its challenges. For example, there were problems with the number of providers and their geographical distribution (2021). This report in 2021 builds upon only one year of data during the trial phase when the service was available in 32 municipalities with few providers to choose between. No conclusions were drawn in regards to changes that were done in the transition from Stom to Krom or the results.

Arbetsförmedlingen (2021a) evaluated the implementation of the **Krom** service in its trial phase across 32 municipalities. The PES evaluated and described the results of the service's first months which among other things concluded that the outflow of clients to jobs and education is higher than that of its precursor Stom (2021). The possible reasons were in one paragraph listed and there the author highlighted the increase in time a provider has per client and the larger share of result compensation. The author concluded that it is a substantially shorter period of time that can be analyzed in Krom as the service had not been implemented in the whole country yet. Although the author touched on the aim of my thesis in a paragraph, it is the only publication that includes a comparison of the services.

4.5 Concluding remarks

I find that there is a lack of research comparing the services results and attributing these differences to specifics which could tell us in which way we should continue developing these services since they seem like they are here to stay. The question concerning private or public provision has been raised many times as mentioned above. However, what would be interesting is to isolate differences in effects due to the composition of the service and its model.

As of 2024, we can measure the full scope of the service, meaning more data points geographically, and over a longer period. Besides a gap in evaluations about the service with the full scope in respect, there is also a gap in the literature around the effect of private contractors since 2009. The Krom service represents the most market-oriented model yet seen, which is why analyzing its results contributes to existing literature.

5. Method

To justly compare the services and determine whether PES and people in unemployment gain from the changes that were made there are a lot of factors to take into account. Differences in the design of the services, differences in the target groups, differences in the results of the services, differences in the cost of the services, and societal gains. To account for these factors, this thesis will retrieve and compare data from the public employment service's statistics department, a survey conducted by the Institute of Labor Market Evaluation (IFAU), the employment service's annual report and the inquiry documents of the two services.

The designs of the services will be compared by thoroughly analyzing their respective inquiry documents (Arbetsförmedlingen 2021b & Arbetsförmedlingen, 2016). These documents were released publicly with the guidelines and regulations of each service for providers to review and make their application. The information includes the design of the services, compensation model, what activities are required and which are optional, and so forth. As a potential provider of the service this information should guide one to either want to apply to provide the service or not. To know the differences in the design of the services, these documents must be compared. To answer the research question, it is necessary to know whether there are differences in service design between the two services and whether these can be tied to a linked incentive and room for innovation for the provider.

The demographics of the target groups for the different services will be compared. To isolate the effect of the changes in service design, it is important to see whether the differences in clientele have implications on the performance of the providers.

The data on Stom's target group's demographics has been retrieved from the final report from 2019 evaluating the effects of the service Stom. The data includes 36 921 observations from 2016 and includes variables such as age, birth region, the duration of unemployment, level of highest achieved education, and share with a confirmed disability. The data on the birth region is presented in the share born in Sweden, another Scandinavian country, another European country, or outside Europe. The data on unemployment duration is measured in days of registration in the PES. This data is also measured in share divided into brackets, i.e how many percent of the cohort have been registered for 0-60, 61-180, 181-365, 366-545, 546-910, 911-1460, or more than 1460 days. The level of education is portrayed in the same way with the share of clients with primary, high school, or post-high school as their highest achieved education. The data on the share of clients with a confirmed disability is also presented in percent.

The data on Krom's target group's demographics has been retrieved from a study by the Institute for evaluation of labor market policy where they surveyed 63181 clients in Krom, in october of 2022. The survey yielded 17039 observations and only the data from these observations are included in this thesis. The data includes the same variables as Stom in the same organisation of shares in percentage. The exception is the number of days registered within the PES, presented with a median and an average number of days instead of percentage terms. While it makes no difference for this thesis, a general remark on the data of the demographics is that it derives from the individual data that IFAU has received from the PES of those who answered, meaning the survey's aim was not to research the demographics of the clients in Krom.

The results of the services will be compared with several aspects taken into account, with data retrieved from the PES. The data retrieved on the results is divided into quarters from the first quarter of 2015 to the second quarter of 2023. By quarter, the data presents how many clients in the respective service have left the service in total. The clientes can have left for any reason, including canceling the service due to employment or education, or time running out on their placement period. Then the data presents how many clients, by quarter, left the service due to employment or education. This is what is called R1 henceforth, which means it is a confirmed *result* (employment or education). Then lastly, the data presents how many of the clients who left due to employment or education, by quarter, have been in employment or education for over 4 months, confirmed. This is confirmed by the PES, by reviewing employment

contracts and salary specifications. This will be referred to as R2 henceforth. In another file retrieved from the PES the results of the providers of the services is presented in the same way (Number that left the service, R1 and R2), by quarter.

To compare the results of the services the data will be compiled into percentage terms per service for the full scope of the services and over time. This means how many percent of the total number of clients that left the service did so due to employment or education (R1) and how many sustained their employment or education for 4 months (R2), for both services. This is to find if there are differences in how many clients find a job or education and how many find long-lasting employment or education between Stom and Krom, which is the most important factor when comparing the results of the services. The reason why comparing R2 is important is that it is the point where the providers will be paid result compensation and because the goal of the two services is for the clients to find long-lasting employment (more information in the section on payment model 6.13). Comparing how many R1s and R2s are produced in the two services will indicate which performs better.

To determine whether the possible differences in results can be attributed to the potential differences in service design, five specific providers (Arbetslivsresurs, Enrival, Lernia, Arcus and Coachgruppen Strömbergs) that provided both services will be compared between the services in terms of their rate of R1s and R2s. This is to see if the providers that provided both services differ in their rate of performance, which could tell us that the differences in service design gives effect. The selection of providers is mainly the four biggest (Arbetslivsresurs, Enrival, Lernia, Arcus) in terms of clients and a provider with continually above-average performance (Coachgruppen Strömbergs).

To investigate the effects the transition in services had on unemployment numbers, data has been retrieved from the PES portraying the number of people who are unemployed and how many have been unemployed for 6, 12, and 24 months. To measure the effect of the service on these numbers a comparison on the change in long term unemployment simultaneously as the results of the providers in the services has been made.

To investigate the cost difference between the services, data from the annual report 2022 has been used. This data includes spending from 2020 to 2022 for both services and number of clients per service of the same years. To compare the costs the data has been displayed in terms of total costs for the services, cost per client for the services and also the costs per R1 (employments) for the services.

6. Results

6.1 Differences in the design of Stom & Krom

The following is a summary of the differences in design of the two services Stom and Krom that is based on the inquiry documents of the services (Arbetsförmedlingen 2021b & Arbetsförmedlingen, 2016 in the reference list)

6.11 Goals and Aims with the shift from Stom to Krom

One of the primary goals of introducing services like Krom and Stom is to improve employment outcomes for job seekers, especially those who are struggling to find work or are distant from the labor market. The services both have the general goal that clients participating in any of the services shall reach lasting employment as quickly as possible. The overall goal of shifting service from Stom to Krom is to even further improve the employment outcomes for the job seekers.

