

# 3 Local Employment Development, Decentralisation, Governance And The Role of Government

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Local development has become a fashionable topic over the past years. In times where globalisation increasingly shapes our jobs and lives, it may be surprising to see so many policy statements pointing to the local level for answers. The diversity of local situations is no longer seen as an obstacle, but as a strength, and local characteristics are considered a source of competitive advantage.

In a context of thriving local initiatives and strategies, what is, and should be the role of central government? How can government stimulate local employment development while ensuring that actions performed overall achieve a certain degree of effectiveness and meet criteria of accountability? What are implications for the distribution of powers among tiers of government and on the role of the various stakeholders?

This paper seeks to provide guidelines to help countries find answers that suit their institutional context. In the next sections, the paper offers a brief account of the emergence of the local dimension in policy making and outlines the characteristics of local employment initiatives. It then reports on the various responses to local initiatives provided by government, introduces the concept of governance as a tool for analysis and assesses the role of governance in both labour market policy and economic development. The following sections examine the impact of partnerships, decentralisation and restructuring of the service delivery structure on governance, and address the issues of flexibility and accountability. The paper concludes with some perspectives and policy guidance.

## 1. The Emergence of the Local Dimension

It is only recently, some 20 years ago, that the local

dimension of policies and programmes has acquired some importance in OECD countries. If labour market policy is still considered as a macroeconomic instrument in the first place, the local level is not anymore considered as a level of delivery merely. The local level is now viewed as the place where implementation can be adapted to the conditions of the target groups. It is also where strategic decisions can be made if employment and training services are to meet business needs and help foster the development of local economies.

Regional development and industry policies have undergone similar developments. Regional development policies, designed at national level and featuring heavy investment and large-scale infrastructure projects imposed upon the local level without consideration for local conditions, have been abandoned in most countries. National industrial policies aiming at attracting and retaining large enterprises in predetermined sectors have shown disappointing results in the 1980s and since given way to more area-based approaches. Problems with a centralised, macroeconomic and top-down approach in these areas arose with mounting structural unemployment, growing difficulties to match labour supply and demand locally, the poor results of traditional regional development policies and the failure of industrial policies to prevent delocalisation and plant closures.

Simultaneously, local authorities, community-based organisations, business associations and other groups undertook to tackle local problems with their own strategies and projects. Initiatives have been taken in all fields of intervention, from fighting poverty to business development. Regional development agencies have been set up to design economic strategies suiting the local context. This proliferation of projects and initiatives has

been fuelled by an accelerating globalisation process that encourages seizing development opportunities that draw on local competitive advantages based on skills, knowledge and other assets.

As early as the late 1980s, it was possible to identify some key characteristics of local economic and employment initiatives. First, local initiatives are *endogenous* in character, i.e. they promote local development by making full use of local resources — human, physical, technological, financial. Second, they adopt an *entrepreneurial* approach: self-reliant and risk-taking, they seek to convert ideas into new product or services and sometimes propose new methods and ways of working. Thirdly, local initiatives operate on a *partnership* basis, as their success relies on the participation, support and commitment of various organisations from government, civil society and business. Fourthly they take an *integrated* approach that acknowledges the interconnections between diverse fields of work and disci-

plines. Business development, human resource development and social development cannot be considered in isolation at local level. Retraining the labour force, developing new products, promoting local cultural assets, environmental protection are all facets of the local development process. Fifthly, local initiatives promote the use of *flexible* management methods, which emphasise the role of networks and the need to adapt policies to local needs and combine various programmes to enhance their impact at local level (OECD, 1990).

The emergence of local employment initiatives changed the government approach. Policy makers started to pay attention to the reality of the local level, the diversity of the local conditions and the opportunities that local approaches could provide. They began to realise that the degree of flexibility in the management of programmes and the possibility to influence at local level the implementation of national policies were determinants of the capacity to solve problems.

### **Box 1. The OECD's contribution to shaping the local: the LEED Programme**

As local initiatives and strategies were being set up, it became obvious that international co-operation was needed to share the experience of various parts of the world in order to promote success and avoid failures. In 1982, 13 countries created the ILE (Local Employment Initiatives) Programme at OECD, which became in 1994 the LEED (Local Economic and Employment Development) Programme. LEED has grown ever since and today counts 33 member countries and international organisations.

The LEED Programme offers its members a uniquely active approach by providing: i) continuous monitoring and assessment of current local development practices and the diffusion of related findings; ii) analysis of initiatives, strategies and partnerships between government, business and civil society with the aim of complementing public policy and supporting local economic and social development; iii) elaboration of common methodologies and analytical frameworks for carrying out reviews and studies; and iv) a critical link both between sub-national institutions, and between the OECD and sub-national bodies.

Building on the capacity provided by its members, the Programme draws on the additional resources and expertise of a Partners' Club of more than 100 members (sub-national organisations, foundations, research institutes). A decentralised unit, the OECD LEED Trento Centre for Local Development, was established in 2003 to build capacity for local development in Central, Eastern and South-Eastern Europe.

