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Connecting People with Jobs

The Role of Public Employment Services in Promoting an Inclusive Nordic Common Labour Market

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Foreword

Active labour market policies (ALMPs) and public employment services (PES) play an important role in helping countries address skills and labour shortages while promoting inclusive labour markets. PES are well placed to act as intermediaries between labour demand and supply and promote labour mobility by reaching out to jobseekers, people out of the labour market, workers and employers, co-operating with other actors in the PES ecosystem and providing timely, targeted and effective support to those in need.

Megatrends such as ageing, globalisation, and the green and digital transitions have brought fundamental changes to the role of ALMPs and PES in supporting the economy and promoting labour market inclusiveness. PES are called to serve a more diverse set of clients, identify and anticipate skills shortages and address the employability of jobseekers, and prevent unemployment. At the same time, tight budgets call for effective and efficient use of resources and a strong accountability framework. To address these challenges, many countries are implementing or considering reforms of their systems of ALMPs and PES.

This report explores how PES in the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) contribute to the common Nordic labour market; an agreement introduced to foster integration and co-operation among Nordic countries in terms of employment and mobility. In doing so, it takes stock of recent, ongoing and planned PES reforms and trends in PES modernisation among Nordic countries, including the increased deployment of digital and Artificial Intelligence (AI) solutions. The report also reviews co-operation practices between Nordic PES and discusses the impact of certain key policies and regulations on the work of Nordic PES. This report aims to assist governments in the Nordic countries in promoting a more inclusive Nordic common labour market through the work of their PES and their ALMP systems.

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Executive summary

This report explores how reforms of Public Employment Services (PES) and active labour market policy (ALMPs) systems in the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) contribute to the common Nordic labour market. The report examines recent, ongoing and planned PES reforms and trends in PES modernisation among Nordic countries, the increased deployment of digital and Artificial Intelligence (AI) solutions and co-operation practices between Nordic PES. The report presents a number of recommendations on how Nordic PES can further strengthen and enhance their work with the aim to promote an inclusive common Nordic labour market.

Four out of the five Nordic countries reviewed in this report are undergoing a reform in their system to provide ALMPs. Denmark is designing and Finland has just started to implement major revisions to the organisation of ALMP provision and Sweden has recently re-organised its ALMP delivery system and is currently evaluating and fine-tuning it. Each of these three reforms is changing the high-level institutional set-up of ALMP provision, including organisational set-up, legislative set-up, governance and funding models. Iceland is about to reform its ALMP and other support systems for people with disabilities, aiming to implement the reform in September 2025. The only OECD Nordic country not going through a reform process is Norway which had an overhaul of its ALMP system in 2006, merging employment services, benefits and many other related functions into a single agency.

Promoting the common Nordic labour market is not part of the ongoing and planned reforms in the ALMP systems or revisions to ALMP packages. Nevertheless, there will still be some impact on the common labour market, as the reforms are likely to have an impact on the labour market situation and attractiveness more generally in individual countries.

The ALMP reforms in the Nordic countries have been inspired by good practices in other Nordic countries and mutual learning from each other has continued throughout the reform processes. Furthermore, the reform designs have been guided by evidence. Denmark went through a thorough evidence-collection phase to guide the reform design, and Finland and Sweden piloted the new models to fine-tune the reform design.

All Nordic PES now operate hybrid or blended models of service delivery and have undertaken significant digital advancements in recent years, building on other EU and OECD countries experiences and lessons learnt. All Nordic PES also now have at least one AI solution in place, compared to one-in-two PES in OECD countries. While AI presents many opportunities for Nordic and OECD PES more widely, these technologies also bring with them a number of risks that require proactive mitigation.

Co-operation between Nordic PES takes place at the local (border regions), Nordic and international levels. In border regions, this co-operation takes place in dedicated cross-border information services located in key border regions and primarily takes the form of the co-ordinated provision of information and recruitment support to workers or employers considering working or hiring from across a Nordic border. At the Nordic level, co-operation occurs via several committees, including the Nordic Labour Market Committee and the Nordic Committee of Senior Officials of Labour, and through initiatives such as staff exchanges and study visits. Nordic PES also engage in European-level initiatives like EURES, that have spin-off effects for

Nordic co-operation. Despite these efforts, enhanced co-operation on technical topics (such as digitalisation or AI) or on joint strategies or actions to address common challenges, like labour shortages or the green transition, would be beneficial.