These services are designed to increase the efficiency of employment services through a result-based payment system. This model incentivizes private providers to not only place individuals in jobs but to ensure these are sustainable matches. Introducing a new performance-based payment model in Krom that more heavily incentivizes providers on the success of participants in employment or education, aligns provider motivations with participant outcomes even further than that of Stom.

By allowing providers more freedom to design their interventions, the Krom system encourages innovation within employment services. Providers can experiment with new approaches, technologies, and methods to find what works best for different types of job seekers.

6.12 Target Group Differences

The following is related to the target group of the service, in other words the clients. It is a presentation of the said attributes that qualify one for Krom and Stom by the point of the release of these documents. In a later chapter we will review the demographics of actual clients see (6.21).

Stom:

The target group for the service Support and Matching (**Stom**) is, broad and a large number of job seekers can be directed to the service. For Stom, clients are assigned the service by an administrator at PES who makes an assessment of whether the service is appropriate. In the text “handläggarsstödet”, which aims to

help these workers at PES make a qualitative assessment, specific circumstances have been outlined under which it is **not** appropriate to place a participant within the framework of the Stom service:

1. When the participant is expected to achieve the goal of the service shortly, i.e., is about to start working or studying.
2. When the participant is participating in or needs another program, intervention, or service within the Employment Agency.
3. When the participant does not have the prerequisites to participate in the mandatory activities that are required (for example, due to SFI [Swedish for Immigrants] or work).
4. When the provider does not have a reasonable chance of achieving the goal of the service.

Krom:

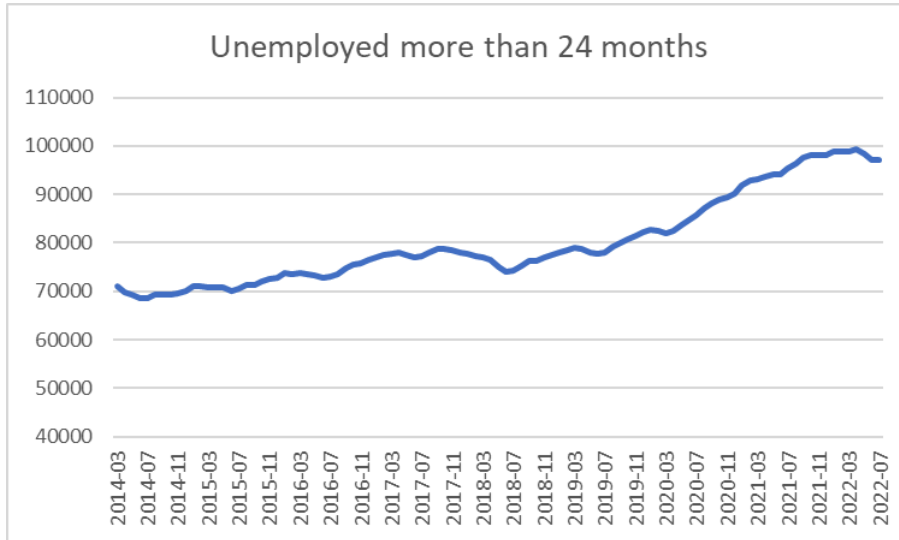
Participants are selected based on a statistical profiling tool that assesses their likelihood of benefiting from the program, aiming to include those who are most in need of support. Krom is specifically designed to assist individuals who are further from the labor market. This includes long-term unemployed, people with lower initial job prospects, and potentially those with educational or skill deficiencies that require more significant intervention. The target group consists of job seekers who need both Equipping and matching measures (rustande och matchande) to achieve the goals of the service and resolve their unemployment situation. A large portion of job seekers in the target group are far from the labor market. They may have a history of unemployment or are deemed for other reasons to need support to establish themselves in the labor market.

Example of when it is appropriate to place a participant in Krom:

Job seekers in the target group may have at most pre-secondary education, be non-European born, have a disability that results in reduced work capacity, and/or be older than 55 years, which statistically is associated with an increased risk of difficulties in achieving a lasting establishment in the labor market.

It is also stated that due to the gradual increase in the amount of long term unemployed, the target group must skew to prioritize people with a longer period of unemployment. Graph 1 shows the increase in people with 2 years or longer unemployment until the summer of 2022, which is when Stom ended. We can see an increase from around 70 000 to around 90 000 by the implementation of Krom.

Graph 1: Long term unemployed (24 months and more) from 2014 to 2022



Source: The Public Employment Service's statistics department

Conclusion on target group:

In examining the formulations provided by Arbetsförmedlingen regarding the target audiences for its services, they appear quite similar. Both services are stated to aim to address groups of job seekers who are distant from the labor market, including those with histories of unemployment, those with educational or functional disadvantages, and older individuals. Despite these similarities, it becomes evident that Krom potentially caters to a broader audience, facilitating a wider variety of individuals who might fit into its parameters.

6.13 Payment Model:

The following is a presentation of the services payment model. In short, Krom features a performance-based payment model that heavily incentivizes providers based on the successful placement of participants in employment or education. The base compensation is lower, but potential rewards for success are higher, aligning provider motivations with participant outcomes. While also performance-based, Stom's payment structure might not be as aggressively geared towards outcomes as Krom's. This can influence how providers manage their resources and focus.

Stoms payment model

The model is based on tracks, 1, 2, 3, and 4 that the clients are divided into. The division is made based on a judgement by the administrator on PES that assigns the client. This is done to decide on the best course

of treatment for the specific individual. Meaning, if AF says a participant should *do* track 4 he or she has a presumed more difficult task for the provider to accomplish, which makes the participant more “valuable”.

In contrast to Krom, however, this has implications for the participants plan of activities and resources that has to be allocated to this participant. This means that it is specified, for example, how many hours of guidance a track 4 “needs” and this number is higher than that of a participant in track 1.

The provider will receive both basic compensation and result compensation. The basic compensation is built upon daily compensation which is issued from a five-day week counting public holidays. The result compensation is issued if the client reaches the result of employment or education equivalent to 100%, lasting at least four consecutive months. If the placement in the service is interrupted due to a “result”, the supplier will receive compensation for the entire current 90-calendar day period as a so-called "speed premium". This is equal to the amount of basic compensation that was left on the clients contract. Maximum basic, result and extra compensation for respective level is shown in Table 1.

Table 1: Payment model per track in Stom

Compensation type	Track 1	Track 2	Track 3	Track 4
Basic compensation	100 SEK daily	200 SEK daily	185 SEK daily	280 SEK daily
Result compensation	12 000 SEK	15000 SEK	16000 SEK	18000 SEK
Maximum speed premium	6500 SEK	13 000 SEK	12025 SEK	18200 SEK

Source: Arbetsförmedlingen (2016): Inquiry document regarding Stom (Förfråganunderlaget Stöd och matching, Dnr: Af-2016/0002 3112)

Kroms payment model:

The model is based on levels that participants are divided into. These levels are A, B and C. This is division is based on a judgment by the statistical profiling tool at PES on the participant’s distance to the labor market. Meaning, that if the statistical tool says a participant is level C, he or she has a presumed

longer distance to the labor market and thereby should be a more difficult task for the provider to accomplish, which makes participant C more “valuable” than B and A.

The provider will receive both basic compensation and result compensation. The basic compensation is built upon daily compensation which is issued from a five-day week counting public holidays. The result compensation is issued if the client reaches the result of employment or education equivalent to 100%, lasting at least four consecutive months. Extra compensation for a quick result is also paid according to the same rules as result compensation. This is equal to the amount of basic compensation that was left on the clients contract. Maximum basic, result and extra compensation for respective level is shown in table 2:

Table 2: Payment model per level in Krom

Compensation type	Level A	Level B	Level C
Basic compensation	55 SEK daily	62 SEK daily	90 SEK daily
Result compensation	20 300 SEK	32 400 SEK	38 000 SEK
Extra compensation (quick result)	7260 SEK	8184 SEK	11 880 SEK

Source: Arbetsförmedlingen (2021b:)Inquiry document regarding Krom (Förfrågandeunderlaget Kundval Rusta och Matcha, Dnr: Af-2019/0043 5409)

Share of total compensation which is performance based

To calculate the share of basic compensation and result compensation for different services provided, assuming that the maximum compensation is issued, we can start by using the above determined total compensation for each service and then calculate the percentage that the basic and result compensations contribute to this total. Table 3 shows he calculated shares of basic and result compensation for the different services, assuming that the maximum compensation is issued:

Table 3: Share of compensation which is result based per track in Stom

	Track 1	Track 2	Track 3	Track 4
Total Compensation:	18 500 SEK	28000 SEK	28025 SEK	36 200 SEK
Basic Compensation Share:	35.14%	46.43%	42.91%	50.28%
Result Compensation Share:	64.86%	53.57 %	57.09%	49.72%

Source: Arbetsförmedlingen (2016): Inquiry document regarding Stom (Förfråganunderlaget Stöd och matching, Dnr: Af-2016/0002 3112)

Table 4: Share of compensation which is result based per level in Krom

	Level A	Level B	Level C
Total compensation:	27 450 SEK	40 460 SEK	49 700 SEK
Basic compensation share:	26%	20%	24%
Result compensation share:	74%	80%	76%

Source: Arbetsförmedlingen (2021b): Inquiry document regarding Krom (Förfråganunderlaget Kundval Rusta och Matcha, Dnr: Af-2019/0043 5409)

Conclusion

These results show that for both Stom and Krom programs, the share of result compensation generally constitutes a significant portion of the total compensation, however substantially more for the Krom levels where it far outweighs the basic compensation. This emphasizes the focus on achieving employment or educational results within these support programs.

6.14 Service Provision:

Comparing the service provision and regulations for the "Support and Matching" (Stöd och Matchning) and Krom services offered by Arbetsförmedlingen reveals both similarities and differences in their approaches and frameworks:

Scope and Framework of Activities:

Stom: The activities are predefined in a "Toolbox" that providers can choose from, listed on Arbetsförmedlingen's website. The activities include job application assistance, interview training, and direct employer contacts.

Krom: Providers have more flexibility to design support and choose activities that can quickly lead to employment or education. While still needing to align with regulatory frameworks, there is potential for adding new activities if they meet approval criteria, offering a dynamic approach to meeting participant needs.

Mandatory Meetings and Development Plans:

Stom: Requires providers to conduct regular development meetings every fourteen days, either in-person or remotely, to review and update individual development plans.

Krom: Also mandates regular individual development meetings but places a strong emphasis on adapting these meetings, it for example supports remote service delivery, ensuring accessibility to participant needs.

Duration and Flexibility in Service Delivery:

Stom: Participants can engage with the service under three 90-day periods.

Krom: Allows for up to two six-month placement periods.

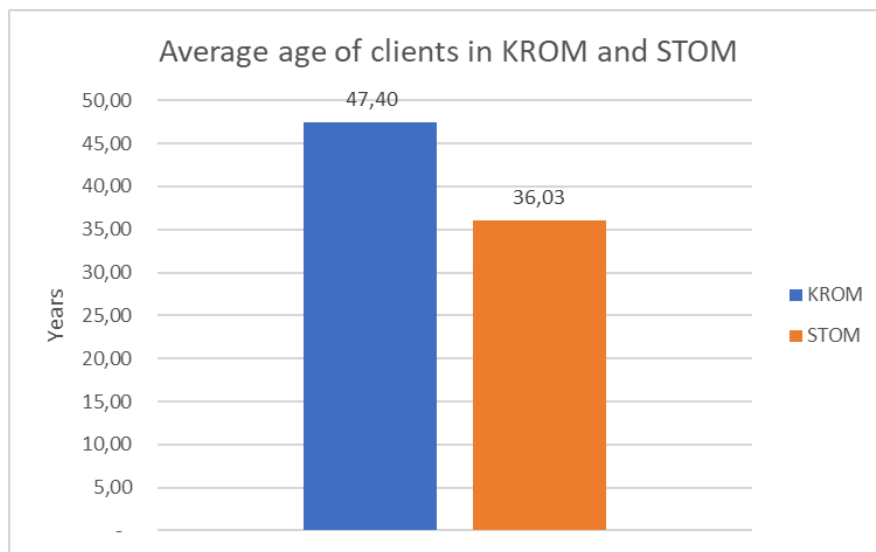
In summary, while both services aim to facilitate employment and education for individuals distanced from the labor market, Krom provides a more flexible and adaptive framework, and utilizing digital platforms. In contrast, Stöd och Matchning offers a more structured approach with specified activities and closer monitoring cycles.

6.2 Results of the services

6.21 Target group

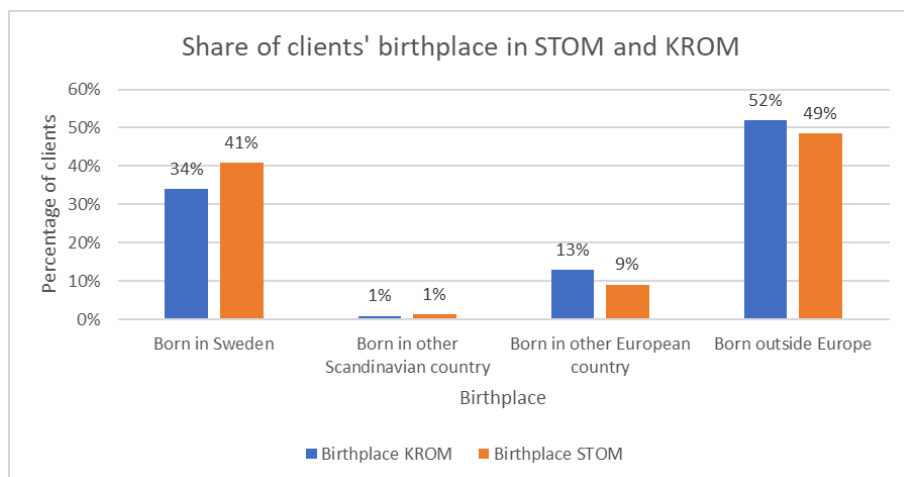
In graph 2 the average age of clients in the respective services are presented. In Krom, the average age of clients is 47.4 years which is older than the average age of clients in Stom, which is 36.03 years. This is a significant difference of more than 10 years. Whether it makes a significant difference in the groups' possibilities to find employment or education is unclear. While we cannot see the composition of this average number on individual level, this big difference might be because of the prioritization of long term unemployed in Krom (see chapter 6.12).

Graph 2: Average age of clients in Krom and Stom



Source: Krom data is from survey conducted by IFAU from the report 2024:9 (Rusta och matcha: Vad händer hos privata leverantörer av arbetsmarknadsinsatser?). Stom data is from arbetsförmedlingens report: Effektutvärdering av tjänsten stöd och matchning Återrapport regleringsbrev 2021

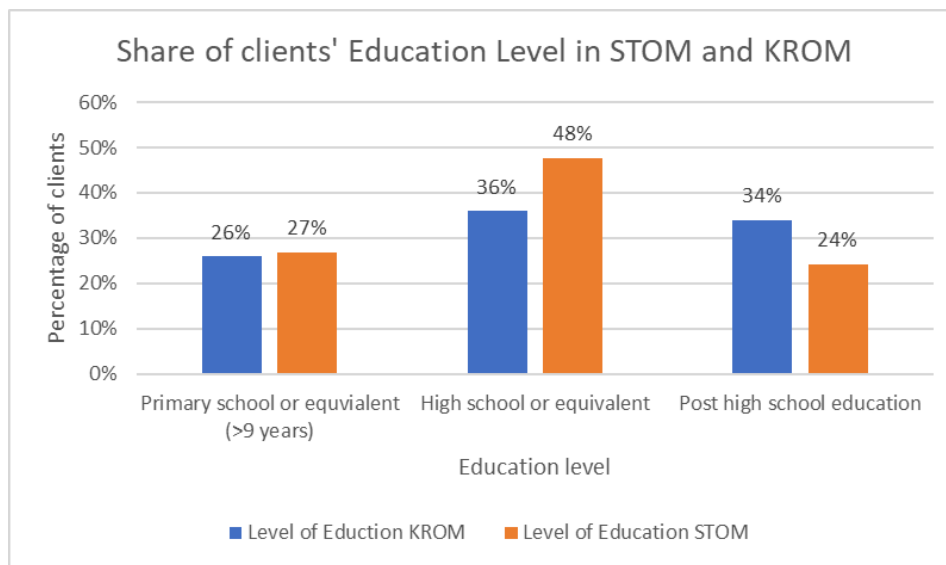
Graph 3: Distribution of clients birth region in respective services



Source: Krom data is from survey conducted by IFAU from the report 2024:9 (Rusta och matcha: Vad händer hos privata leverantörer av arbetsmarknadsinsatser?). Stom data is from arbetsförmedlingens report: Effektvärdering av tjänsten stöd och matchning Återrapport regleringsbrev 2021

Comparing the demographics of clients in Stom and Krom services, there are minor differences in their origins, with Krom having a slightly larger share of clients born outside Sweden than Stom. To compare the results of the services Stom and Krom it may be important to know the distribution of birth regions of the clients. From graph 3 we can see that in Krom, 34% were born in Sweden, whilst the same number for Stom is higher, 41%. Out of the people in Krom, more than half (52%) are born outside of Europe and in Stom, slightly less than half (49%) are born outside Europe. In summary, there are no large differences in terms of the distribution of birthregion. Krom has slightly larger share that are born outside Sweden than Stom.

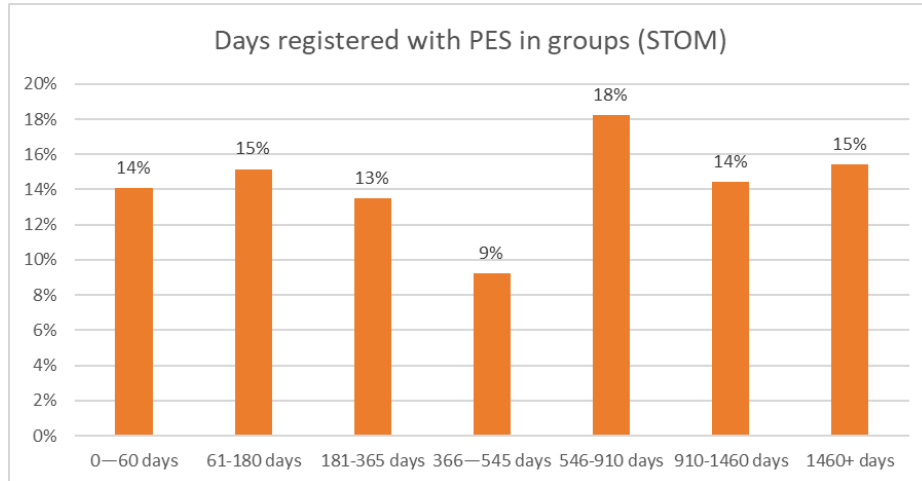
Graph 4: Distribution of clients education level in respective services



Source: Krom data is from survey conducted by IFAU from the report 2024:9 (Rusta och matcha: Vad händer hos privata leverantörer av arbetsmarknadsinsatser?). Stom data is from arbetsförmedlingens report: Effektutvärdering av tjänsten stöd och matchning Återrapport regleringsbrev 2021

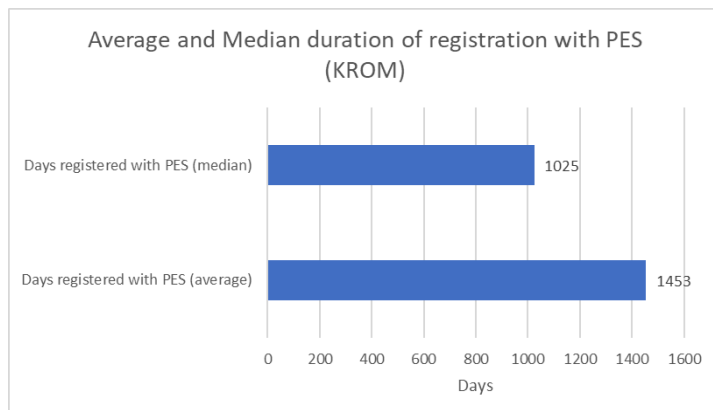
Comparing the education levels of clients reveals that Krom has a higher percentage of individuals with education beyond high school, whereas Stom has more clients with only a high school education. The education level is an important factor for one's deemed possibilities of reaching employment. Therefore, to compare the results of the services Stom and Krom it is important to compare the distribution of the education level of their target groups and whether they are alike or different. From graph 4 we can see that for Krom, it is as promised in the contract a wider spread of education levels. Krom has a larger percentage of clients with a higher education above high school level (34%) than of Stom (22%). On the other hand, Stom has a larger share of clients with high school as their highest education (48%) than of Krom (36%).

Graph 5: Distribution of clients registration time (days) in Stom



Source: Data is from arbetsförmedlingens report: Effektutvärdering av tjänsten stöd och matchning Återrapport regleringsbrev 2021

Graph 6: Median and average registration time (days) of clients in Krom



Source: Krom data is from survey conducted by IFAU from the report 2024:9 (Rusta och matcha: Vad händer hos privata leverantörer av arbetsmarknadsinsatser?).

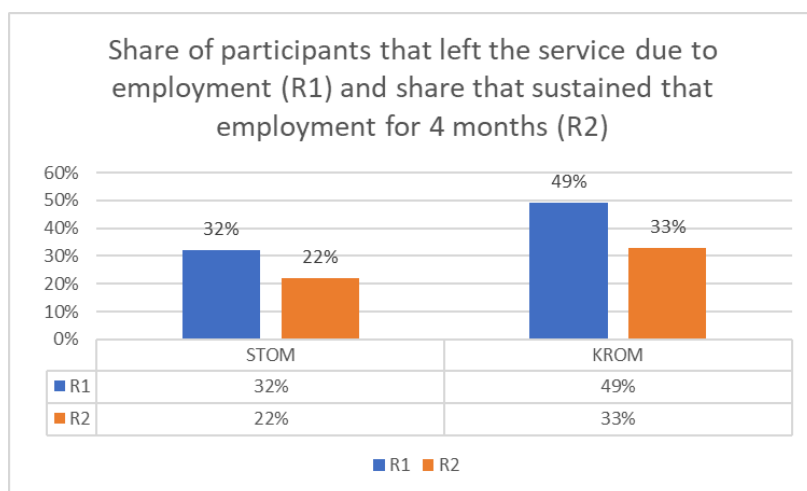
Comparing the average number of days in unemployment of the clients as a measurement of the severity of the clients' situations, Krom seem to prioritize long term unemployed more than Stom. In chapter 6.12, it is noted that one segment of the labor force that have grown significantly were the long term unemployed. It was therefore suggested that the new service Krom need to prioritize assisting unemployed that have been registered with the PES for a longer period than was the norm for Stom. In graph 5 we can read that 47% of the clients in Stom have been registered for 546 days or more, meaning

the median should be in the group between **366-545** days. In graph 6, displaying the average duration of registration in Krom we can see that the median client have been registered for **1025** days with the PES.

The average for Krom is 1453 days and only 16% of clients in Stom has been registered with the PES for more than 1460 days so it is likely that there are discrepancies between the services' prioritization of clients. Furthermore, this would indicate that the PES in fact has lived up to its word of skewing the target group towards people of longer term of unemployment. Another possible reason for the increase in average duration of unemployment is that there may be a share of the clients in Krom that had been in Stom and are still unemployed.

6.22 Results of the providers

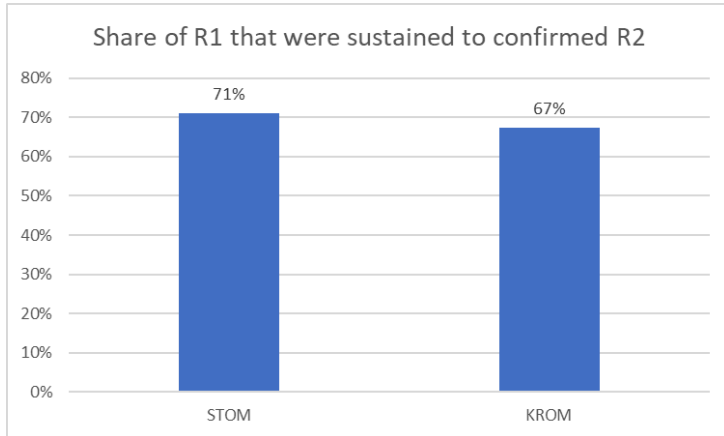
Graph 7: Share of clients that reached R1 and R2 for respective service



Source: The Public Employment Service's statistics department

Graph 7 illustrates that Krom has significantly better outcomes than Stom, with a higher proportion of participants transitioning to work or studies and achieving sustained results. The bars show the proportion of participants who left each service and transitioned to work or studies until June of 2023. Graph 7 shows that the proportion of participants who moved into work or studies is higher in Krom (49 percent) than in Stom (32 percent). The share of participants with confirmed sustained results 4+ the differences between the services are 33 percent in Krom and 22 percent in Stom. This indicates that Krom has significantly better results in matching the participants into employment or education.

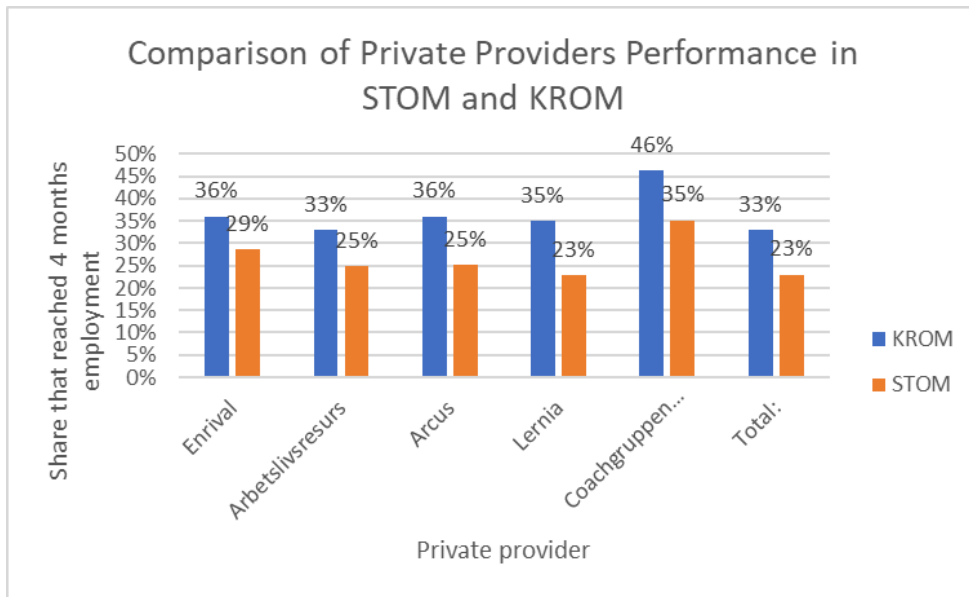
Graph 8: Share of clients that reached R2 out of the clients who reached R1 for respective service



Source: The Public Employment Service's statistics department

Graph 8 shows the share of R1s, the clients who have transitioned to confirmed employment or education, that have become confirmed R2s, which are the clients who have been in employment or education for more than 4 months. The goal of the service is for clients to find long lasting employments or educations. Graph 8 shows that roughly 3 out of 10 clients in both services will disrupt their employment or education within the first 4 months. The graph also indicates that the average accuracy is similar in both services, but the average match is slightly more accurate in Stom with 71 percent of R1 converting to R2, compared to Kroms 67 percent. The significance of this difference is hard to assert, however.

Graph 9: Share of clients of five individual providers that reached R2 for respective service



Source: The Public Employment Service's statistics department

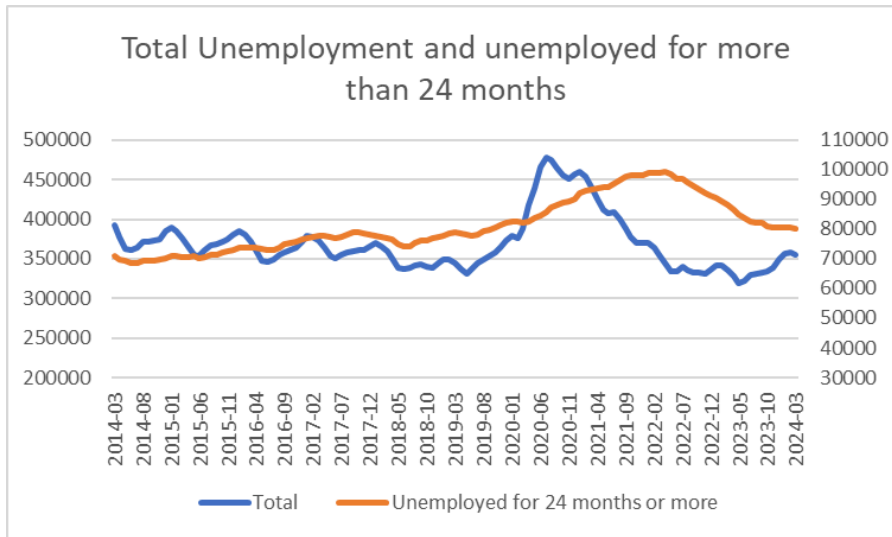
Comparing specific private providers results in Stom and Krom shows big differences between the services, which indicates that the the results can be attributed to the differences in service design. In graph 9 we can see the R2 results of 5 companies that provided both Stom and Krom: Enrival, Arbetslivsresurs, Arcus, Lernia and Coachgruppen Strömberg. If we look at arbetslivsresurs, which is continuously the largest provider in terms of clients, they have a rate of 33% of their clients who left Krom with confirmed sustained employment in Krom, but their equivalent figure for Stom is 25%. Similar differences are apparent for all providers in graph 9.

Not only is the total number of sustained employments higher in Krom than in Stom, but this indicates that the discrepancy between the results for Stom and Krom are apparent even within the same companies. This is likely attributable to differences in the services' design. A reasonable partial explanation is that the longer program time in Krom gives providers more time to achieve results. Another possible partial explanation is the difference in compensation between the services—since the base compensation is significantly lower and the performance-based compensation considerably higher in Krom, providers have stronger incentives to achieve results.

6.3 Results on Unemployment

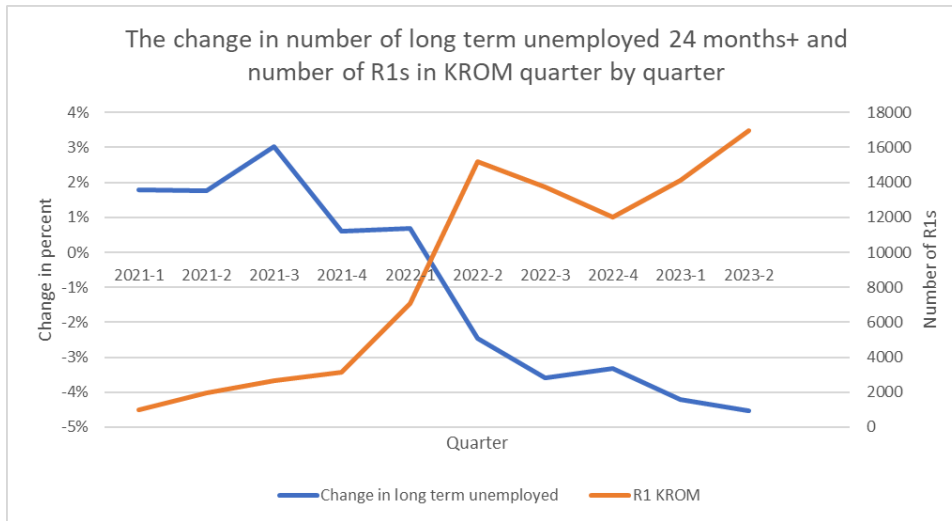
When Krom was implemented in every part of Sweden, long term unemployment started declining. Graph 10 highlights the differences in peak levels between overall unemployment and long-term unemployment. We have seen a fluctuation in the number of unemployed people since the implementation of Stom in the end of 2014. However, until the pandemic, the trend seems to have been a decline in the number of unemployed people. During the pandemic, we witnessed a spike in the number of unemployed people which coincided with the implementation of Krom. By the time the service had been launched in the whole country, in 2022, unemployment was back to where it was before the pandemic and even reached its lowest point in the second quarter of 2023. As PES acknowledged when launching Krom, we have seen a steady increase in the long-term unemployment since the implementation of Stom. Because of this, PES stated that Krom should work to support this group of unemployed. By the implementation of Stom we had around 70 000. In the first quarter of 2022, which is around the time when Krom had been installed in every municipality in Sweden, we had almost 100 000 long-term unemployed. Onwards, long-term unemployment declined by around 20% to 80,000. This decline coincided with the period when Krom had its most participants, R1s, and therefore the decline could be attributed to Krom's function.

Graph 10: Total number of unemployed (Left axis) and number of unemployed for 24+ months (Right axis)



Source: The Public Employment Service's statistics department

Graph 11: Change in the number of long term unemployed (left axis) and number of R1s (right axis) quarter by quarter

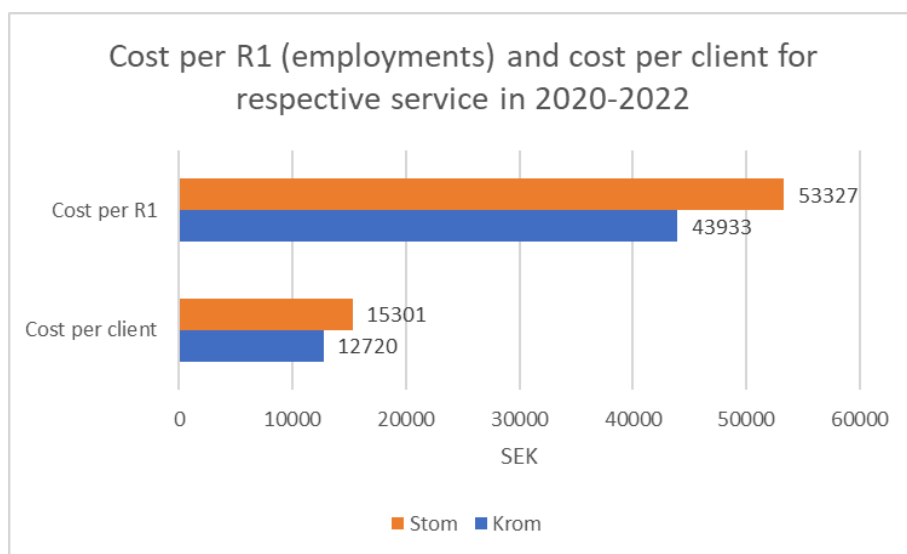


Source: The Public Employment Service's statistics department

The change rate of long term unemployment becomes negative when Kroms number of reported R1s are positive. In graph 11 we can see the change rates of this long term unemployment and the number of employments created in Krom. The first quarter of negative change in long term unemployment (2022, Q2) coincides with the same quarter where the number of R1s (confirmed employments) in Krom, doubles. The following quarters we see a continued negative change rate and the sustained high level of R1s in Krom. The last quarter of 2022 we can see that the R1s falls and that this coincides with a slightly less negative change in long term unemployment. The specific coincidences could indicate that Krom is successful in matching long-term unemployed people and that it is a working intervention to decrease this number.

6.4 Cost

Graph 12: The cost per R1 and per client in Stom and Krom in million SEK 2020-2022



Source: Annual report 2022: Public Employment service

The average cost per client and per created employment is lower in Krom than in Stom. Graph 12 highlights the cost per R1, which is the cost per confirmed result of employment or education and the average cost per client in 2020-2022. The cost per R1 in Stom is 53327 SEK, while the cost per R1 in Krom is 43933 SEK, on average. The average cost per client in Stom is 15301 SEK and the average cost per client in Krom is 12720 SEK. The cost per R1 would likely give Krom a lower number than Stom due to the higher shares of R1s in Krom, but also the total cost divided by the total number of clients is lower

in Krom. These discrepancies speak for the differences in the payment model and the relatively high cost of having high basic compensation.

7.0 Discussion

The literature often highlights the difficulties of testing different services' results and comparing them to decide which service is the better functioning one because of the differences in payment models, target groups, costs, duration and so on. While this point is easily understandable, the results of this thesis highlight the differences and takes them into account when analyzing them. The aim of this thesis is not to determine the best functioning service or to determine whether we should utilize private or public provision, but rather to interpret the statistics to know which parts of the designs that were advantageous for the results, to make it easier to develop these services further.

The transition from Stom to Krom has improved the function of job-matching services to a significant extent. The share of clients that left the service due to R1, namely employment or education, is 49% in Krom and 32% for Stom. The share of clients that left the service due to R2, namely employment or education sustained for over 4 months, is 33% in Krom and 22% in Stom. Furthermore, by looking at the numbers for the individual providers, we can see that they perform much better in the Krom system than the Stom system. This indicates that there probably are differences between the services designs which makes the result better. There are several differences that the results could be attributed to. For example the providers in Krom have a maximum of 2 periods of 6 months with the client, but in Stom the providers have a maximum of 3 periods of 3 months. This means 3 months extra per client which surely makes up for some of the discrepancies in results. One might argue that giving providers more time with clients is going to make the results better but comes with a financial cost. Although providing a service for a longer time indeed costs more, we know from the results that Krom does not cost more per client than Stom, which makes this argument less relevant.

Other factors to the increase in the rate of R1s and R2s as discussed in previous literature and theory, could be that Krom has a higher share of results-based compensation which may provide the providers with a higher incentive for results. On the other hand, critical views on result compensation in public services argue that this model should incentivize undesired behavior. For example it has been discussed whether this model will generate long lasting employments or if providers will prioritize placing unemployed in employment quickly, with no consideration of the quality of that match. From our comparison we know that there are no differences between the services in what is considered long-lasting

employment, it is four months in both Stom and Krom. On the other hand we know that people placed in jobs or education (R1s) seem to convert to long-lasting employments slightly more often in Stom (71%) than in Krom (67%). This goes in line with the argument that a higher share of result compensation will lead to less qualitative placements in employment, but the question is whether this difference is significant.

Other undesired behavior that is theorized to arise from result compensation in public services include terms like parking, which in this context means taking on clients who are perceived to be further from the labor market but giving them minimal support, only to benefit from the base payment. The theory is that providers will deem a client's situation as hopeless and make the judgment that they will never receive any result compensation for the client and therefore not provide enough support, in order to cut costs (see chapter 4.3). If we assume this is legal and that providers do this, we know it should be much more profitable in Stom than Krom, due to the higher share of basic compensation. In other words, this could explain the increase in results when transitioning from Stom to Krom, due to the lowering of basic compensation and raising of result compensation, which is the opposite of what the author wants to claim. In summary, the results of this thesis indicate that it is advantageous in terms of results to have a higher share of result-based compensation because it gives providers a higher incentive for success and it decreases the profitability of undesired behaviour from providers.

Another argument against result-based compensation is that we cannot know how much of the employments “creation” can be attributed to provision of the service. It is very probable that a client finds a job and gets employed on their own after one meeting with the provider. How much of that result can be attributed to the meeting with the provider and should the provider be compensated for this. This is a valid point but since it is a potential problem for both Stom and Krom, it is hard to take into account in the interpretation of the differences in results. What can be said, however, is that there is a higher probability of this happening with an *easier* target group than a *harder* target group. Therefore, if one service has an *easier* group to match then it should show higher results in terms of R1s and R2s. In this case, Krom has similar share of people born in and outside of Sweden as Stom, an on average older cohort, similar distribution in level of education and a group with on average more days in unemployment than in Stom. In review of the results of this study on the characteristics of the target groups, there is nothing that gives the impression of Stoms group being *harder* to match and that it should be taken into account when interpreting the service results.

The primary argument for and against contracting private providers in public services is that private providers will try to cut costs to make profit which makes the service cheaper. It can be considered advantageous because it costs less however it can also be considered disadvantageous if the cutted costs have had negative implications on the quality of the service. It is hard to comment on whether the cost is less without knowing what the cost would have been if the PES provided the same service. However, in terms of quality, the changes in service design between the two services, specifically in terms of compensation models, are aimed to mitigate the possible implications on quality. With the change to a larger share of results based compensation in Krom than in Stom, the providers can maximize profits by improving the quality of the service rather than deteriorating the quality. The differences in results of the services provided by the providers could indicate that the change had worked in the direction that PES had intended.

The numbers on compensation show that there is a larger total amount of possible compensation in Krom than Stom for providers, in absolute terms (see 5.13). This could indicate that the amount of compensation per client should be higher, however the results show that Krom is cheaper per client and per created employment (see 6.4). In addition, this is without adjusting for the opportunity cost of the welfare money that an unemployed client costs, which would make Krom even cheaper because of the higher results. This could be an indication that the model of Krom is more cost efficient and efficient in terms of results than Stom. Furthermore, although Kroms possible total amount of money per client is much higher than in Stom, the cost is lower, which could also be explained by the quickness in transitions to R1, which is not taken into account in this text. If clients in Krom that transitions to R1s, do that in a shorter time, the average duration in the service will be shorter per client than in Stom. If the average duration in the service of clients is much longer in Stom than Krom, the relatively high basic compensation of Stom will make up for a large share of the cost discrepancies.

The fact that providers like coachgruppen strömberg are able to uphold a significantly higher performance than other providers (see graph 9) speak for the fact that there could be innovative measures that allow coachgruppen Strömbergs to develop specific skillsets, competencies, possible digital measures which speaks for the argument of giving providers more autonomy to design the service. Critical views on private providers in public services brings up terms like cherry picking. That individual providers results can be explained by the nature of their clients. We cannot know the demographics and characteristics of individual provider's clients, however, due to the freedom of choice system in combination with the contracts which stipulates that providers can never deny a client, might indicate that there should not be any large discrepancies between demographics of clients between services.

One thing that also needs to be taken into consideration when comparing the results of the two services is the economic conditions which affects the labor market. There could be factors that make the time span of Krom *easier* for the target group to reach employment than the time span of Stom, even though they are not presented in the results of this text. One irregular factor is the pandemic that occurred at the end of Stom. However, we can see from the results over time that Stom had a higher rate of R1s and R2s during the time when the pandemic had the most effect on the unemployment rate (see appendix B). The following is purely speculation but it is possible that some sectors, such as the logistics sector, grew substantially due to the growth of the e-commerce sector, which created many jobs as warehouse workers, truck drivers and so on, benefitting the target group.

Even though we cannot measure a causal relationship between the effect of Krom and the decrease in long term unemployment, we can see that something in society has made up for a remarkable trend shift. This is undeniably advantageous for society, considering the cost of this number of long term unemployed people. From the results in graph 10 we can determine that after Kroms implementation, long term unemployment has decreased by around 20%. This follows a steady increase in long term unemployment over 8 years. In graph 11 we can see that the change rates of long term unemployment and the number of employments created in Krom coincides in many examples. The specific coincidences could indicate that Krom is successful in matching long-term unemployed people and that it is a working intervention to decrease this number.

7.1 Conclusion

With everything considered, we can conclude that the services have been structured with some differences to yield better results and to target a specifically problematic group of unemployed people in society. The results are significantly better in Krom than in Stom, which can be attributed to these changes in the service design and the differences in results by specific providers. The demographics of the target group in Krom show no sign of being “easier” to match than that of Stom. The trend of the total number of long-term unemployed indicates that the desired target group benefits from this supporting measure. Additionally, nothing in relation to the costs of the services indicates that Krom is a more expensive service than Stom.

What we want to conclude from this is not that private provision is of more quality than public provision. However, I want to highlight that the ways of structuring the contracts with the providers differ from

service to service and has an effect on the quality. There are as mentioned, situations where we as a society gain more or less from private providers and this comparison highlights some of the characteristics of a service where the provision is better suited for private companies in relation to another service with other characteristics.

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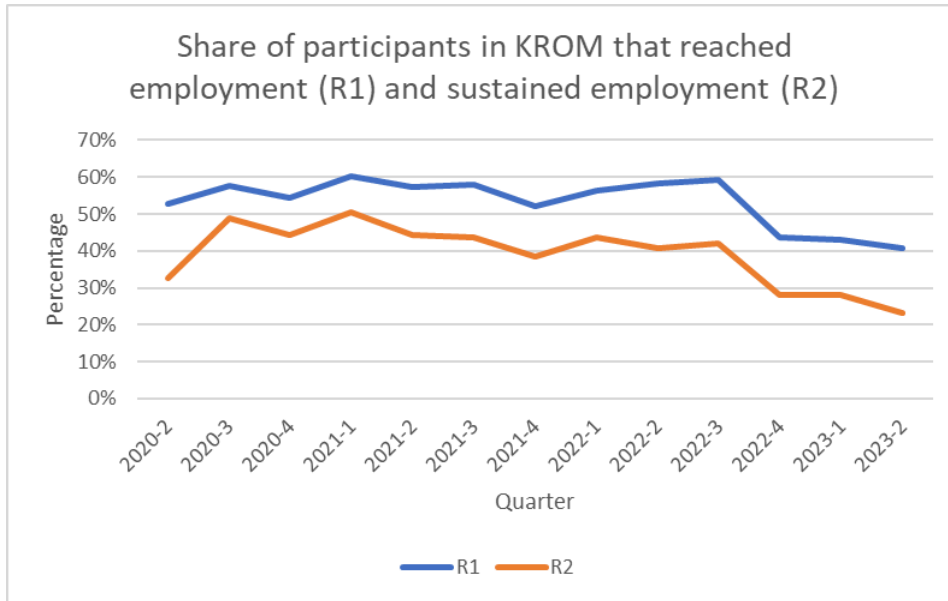
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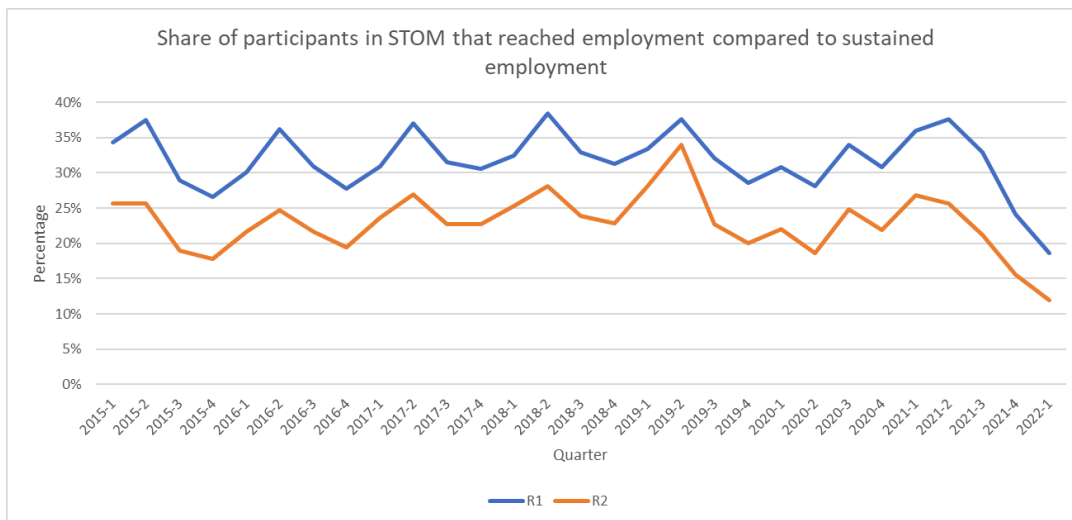
Appendixes

Appendix A: Share of clients in Krom that reached R1 and R2 quarter by quarter



Source: The Public Employment Service's statistics department

Appendix A: Share of clients in Stom that reached R1 and R2 quarter by quarter



Source: The Public Employment Service's statistics department