The LEED Programme organises its work along axes which correspond to the main components of integrated and endogenous area-based development strategies:

- *Employment and skills.* Local prosperity and the quality of life depend on efficient labour markets, which can meet the needs of both the labour force and businesses. Skilled workforce nurtures economic development and contributes to the diversification of the local economy. In turn, the availability of employment and training opportunities is essential to keeping the young people and attracting talents, thus contributing to the vitality of a local area.
- *Entrepreneurship.* Promoting entrepreneurship is one of the most direct ways to create jobs, increase incomes, facilitate adjustment to economic change and underpin economic competitiveness at local level. Subnational economies that grow rapidly usually have high rates of enterprise start-up.
- *Social inclusion.* The non-profit sector has an important role to play in generating new economic activity and creating mechanisms of social inclusion. Social innovation aims at satisfying new needs not taken on by the market or creating new, more satisfactory ways of insertion in terms of giving people a place and a role in economic and social life.
- *Local governance.* Local governance focuses on the ways to connect together the various local development determinants within effective strategies. Local governance examines ways to reconcile economic, labour market, social and environmental objectives, in view of taking an integrated approach to policy development.

## 2. The National Response

The need to rely more on local resources and to promote local initiatives for employment and economic development led government to carry out various types of institutional reforms.

The most popular of these reforms has been to promote or support a network of local **partnerships**. These partnerships typically group actors from government, business and civil society and pursue objectives of economic, employment or social development. Two thirds of the 30 OECD member countries have established or experienced some sort of partnerships in parts or all the country over the past few years.

The second most popular national response has been to **decentralise** policy and public service structures. Decentralisation can take the form of either devolution to a lower level of government (e.g. regional or local government) or “deconcentration” of the central government administration, i.e. transferring decision making to a lower tier within the same administrative structure. One third of OECD countries have in some ways decentralised labour market policy and the public employment service.

Finally, a number of countries have **restructured**

**the delivery** aspect of the public services by delegating responsibility for delivery to the private and/or the non-profit sector through public-private partnerships (PPPs) or contracting out. Roughly 20% of OECD countries fall within this category. A larger number of countries have modified the delivery structure by regrouping various services into single **one-stop** agencies locally.

The examination of the strengths, weaknesses and impacts of these reforms requires a clear idea of what the main expected outcome of these reforms is. This in turn requires the introduction of the concept of governance.

## 3. Governance: A Key for Analysis

Essentially, working at local level allows additional flexibility in the ways of doing things. To foster local economic and employment development, flexibility is needed to co-ordinate policies, combine programmes and local initiatives, adjust the targets of programmes, and draw on synergies. The local level is where problems are found and solutions identified, and where stakeholders meet and implement their programmes/projects. Working at that level offers possibilities that are not available at higher administrative layers, where analysis is based on aggregates and action hampered by delays

and lacks of information.

The originality of local initiatives themselves derives less in their content than from their ability to generate new procedures, patterns of behaviour or organisation (OECD, 1990). A significant share of efforts on local development is devoted around the institutional aspects of local actions and strategies and not on developing new programmes.

Thus, notwithstanding the political dimension associated with institutional decisions, a clear goal of institutional reforms is to bring flexibility to the local management of policies and programmes, in a way to open up the set of possibilities locally and seize economic and social development opportunities that would be lost otherwise. The evaluation of these reforms' impact should therefore be based on whether they have successfully contributed to increase the degree of flexibility, and if this has helped to enhance policy results at local level.

This expected outcome of institutional reforms is best captured by the term of "governance." While a broad definition of governance refers to "the ways in which society solves its problems and meets its needs collectively," a more applied meaning has been proposed by OECD (2001), in terms of the **ways policies are co-ordinated, adapted to local needs and oriented in partnership with civil society and business**. This definition is also coined by the term "local governance," though the latter is sometimes used in a more narrow way that relates to the participation of civil society in municipal decision-making.

The issue of governance is taking increasing importance, as it is both seen as a determinant of the capacity for government and its partners to take an integrated, holistic approach to local development; and as a way to enhance the long-term outcomes of national policies through better synergies, better co-operation among stakeholders and less conflicts between programmes implemented in different policy areas. In the next section, we look at the particular case of labour market policy.

#### 4. The Impact on Employment

Improving local governance has an impact on the effectiveness of labour market policy. Efforts to co-ordi-

nate policies with economic development strategies and social inclusion initiatives, to adapt them to local conditions and to involve representatives of neighbouring policy areas, business and civil society in the orientation of measures bring significant benefits. They are likely to enhance labour market outcomes in the long term as the superior quantity and quality of the information brought to bear in the implementation of programmes and enhanced overall synergy make their effects felt.