To greater support a more inclusive common Nordic labour market, the Nordic PES can take action to:

- Implement continuous improvement processes throughout PES activities as a default way to strengthen and modernise ALMP provision, and keep up with the changing labour market needs, technological change and changes in PES environment and ecosystem more generally.

- Apply comprehensive approaches to on-going and planned ALMP reforms to balance prerequisites for bottom-up innovation and ensuring good unfragmented services across the country. Key frameworks to implement these approaches will need to include agreed co-operation and co-ordination models, strong accountability frameworks supported by benchmarking and identification of best practices, clear strategies to ensure sufficient capacity across service providers, and efficient data exchange within the ecosystem.

- Move from politically motivated reforms to evidence-driven reforms by collecting evidence before launching reforms, piloting changes to fine-tune reform design, designing monitoring and ex-post evaluation frameworks already during the design phase of reforms, and ensuring sufficient funding for evaluation.

- Continue to offer and promote a hybrid operating model combining both digital and in person services, providing flexibility for clients and ensuring that in-person support remains available for those who need it most (including vulnerable groups and those with limited digital skills).

- Develop dedicated AI strategies (potentially as part of wider digitalisation strategies) to set out the objectives and principles for AI use within the PES, establishing accountability for AI systems and promoting transparency and explainability.

- Establish systematic and comprehensive approaches to monitor and evaluate digital solutions, including formal evidence generation on their impacts (such as counterfactual impact evaluations).

Furthermore, some actions to better support the inclusive common Nordic labour market need to be taken jointly by the Nordic countries:

- Consider formalising the co-operation between the Nordic PES in the future to strengthen exchanges on topics particularly relevant to the Nordic labour markets and good practices that are more likely transferable, while continuing exchanges on good practices of ALMP provision with countries beyond the Nordic region to enrich the evidence available for continuous improvement processes and reforms.

- Enhance Nordic co-operation on an expert level, including on topics such as digitalisation, AI and legal topics, and on common challenges (e.g. skills shortages and the twin green and digital transitions).

- Strengthen joint initiatives by PES, including in the border regions, to relieve skill shortages, such as dedicated talent attraction campaigns, co-ordination of Memorandums of Understanding with origin countries, and developing joint Skill Mobility Partnerships (SMPs) in line with long-term goals for securing skills and improving co-operation with third countries.

- Explore legislative options to facilitate third country nationals to commute across Nordic borders.

1 Assessment and recommendations

The Nordic countries are extensively reforming their active labour market policy (ALMP) systems. The success of these reforms will depend heavily on strengthening co-ordination and co-operation frameworks as the organisational landscape changes. Nordic Public Employment Services (PES) are also undergoing significant transformation through their digitalisation agendas, seeing increased reliance on digital service channels and adoption of Artificial Intelligence (AI) technologies. At the same time, Nordic PES co-operation is taking place through various channels and at a number of levels (regional, Nordic and international), but could be further enhanced and expanded. This chapter provides an assessment of Nordic PES across these dimensions and provides a set of key policy recommendations for Nordic PES to promote a more inclusive common Nordic labour market. It highlights that future changes in the Nordic ALMP systems, including PES digitalisation efforts, should continue moving away from political motivation to instead be driven by evidence and best practices in other Nordic and OECD countries.

1.1. The systems of active labour market policies are extensively reformed in the Nordic countries

1.1.1. Nordic labour markets are performing well despite a number of concurrent challenges

Within the Nordic region, unemployment remains below the OECD average in Denmark, Iceland and Norway in 2023. This follows a period of heightened unemployment during the COVID-19 pandemic period, as in OECD countries more widely. All Nordic countries have been consistently maintaining higher employment rates than the OECD average in recent years, with rates exceeding pre-2019 levels by 2022 except in Sweden. However, employment and unemployment disparities persist for foreign-born populations, especially in Sweden, where foreign-born unemployment rate is 16%, 3.4 times higher than for the native-born population. Nordic countries also have high labour force participation rates, all exceeding 80% in 2023, with Iceland leading all OECD countries at 86.7%. In addition, Nordic women show strong labour force participation, resulting in narrower gender gaps compared to the OECD average.

Against this positive labour market backdrop, Nordic labour markets are grappling with a mix of intertwined challenges, creating a complex environment for Nordic Governments and Public Employment Services (PES). Despite strong employment rates, labour shortages have intensified post-pandemic, while roughly one-fifth of the Nordic working-age population still faces significant obstacles to joining the workforce, particularly among vulnerable groups such as older adults, youth, immigrants, and people with disabilities. Although attracting skilled migrants is often considered a key avenue to alleviate these shortages, Nordic countries now face stiff competition from other European and OECD countries in this domain. In addition, these challenges are compounded by a number of structural changes that are underway in Nordic countries. These include the green and digital transitions – reshaping skill requirements and demand for labour across sectors – and demographic changes likely to lead to a declining working age-population in Nordic countries over the coming decades.

The trends and challenges in the individual Nordic labour markets have significant implications for the functioning of the common Nordic labour market. The common Nordic labour market agreement was signed in 1954 to foster integration and co-operation among Nordic countries in terms of employment and mobility. This agreement creates a common labour market across Nordic countries as it facilitates Nordic nationals to freely take up employment and establish residence in another Nordic country. In the past, the common Nordic labour market has helped correct imbalances between those Nordic countries with higher levels of unemployment and those facing labour shortages. As the Nordic labour markets face currently many similar challenges co-operation between the Nordic labour authorities can facilitate finding solutions that simultaneously support the common and the individual labour markets.

1.1.2. ALMP reforms are needed in case of major shortcomings in the system

To better address labour market challenges, many OECD countries are implementing or considering reforms to their systems of active labour market policies (ALMPs) and PES. This report defines ALMP reforms as comprehensive changes affecting several functions and processes of PES, substantially altering eligibility criteria or target groups of ALMPs, remodelling the organisational landscape or extensively reshuffling tasks and co-ordination models of providers of ALMPs and related services. The reforms in ALMP systems can be relevant if the continuous improvement processes are not sufficient to address substantial and permanent shifts in labour market needs (e.g. due to megatrends), investments in PES and its modernisation have not been kept up, or new evidence on ALMPs and related strategies calls for significant changes. ALMP reforms can significantly increase efficiency and effectiveness in supporting strong labour market performance in these cases.

The Nordic region is currently undergoing particularly extensive ALMP reforms, where four of the five Nordic countries reviewed in this report are reforming their ALMP system. The reform in Sweden has moved towards more contracted-out employment services, and Denmark is likely to follow to increase efficiency of their systems and give jobseekers the freedom to choose their preferred service provider. Finland is decentralising its ALMP implementation to the local level to bring services closer to jobseekers and employers and better utilise the municipal ecosystem to provide comprehensive support. These reforms in Denmark, Finland and Sweden are changing the high-level institutional set-up of ALMP provision, including organisational set-up, legislative set-up, governance and funding models. Iceland is planning to improve employment opportunities for people with disabilities, thoroughly revising all key pillars of supporting and incentivising people with reduced work ability to look for and find employment. While Norway is not reforming its ALMP system, the services and measures to support jobseekers, workers and employers are being extensively strengthened and improved to raise the employment rate of 20-65 year-olds to 82% by 2030, and to 83% by 2035.

1.1.3. The ALMP reforms in the Nordic countries need to prevent fragmentation of services as the number of providers increases

The Nordic authorities need to ensure holistic approaches in the next steps to fine-tune reform design, as the different elements of the ALMP systems are interconnected and only limited changes might not bring the desired results. Sweden has already understood from its first evaluations of the new contracting-out model that only swopping public providers with private does not necessarily lead to better employment services and further changes in co-operation with private providers will be necessary. Denmark must be mindful in its next steps to design the upcoming reform that the objective of the reform would not narrow down to cutting costs and administrative processes, without incentivising strengthened efforts in service content. Iceland should ensure that the different stakeholders to be involved in a model for more comprehensive support to people with disabilities will also have sufficient capacity to deliver the reformed support.

Finland's new decentralised ALMP delivery model must be supported by a strong accountability framework for local-level ALMP providers to ensure well-performing ALMPs nationwide. Strong accountability frameworks for private providers of employment services and unemployment insurance funds will be crucial in Denmark and Sweden, particularly if the former goes ahead with the dedicated expert group's proposal to contract a part of employment services out to private providers. Furthermore, regardless of the degree of changes in the organisational landscape of ALMP provision in the different Nordic countries, improving the co-ordination and co-operation models between the existing or newly established stakeholders will need to be a crucial part of all reforms. In several other OECD countries, improvements and reforms in ALMP delivery strengthen co-operation and co-ordination altogether (e.g. one-stop-shops, more integrated IT systems, joint accountability frameworks and networks to share best practices), without reshuffling roles and responsibilities in the system.

Furthermore, other national level mechanisms must support the systems where employment services are contracted out and/or decentralised, balancing prerequisites for bottom-up innovation and ensuring good unfragmented services across the country. The relevant mechanisms can resemble those used for more centralised public service delivery, even if leaving more opportunities to design ALMPs at the local level and with non-public providers. The Nordic countries should create frameworks encouraging innovation among the stakeholders implementing ALMPs and facilitate sharing these new practices with other providers. This could be done in a benchmarking framework, accompanied by mechanisms to identify and share best practices. In addition, integrated IT infrastructure will be vital to ensuring that employers access the skills they need and jobseekers access good jobs, regardless of which provider of employment services supports them or where the provider is situated in the country. While Finland and Sweden are already trying to improve data exchanges in the new operating models, establishing an efficient data exchange with private partners will likely also become crucial for Denmark's new ALMP delivery model.

1.1.4. Continuous improvement processes must be the default to strengthen and modernise ALMP provision

Continuous improvement processes must be the default mechanism for change as frequent overhauls can be more damaging than beneficial. A well designed and implemented continuous improvement process helps the PES to keep up with the changing labour market needs, technological change and changes in its environment and ecosystem more generally.

ALMPs and their delivery models change continuously in the Nordic and the OECD countries, in addition to the occasional major ALMP reforms. Labour market shocks, like the ones induced by COVID-19 or Russia's war of aggression against Ukraine, trigger quicker and more widespread revisions in ALMPs. Responses of ALMP systems to megatrends like the green transition and ageing are more sluggish but still emerging steadily. Digitalisation in PES is going hand in hand with digitalisation in society at large, making more enormous leaps when new technologies become widely available (such as advancements in AI technologies) or, exceptionally, in 2020, when the social distancing measures due to the COVID-19 only enabled remote services.

As the OECD countries share many of the same labour market trends and challenges, the changes in ALMP system are often similar. PES are taking more proactive approaches to support people at risk of job loss and inactive people, and are strengthening their engagement with employers. Co-ordination between ALMPs and passive labour market policies, as well as other services and measures, is increased to provide more comprehensive and individualised support to jobseekers, particularly considering the needs of the most vulnerable. Digital infrastructure for ALMP provision is being modernised, administrative processes are being streamlined, governance and accountability frameworks are being reinforced, and policy design and implementation are becoming more evidence-driven. Only the high-level organisational set-ups of ALMP provision – the legal set-up of PES and the role of other providers of employment services – have remained different across countries.

The changes in the Nordic ALMP systems are similar to those in other OECD countries. While the organisational set-ups do not converge, ALMPs are being improved in all Nordic countries. For example, Iceland and Sweden are revising support to the most vulnerable, making the support more comprehensive and incentivising employment. Denmark has strengthened support for people with educational gaps to relieve labour shortages, and Finland has strengthened support for employers. Norway is thoroughly revising its ALMP package (particularly job brokerage, training and wage subsidies), strengthening employer engagement and co-operation practices between PES and other service providers, and improving support for vulnerable groups (especially youths and people with health limitations). Furthermore, Norway plans to invest more in ALMPs and PES, and aims to move towards more evidence-driven ALMPs across the available services and measures.

Nevertheless, several of the Nordic ALMP systems are undergoing significant changes in the organisation of ALMP delivery, and the content of ALMPs might need more attention. Even if ALMP content does not need to be fundamentally reformed, the Nordic authorities must be mindful that minor adjustments are always relevant to keep the ALMP provision current with labour market needs and the newest evidence.

1.1.5. To better support the common Nordic labour market, the Nordic PES could consider joint actions alongside the ALMP reforms

The ongoing and planned reforms in the Nordic ALMP systems and revisions to ALMP packages do not address the common Nordic labour market. Nevertheless, these changes are likely to influence the success of addressing short-term labour market shocks and megatrends like digitalisation, greening and ageing, and through this also the functioning of the common Nordic labour market.

To best support the common Nordic labour market, all Nordic countries need to have well-functioning institutional set-ups and packages of ALMPs to address any upcoming labour market challenges. As such, supporting each other to design ALMP reforms and improvements can benefit the whole region. Co-operation of the Nordic labour authorities and exchange of good practices and knowledge can thus support ALMP improvements in individual countries and have positive spill-over effects for the common Nordic labour market.

Furthermore, the reforms and changes in ALMP systems will likely affect the attractiveness of the common Nordic labour market beyond the Nordic region. To further support the attractiveness of the common Nordic labour market and address labour and skill shortages, the Nordic countries could consider joint actions that can be undertaken alongside the ALMP reforms. For example, the Nordic authorities and their PES could co-operate on recruiting talent from third countries to take advantage of scale in their outreach efforts, co-ordinating Memorandums of Understanding with origin countries can help Nordic countries ensure that standards for fair recruitment practices are respected. Joint initiatives would also be able to take advantage of resources available at the EU level to develop joint Skill Mobility Partnerships (SMPs) with third countries in line with long-term goals for securing skills and improving co-operation. The advantage of Nordic co-operation in developing SMPs depends on the convergence of skills and training standards, since combined efforts can promote human capital development and positive labour market outcomes for both the countries of origin and the Nordic countries, as well as directly benefiting the migrants and employers participating in the SMPs.

1.1.6. Evidence needs to drive ALMP reforms and continuous improvement processes

An increase in the evidence on the effectiveness and efficiency of ALMPs and PES has made evidence-driven ALMP reforms ever more feasible and widespread across OECD countries, including the Nordic region. Denmark went through a thorough evidence-collection phase by an expert group to guide the reform design, and Finland and Sweden piloted the new models to fine-tune the reform design.

Political motivation remains the main driver for launching reforms. Political will is desirable to push for change, overcome resistance to large-scale reforms, and reach agreements between various stakeholders. However, the decision to launch a reform in the first place and the direction that the reform should take should rely on evidence. Launching any ALMP reforms in the Nordic countries in the future should be preceded by evidence collection. In addition, evidence collection for the design of the reform should be complemented by pilots for fine-tuning the new design.

Furthermore, evidence generation should continue throughout the reform implementation phase and extend to several years after the end of the reform to evaluate whether the reform had the intended outcomes and fine-tune policies as needed. Although systematically evaluating ALMPs and their adjustments is well-rooted in the Nordic ALMP systems, the Nordic labour authorities have scope to further strengthen their efforts to design monitoring and evaluation frameworks already during the design phase of the ALMP change agendas. Additionally, Finland should restore the funding of ALMP evaluation and cross-policy research to at least the levels of 2023 to evaluate the ALMP reform and the new system appropriately. Good examples for approaching evidence generation systematically when reforming ALMP systems are available to learn from in other OECD countries. For example, France conducted thorough evidence collection before designing its on-going ALMP reform, is piloting the new models to fine-tune them and set up a scientific committee consisting of well-established economists and sociologists to support evaluating the reform and its labour market effects.

Disseminating evidence and peer learning is essential in guiding ALMP change agendas. Learning from peers has been particularly strong in the Nordic countries when designing their on-going ALMP reforms. On the example of peer learning initiatives between the Baltic, German-speaking countries and Ibero-American PES, the Nordic PES could consider further formalising their co-operation in the future to strengthen exchanges on topics particularly relevant to the Nordic labour markets and good practices that

are more likely transferable. Nevertheless, tighter regional collaboration should not lead to isolation from other countries. