

# How should the integration effort be organised?

This policy brief is an excerpt from the report  
**Integrating Immigrants into the Nordic Labour Markets**



## Summary

How should labour-market integration for immigrants be organised in order to make it successful? We compare what contract theory suggests with the empirical research on the topic. We compensate for the scarce empirical literature by looking at the larger group of hard-to-place unemployed persons, as well as at employment services more generally. We find that for-profit private service providers are not more effective than public ones when it comes to improving employment outcomes and they are often more costly to use.

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## Background

Private providers have come to play an increasing role in active labour-market programmes in the Nordic Region and elsewhere. This trend has also influenced the organisation of integration programmes aimed at immigrants. The question is whether they are more efficient than the public sector? What constitutes an optimal contract between the government and a service provider? In the following, we discuss, in theoretical terms, the types of contracts and organisational structures that appear to be the most effective. We also review the empirical research that compares private and public providers of employment services.

## How to write a contract?

Increasing the employability of immigrants with poor job prospects is not easy. It involves genuine uncertainty regarding their employment potential, and the conditions for writing contracts are imperfect. In theory, an optimal contract with a private provider for an employment service for immigrants would involve relatively high fixed payments, in order to offset the uncertainty. However, such a contract also ought to include some element of performance-based payment. The extent to which this element should be weighted depends on how precisely the results can be measured.



Furthermore, an environment in which multiple providers compete with each other for tenders is expected to enhance efficiency, due to the uncertainty regarding the potential minimum costs of placing immigrants in jobs. As a result, the government will want to conduct regular tests to verify that the current provider is also the most effective one.

### **Are public or private service providers more efficient?**

The theory is ambiguous on the question of whether public or private service providers are more efficient in improving immigrants' employment outcomes. The profit motive could, at first sight, be taken to imply that private provision is the most efficient form of organisation, as long as there is sufficient competition. However, there are several challenges associated with writing a complete contract for the service task concerned, which may lessen the private providers' seeming advantage. Further, in a situation in which a complete contract cannot be written, the impact of this on public providers may be less severe: Research suggests that employees in the public sector have a stronger intrinsic motivation than employees in the private sector. Taken together, these factors suggest that the theoretical hypothesis regarding the relative efficiency of private and public providers of employment services is an ambiguous one.

### **Empirical evidence**

Few empirical studies have examined which actors should be responsible for employment services – and typically, such studies do not include specific analyses for immigrants. Nonetheless, studies focusing on employment services in general – and especially on hard-to-place groups – may be relevant for the organisation of integration policy.

The scarce empirical evidence does not support using private rather than public providers of employment services on grounds of financial efficiency. Out of six randomised evaluations conducted in different countries, two find that public providers perform better than private providers in terms of employment outcomes. One study finds that private providers are more successful than public ones in the short term, but these positive impacts vanish in the medium term, and after two years the pattern reverses. The remaining three studies do not find any differences between private and public providers. Overall, therefore, the research does not support the view that private providers are more effective than public ones in moving hard-to-place unemployed into employment, nor that the costs of using private providers are lower.

One randomised evaluation (for Sweden) did find that the effects on employment are heterogeneous across subgroups. Specifically, for immigrants with higher-than-average pre-trial earnings, private providers were more effective in placing them than their public counterparts.

The studies offer no clear explanation of the private providers' relatively poor performance. One study argues that part of the explanation might be the public agencies' inability to offer the right financial incentives to private providers. Others suggest that the market for contracting out employment services in general – and for hard-to-place groups in particular – has not yet matured. With more learning both on behalf of private providers and the government, the picture could change.

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