This result is underpinned by both empirical and anecdotal evidence, as reported in Giguère (2003):

- Firstly, labour market programmes are more likely to be effective when they take into account the local characteristics of the target groups and seek to dovetail them with local labour market needs (Martin and Grubb, 2001). Information provided by local employers and representatives of the target groups helps to guide labour market programmes as well as reducing the substitution and the displacement effects (respectively, non-subsidised workers and activities displaced by subsidised ones) and deadweight losses (jobs that would have been created anyway) that are associated with active labour market policies.
- Secondly, business organisations, trade unions, local authorities and community-based organisations often provide services that supplement those of the public employment service, such as vocational training, placement and re-integration services, and joint steering is required to maximise complementarity while avoiding duplication (OECD, 1998). The delivery of employment services must also take account of existing infrastructure (and gaps in it), public transport and municipal services, if they are to meet their objectives fully.
- Thirdly, labour market efficiency depends on having employment and training programmes meeting business demands for skills that change rapidly and adjusted ahead of forthcoming local investments. Evidence suggests that helping businesses to access these programmes is conducive to upgrading the skills of low-qualified workers (Research Institute for Small & Emerging Business, 2004), now a priority for labour market policy in most OECD countries.

### **Box 2. Local initiatives complementing national policies**

The OECD LEED Programme is currently implementing two cross-country comparative studies illustrative of the relationship between local governance and employment: Skills Upgrading for the Low-qualified (SULQ) and Local Integration of Immigrants in the Labour Market (LIILM). These projects have in common to survey policy areas in which local initiatives complement active labour market policy managed by central government.

SULQ explores the gap between the public employment service, which has few resources to follow up re-integration of the unemployed into the labour market, and the vocational training system, which mainly benefits those who have already some levels of skills. This leaves the low-skilled workers with few opportunities for upskilling to help them retain jobs and progress in employment, unless innovative solutions are provided locally. LIILM investigates the rather poor adaptation of the integration policies to the complex social, economic and labour market problems faced by the migrant populations, to which an integrated approach may help provide sustainable solutions. Both projects examine the local initiatives that have emerged to overcome these obstacles and fill these gaps, and explore their connections with other policies and programmes. Initiatives to upgrade the skills of the low-qualified workers and integrate immigrants are often led by area-based partnerships, labour market intermediaries, local authorities and community-based organisations.

The projects are expected to feed the work on local governance with practical examples of successful combination of resources and expertise from government, business and civil society. Belgium, Canada, Denmark, the United Kingdom and the United States participate in the SULQ project, due to be completed in 2005. The LIILM project is being implemented in Canada, Italy, Spain, Switzerland and the United Kingdom. The project will be completed in 2006.

The relationship between governance and the effectiveness of labour market policy explains why ministries of labour have adopted an active approach to the improvement of governance in recent years and sought a more integrated, partnership approach to employment problems. Various avenues have been explored to achieve this, and they will be examined in turn below. But in order to shed more light on the current governance drivers' strength, we look next at the benefits that economic development reciprocally receives from improved local governance and co-ordination with labour market policy.

## **5. Labour Market Policy and Economic Development**

Labour market policy is one of the key instruments used by government to stimulate local economic and employment development. It comprises a wide array of tools, from job subsidies to vocational training and measures to promote self-employment, all of which can con-

tribute to the development of productive capacities. It channels substantial resources to the local level, and it is implemented through country-wide networks of government offices and, in some cases, private and non-profit organisations, which can join other organisations in pursuing common objectives. Eighteen OECD countries devote at least one per cent of GDP to labour market policy (both active and passive measures); for Denmark, the proportion is five per cent. In depressed areas, workforce programmes generate a particularly useful inflow of resources, which may be used to reinforce efforts to revitalise the local economy and foster endogenous development. The employment administration also provides a range of services locally, such as labour market information, which can play an important role in the design of integrated development strategies.

All this means that labour market policy is potentially a powerful tool for economic development. However, the extent to which it actually plays a role depends on a number of institutional features which determine the flexibility of policy instruments, the

behaviour of the local employment administration and the capacity for other actors and organisations (economic development agencies, local authorities, employer associations, community-based organisations) to interact with the employment services in the design and implementation of programmes. A wide range of institutional features can affect the capacity of employment and labour authorities in this regard.<sup>1</sup>

These characteristics of the national policy and administrative framework normally apply to the entire territory of a country. Yet this does not mean that the extent to which labour market policy contributes to local development is uniform. Agents adapt their behaviour to the existing rules and, as shown by numerous examples of local initiative, take steps to overcome administrative obstacles. As a result, the nature of the interactions varies from area to area, with different outcomes in terms of local development.

Thus improving local governance should enhance the impact of both labour market policy and economic development strategies. In the next sections of the paper, we assess the main tools used by ministries of labour to improve local governance and promote local employment development: partnerships; decentralisation; and restructuring service delivery.

## 6. Improving Governance through Partnerships

Partnership was identified some 25 years ago as a promising way of helping local communities to cope with problems specific to their area. In response to mounting pressures, local officials, private companies and community-based organisations sought new ways of promoting local economic and employment development. Partnership was suggested as a way of maximising mobilisation, resources and impact, and has helped responses to crisis situations, such as plant closures and problems in deprived urban areas. Partnership has been a recurring feature of local employment and development initiatives throughout the OECD area.

The partnership approach was first tried out in distressed areas in North America in the 1980s and was then adopted as a more systematic tool to remedy policy gaps and find answers to problems of long-term unemployment, rural under-development and urban decay in Ireland and the United Kingdom in the 1990s. In the mid-1990s, the European Union saw it as a way to reduce employment and development disparities and for this purpose, to stimulate the allocation of financial resources to local projects throughout the Union. The partnership model given effect as part of this initiative (which received specific funding during a limited period — 1997-1999), the “Territorial Employment Pact,” is still in place in several countries and regions of the Union.

OECD (1993) surveyed the partnership experience as a response to increasing unemployment. The study highlighted that local initiatives aimed at developing employment were more effective when agreements, formal or informal, were made among the various layers of government, the private sector and voluntary organisations. Without a partnership arrangement, the chances of success are reduced since various groups and individuals may attempt to tackle major structural problems without having the information and support required, and there is a risk of duplication and counter-productive competition. However, the study suggested that partnerships might complicate the process, as the objectives and methods of the parties involved may not be complementary, leading to conflicts of interest. Partnerships should then be flexible, clearly identifying aims and methods and assigning responsibilities.

Between 1999 and 2003, the OECD conducted an in-depth study of area-based partnerships in 14 countries. The study revealed that the main impact of partnerships is to improve local governance. Three factors contributing to this outcome were identified. First, in all the countries surveyed, partnerships stimulate the uptake of public programmes in a way that is consistent with locally-shared priorities. Second, partnerships combine public programmes with local initiatives, and

<sup>1</sup> These institutional features include (non exhaustively): i) the degree of decentralisation; ii) the degree of administrative flexibility; iii) management by objectives vs. management by programmes; iv) the structure of funding mechanisms; v) the characteristics of the accountability relationships within the labour administration; vi) third party delivery; vii) the role of tripartite arrangements; and viii) integrated vs. segmented employment services and the linkages between employment services and training (see OECD, 1998 and 1999 for more details on the local management of employment policy).

in so doing, support the development of these initiatives. Third, there are many instances in which partnerships have influenced the targeting of public programmes better to meet local needs.

The involvement of partnerships in the delivery of services and programmes to the population appears to be comparatively weak. This comes as a surprise: most local partnerships seek to enhance their profile in this area and to deliver employment, social, training or business services, depending on their area of specialisation. Most partnerships undertake fund-raising activities towards both the public and private sectors with a view to reinforcing their capacity to develop services and projects. But the amount they obtain for such activities is in general fairly low compared to the resources of public institutions operating in the same fields (for example, the Irish partnerships' total programme budget corresponds to 3% of the outlays on active labour market policies delivered by the public employment service). From a local governance perspective this can be seen as a good thing since emphasis on service delivery by partnership-based organisations is often associated with conflictual relationships among the partners and a distribution of tasks inconsistent with the skills and competence that the various organisations can provide. Though partnerships fill policy gaps and bring benefits to the local community, some of the new services developed by partnerships may be delivered more effectively by the public services (possibly through delegation to the private and non-profit sectors). Moreover, delivery of services in

parallel with the public sector reduces the scope for the latter to learn new techniques of working and improving its methods. The impact on governance is greatest when the partnership helps the partners, including the public services, to do a better job (Giguère, 2002).

In sum, partnership is a valuable tool. It can have a significant impact on local governance, as long as it is seen by the partners as a way to improve their action, not as a substitute for action. There are, however, a number of obstacles to this. Effective partnership working is impeded by: a) a disconnection between national policy objectives and local goals. This can happen even when national ministries set the goals for partnerships and are represented in the partnerships; b) the limited administrative flexibility of many public programmes, including those which are relevant to local economic and employment development; c) weak accountability relationships, between the various partners, between the partnership and the public, and between the representatives and their constituency; and d) a tendency for partnership-based organisations to be process-driven as they seek to secure their continuity.

A series of recommendations has been made to overcome these obstacles. The recommendations aim to improve the policy management and accountability frameworks of the various partners, including central government, and to make them consistent with a partnership approach. This "strategy to improve governance through partnerships," has been endorsed by the LEED Directing Committee.

### **Box 3. A strategy to improve governance through partnerships**

1. *Make policy goals consistent at central level.* The creation of a network of partnerships should be accompanied by an exercise at central level to facilitate the necessary trade-offs between government departments (and social partners if needed) in order to achieve full consistency among national policy objectives in relation to the goals assigned to partnerships. Partnerships should not be accountable to one single central agency, but rather to all the partners needed to fulfill their mission. The partners should agree on the role to be given to partnerships in policy implementation and in improving governance.

2. *Adapt the strategic framework for the partnership to the needs of the partners.* Programming exercises should enable public service officers and local officials to achieve their own policy objectives through participation in the partnership strategy. This will encourage them to use the partnership as a tool to improve the quality of their own action locally. To foster a co-operative climate, the terms of the contribution of each partner to the imple-

mentation of the common strategy should be explicit and transparent. Services should normally be delivered by individual partners rather than by the partnership itself.

3. *Strengthen the accountability of partnerships.* Partners from all sectors (government, business, trade unions, civil society organisations) should have a clear policy on the issues addressed by the partnerships. They should, accordingly, define mandates and reporting mechanisms for their delegates. Partners should agree on appropriate representation mechanisms for each sector, and on a clear distribution of responsibility when a partnership is involved in the implementation of a public programme. They should seek to separate the functions of strategic planning, project appraisal and technical assistance. These measures will ensure efficient coordination and secure partners' commitment.

4. *Provide flexibility in the management of public programmes.* The needs of local public service offices for more flexibility in the management of programmes should be so addressed as to ensure that their participation in the definition of a local joint strategy can be consistently followed up by involvement in its implementation. Partnerships should be involved in the targeting of public programmes related to common goals, while the responsibility for delivery should remain with public services.

Source: OECD (2001), *Local Partnerships for Better Governance*.

## 7. Decentralising Labour Market Policy and the Public Employment Services

The other main tool to improve local governance is decentralisation. In the 1990s, several countries undertook to decentralise labour market policy to ensure that it would be designed and implemented closer to where strategies for economic development are defined and social demands expressed. It is largely agreed that decentralised decision-making promotes pragmatic solutions to local problems (OECD, 1996).

It is only via its impact on governance that decentralisation may or may not improve labour market outcomes. There is no clear relationship between decentralisation and the effectiveness of policies (OECD, 1999). While outcomes may be improved in the long term, decentralisation may also lead to reduction in the capacity to meet output-based targets in the short term, as broader concerns enter the decision-making process. Therefore, the success of any decentralisation reform should be assessed in terms of its capacity to yield additional flexibility in the management of programmes while preserving efficiency in service delivery and accountability in decision-making.

In principle, decentralisation provides greater

administrative flexibility. Programmes may be combined with efforts from local and regional governments, the private sector, trade unions and community groups to support development strategies balancing concerns for economic development, social inclusion and the quality of life. Through greater flexibility in policy management, decentralisation is also expected to make it easier to respond to the growing concerns with the low-skilled workers, the “working poor” and the single parents who face complex issues and barriers that centralised employment services alone are unable to tackle. But does practice follow theory? Does decentralisation always yield greater flexibility?

Decentralisation also raises hard questions about accountability and efficiency. How can decision-making power be passed on to a lower administrative tier or a sub-national entity while guaranteeing the same level of efficiency and avoiding duplications? How can more flexibility be provided while maintaining full accountability and transparency?

The various forms of decentralisation need to be explored to answer these questions. Following OECD (1998), there are two main types of decentralised structure for the design and implementation of labour market policy. The first is when, within the framework of an *integrated*, country-wide public employment service



(PES), policies are implemented and programmes are designed at regional level, following guidelines or within a policy framework established at national level. This is often the case when the PES is managed in a tripartite fashion, involving trade unions and employer organisations, under the jurisdiction of the Ministry of Labour. Austria and Denmark provide examples of this form of decentralisation.

The other form of decentralisation is when powers to design and implement policies are *devolved* to regional governments, which may then transfer the responsibility to their own regional PES. Elected assemblies at regional level ensure public accountability as does the national parliament in the case of centrally-managed labour market policies. Some federal countries provide examples of this form of decentralisation — Belgium, Canada, Mexico and Switzerland — and so do unitary states, such as Italy and Spain. Canada has pioneered devolution in an asymmetric fashion, giving more powers to some of the regions according to their administrative capacity and willingness to endorse responsibility.

### *The flexibility issue*<sup>2</sup>

*The devolved model.* At first glance, the devolved model provides greater flexibility at regional level than the integrated one. Yet, apart from Belgium, where there is a clear-cut distribution of powers between the federal state and the three regions, Bruxelles-Capitale, Flanders and Wallonia, which are responsible for active labour market policies (ALMPs), in all countries the central government remains responsible for the broad policy framework and its funding, and may also design specific programmes to be implemented by regional PES. In Canada, even in the five provinces where policy-making powers have been fully devolved to the regional government, the federal government remains responsible for the main source of funding for active labour market policy through the Employment Insurance (EI) account and continues to be responsible for youth, women, disabled and indigenous populations for which it designs and delivers specific programmes. Provincial employment services thus manage a series of programmes funded by both the federal and provin-

cial tiers of government.

In several countries programmes delivered at local level are designed by various levels of governments. This is the case of the United States, where measures and services are provided in a multi-level governance framework involving the federal, state and local levels. To reduce the complexity of this system on the user side, the federal government supports since 1998 the establishment of Workforce Investment Boards (WIBs) to co-ordinate the implementation of programmes (accompanied by “one-stop career centres” for the delivery of services). Local co-ordination bodies of this sort exist in several other OECD countries. They typically do not reduce the administrative burden on the manager side, however, as different accountability criteria apply to the various labour market programmes. Programmes funded by various layers of government are often difficult to co-ordinate, let alone to co-ordinate them with programmes in other policy areas.

There exist other constraints on flexibility in a devolved framework. One is recentralisation at regional level. There is frequently a mismatch between the *official* and *effective* degree of decentralisation, which has an adverse effect on flexibility. Cases have been reported of types of decisions made within the local office before decentralisation, which have then been centralised to regional headquarters following decentralisation (OECD, 1998). Another is unfunded mandates. There may be a mismatch between the responsibilities and resources transferred following decentralisation; the quality of professional skills may also be insufficient at local level with regard to the new responsibilities transferred.

In sum the experience of OECD countries suggests that devolution is not a guarantee of greater flexibility in the local management of policies.

*The integrated model.* In the integrated PES model of decentralisation, all chains of command go up to the same decision-making instance. The main determinant of flexibility in policy management in this case lies within the performance management system, and more particularly with the targeting mechanism. In a typical management by objectives framework, broad policy orientations and funding are provided at the national

<sup>2</sup> The analysis of the flexibility and accountability issues follows Giguère (2003).

level while local officers are free to vary the use of the different measures available provided that they meet the target sets for a series of outputs (e.g. placements into jobs, referrals to various programmes, number of people trained), broken down by categories of users (unemployed, long-term unemployed, social assistance recipients, women, young, ethnic minorities, etc.). Performance monitoring ensures that progress is made with respect to those targets.

This resulting degree of flexibility is often insufficient to meet the demands of local development stakeholders. Performance management systems are designed to maximise the output-based performance of the PES, which can conflict with local development preoccupations, such as fostering endogenous development or retaining young people in depressed areas, or promoting social cohesion. For example, output-based performance evaluation generate screening, “creaming” effects, privileging short-term unemployed over individuals with less skills and work experience (Finn and Blackmore, 2001). Matching job-seekers with job opportunities offered outside a distressed region may contribute to devalue the region further; investing in entrepreneurship and endogenous development instead may yield greater results in the long run.

The actual degree of flexibility in a decentralised framework depends largely on how the targets are fixed and by whom. Are targets set unilaterally at national level? Are they negotiated with the regional and local offices? Is there any role for other government departments, social partners and other local stakeholders in establishing the targets to be pursued by public service offices?

The methods for targeting measures vary significantly across countries. In centralised PES, such as in France, Sweden and the United Kingdom, targets are allocated to the regional level in a top-down fashion. In others, however, such as in Denmark and, to some extent, Germany, they are agreed with the regional offices (see Mosley, Schütz and Breyer, 2001). In some countries, adjustments have been made to the targeting system to ensure that policies are further suited to the local context. In Denmark, the traditional tripartite system has evolved to make room for local and regional authorities in the regional labour market councils, and all take part in a complex negotiation process to reconcile local and national objectives and to reach an agreement

regarding the annual targets for the ALMPs. The local community at large is consulted on the main local priorities as part of this process.

Therefore, decentralisation within an integrated PES has potential for increasing flexibility in policy management even if final power remains with the central level.

### *The challenge of accountability*

Guaranteeing public accountability is too a challenge for decentralisation. Decentralisation implies a sharing of responsibility for decision-making among a number of actors, yet the main funding usually comes from the same source, i.e. central government. Thus, for public accountability to be maintained in full, policy outcomes still need to be reported to the central government (and ultimately to parliament), with the same rigour as under a centralised framework. This often proves difficult in practice, however.

In the case of devolution, it is difficult to agree on an accountability framework politically acceptable to the various government levels concerned. Elected regional governments may pursue policy objectives different from those of the national government and may not consider the accountability framework as binding if not accompanied by financial penalties. A study on the impact of decentralisation in Sweden identified significant divergences between local and national objectives for labour market policy (Lundin and Skedinger, 2000). Sub-national governments can also transfer responsibilities to an agency and involve social partners and other organisations in the management of programmes, leading to a multiplication of intermediaries which may blur the lines of responsibility (OECD, 1999). All this may weaken the management of performance, and performance itself.

Greater difficulty arises when two government levels are each responsible for funding one of two complementary financial assistance regimes, such as in Canada where the federal government finances the EI account through contributions from employers and employees and the provinces provide the budget for social assistance. This system gives provinces incentives to place social assistance beneficiaries into ALMP programme slots which can serve to requalify them for EI, thereby lowering the burden on provincial budget (a so-called “fiscal displacement” effect).

Managing measures in a multi-level governance framework also increases the administrative burden associated with fulfilling accountability requirements, as illustrated above. In several countries, the PES is responsible for implementing programmes designed at various levels, including national, regional and local. In the U.S. the Workforce Investment Boards implement up to 27 labour market programmes administered at various levels. Each programme has its own accountability line, its own set of terms and conditions and its own time-frame for monitoring and reporting. Being accountable to various administrative layers on a plethora of measures may reduce the local capacity to take a strategic approach to policy implementation in a local governance perspective (Eberts and Erikcek, 2001).

### ***Reconciling flexibility and accountability***

The international experience is inconclusive on the impact of decentralisation. It suggests that additional flexibility in the management of programmes should not be taken for granted while decentralisation reforms are likely to make accountability more difficult. As no decentralisation model provides universally satisfying answers to this problem, governments are encouraged to develop their own model which can minimise the trade-off between flexibility and accountability.

Some models, half way between partnership and decentralisation, seek to do just this. They were recently examined at a conference held by the OECD (“Decentralisation of Labour Market Policy and New Forms of Governance: Tackling the Challenge of Accountability,” Warsaw, March 2003) and analysed in OECD (2003).

A common thrust of some of the methods identified is to assign more responsibility to public service officers and regional authorities for establishing and running operational co-ordination mechanisms. One way of doing this is to require the local public service offices to review, jointly with the relevant local actors, the annual targets proposed for national programmes. The example of the Irish Community Employment Framework shows that this allows programmes to be adapted to local needs while delivering them within the public service

structure, thereby fulfilling standard accountability requirements. In other experiments, governments have requested national public services to set targets for their local offices formulated in terms of local priorities, established in co-operation with the local authorities. An example is offered by the United Kingdom where local strategic partnerships chaired by the local authorities give orientations to public service agreements.

These reforms do not involve transfers of power to lower levels of government but seek to ensure that local concerns are taken into account in the implementation of government programmes. While public service and government agencies remain responsible for the delivery of programmes, this ensures that the programmes are better adapted to local needs and better co-ordinated with other measures. Thus partnerships are formed, but of a different type, as government moves away from a model led by civil society and its community-based organisations to a model in which responsibility lies mainly with civil servants and local or regional authorities.<sup>3</sup>

## **8. Restructuring Service Delivery**

Many governments have also paid attention to the *delivery* side of the policy implementation process and introduced non public sector actors in the *delivery* of services to the population. The rationale behind these reforms has mainly been the need to improve efficiency and streamline costs. These preoccupations have led to the privatisation of employment services and the outsourcing to NGOs to take in hand the delivery of social programmes.

There are many examples of such reforms. The Netherlands progressively privatised the PES in the 1990s. The PES has been split up into a public provider of basic employment services (placement and processing benefit claims) and a privatised company to compete with private service providers for contracts to promote return to work (see Struyven and Steurs, 2002). Placement and part of vocational training services are being transferred to the private sector in several countries, including Belgium and Denmark. In Australia, active labour market policies are delivered through the Job Network, a network of private/community partner-

<sup>3</sup> These new models will be analysed further as part of a new project on “integrating employment, skills and economic development” to be implemented by OECD in 2005-2007 (see more information further in this report).

ships under contract with the federal government. Organisations are contracted through a competitive tender process, and many providers are not-for-profit organisations from the community sector.

Clearly, restructuring the service delivery structure does not generate the same problems of accountability as decentralisation reforms do. Private and non-profit providers pursue well-specified targets and report on the results obtained in a format agreed by both parties, thereby preserving the accountability chain. The local governance benefits of these reforms are less clear, however. In the Australian case, it has been argued that competition and poor linkages within a federal system prevent effective co-ordination with economic development and social inclusion initiatives. Increased reliance on contestability and privatisation may reduce costs and increase efficiency in service delivery, but also create greater problems of fragmentation, with an emphasis on competition rather than co-operation (Considine, 2001). Similar observations have been made on the Dutch model, emphasising the fact that successful re-integration into the labour market necessitates co-operation between actors involved in the re-integration chain (Sol, 2003).

Nonetheless, it has recently been realised that re-thinking the service delivery structure has potential to improve the way programmes are tailored to local needs and reach target groups. In Australia, quality and community support have been added to cost-competitiveness in the criteria used to select and assess providers of employment services. Job Network is now forming partnerships with other government agencies through memoranda of understanding, which identify opportunities to co-ordinate services and invest in regional economic development. Remote indigenous communities are being asked to identify their priorities and all levels of governments are being mobilised to share responsibility with communities so that their priorities are met. Service providers have been required to form close partnerships with employers and have demonstrated strong community support at the local level.

These measures thus assign an enhanced role to non-profit enterprises and community-based organisations in the service delivery structure. Their use of their own connections with local groups and their expertise in the

local economy may modify the culture of service delivery as innovative ways to approach the public are experimented with. Positive impacts of governance may be obtained in this way.

Grouping services together and *unifying gateways* to access to public services for some target groups (entrepreneurs, job-seekers) has also made it easier to tailor the programmes to local needs. The French government has just adopted a law on social cohesion which will set up *Maisons de l'emploi* to facilitate access to and uptake of employment, social and training services by all users, with a focus on disadvantaged groups. One-stop agencies are now the norm for the delivery of services to entrepreneurs and job-seekers in OECD countries. This trend has been inspired by local initiatives in various locations and boosted by the Workforce Investment Act, which launched one-stop agencies, mentioned earlier, in the United States.

These initiatives are conducive to improvements in the governance framework although the reforms do not carry any particular strategic overtones, in terms of policy co-ordination for example. The linkage of staff of various organisations and the delivery of services jointly with other organisations provide opportunities to adjust the measures and the approaches to the public as a more interactive relationship develops with users. However, these improvements should not be used to mask failures of the broader governance framework. In some policy areas, various government departments and agencies deliver programmes and services with a degree of confusion, duplication and waste of resources. This is the case of the employment services in a number of countries, where a lack of integration still prevails, inhibiting the smooth implementation of programmes. In France, for instance, the employment area embraces government offices for employment and training (*Directions départementales du travail, de l'emploi et de la formation professionnelle*), offices of the national employment agency (*ANPE*) and unemployment insurance offices (*Assedic*). An array of organisations provides other services, such as the regional governments (*Conseil régional*) and there are also some training organisations. This situation has been deplored as highly inefficient in a recent government report (Marimbert, 2004).

## 9. Conclusions and Perspectives

The role of central government is to facilitate the emergence of effective, comprehensive and sustainable responses to problems, making the best possible use of all expertise and resources available. The need for greater flexibility in fulfilling this demand has pushed government to experiment with partnerships, decentralisation and new delivery structures in the area of employment, training and social assistance, among others. The analysis of these mechanisms and the assessment of their results are most appropriate in terms of if and how these reforms contribute to improve governance.

The OECD experience shows that partnership is a valuable tool to improve local governance but that their results depend largely on what changes governments are prepared to make to align their policy management and accountability frameworks with partnership working methods. Several governments have instead devoted efforts on decentralisation and transferred decision-making to lower administrative layers and tiers of government. Results in terms of additional flexibility are mixed, while concerns have in some cases been raised over the accountability of the overall policy implementation framework. Other governments have concentrated on alternative delivery structures, which can have only a limited capacity to act on the governance framework of policies and initiatives as such. In line with their stated objectives, the main benefits from these reforms are bound to be in terms of efficiency.

The main conclusion from the analysis of this experience is that governance reforms should be driven less by the form of the desired institutional structure and more by its functions and mechanisms. If the expected outcome of reform is a facilitated integrated approach to local problems, which should make the best possible use of the various resources and expertise available, then governments should aim at maximising flexibility in the

local management of programmes while preserving efficiency in service delivery and accountability on the use of resources invested, and shape reform accordingly.

Various ways have been identified to achieve this. National programmes should be targeted in consultation with local stakeholders. Civil servants should be given responsibility for joint co-ordination of their measures and adaptation to local strategies. Local and regional governments should ensure that integrated development strategies involving public services are formulated and implemented. These steps should be accompanied by strict measures to ensure full accountability and transparency as recommended in the “strategy to improve governance through partnerships.”

The sort of partnerships, the degree of centralisation/decentralisation and the service delivery structure that are most appropriate to suit each country’s institutional context will be easier to identify then.

Whatever arrangement is deemed best, it will have to address the lack of co-ordination between economic development activities and labour market policy, a critical governance failure which impedes local employment development. Human resource and skills development is a key area to be dealt with in partnership at local and regional level as business needs change constantly and local prosperity is built on knowledge and skills. Slow population growth and ageing workforce generate skills shortages and hinder business growth, while many low-skilled workers remain stuck at the bottom of the labour market, representing an untapped resource for the economy. Both labour market policy and economic development can cross-fertilise and nurture synergies for the benefit of the local community if they are well co-ordinated. There are mounting calls to move ahead on this agenda, and this is why the OECD will examine over the next years the ways to integrate employment, skills and economic development at local and regional levels.<sup>4</sup>

<sup>4</sup> A new cross-country comparative project on “integrating employment, skills and economic development” will be implemented by the LEED Programme over the period 2005-2007. The proposal emerged from the OECD Conference “Decentralisation and New Forms of Governance: Tackling the Challenge of Accountability” (Warsaw, March 2003), was subsequently put forward by Poland to the LEED Directing Committee (42<sup>nd</sup> session, Mexico, June 2003) and approved as part of the Programme of Work 2005-2006 and the Orientations of the 2006-2010 Mandate of the LEED Programme (44<sup>th</sup> session, Copenhagen, June 2004). A conceptual framework was adopted at the 45<sup>th</sup> session (Paris, December 2004). Austria, Belgium, Bulgaria, Canada, Greece, Italy, Poland, Portugal, Romania, Sweden and the United States intend to participate in this project, which is also supported by the European Commission.

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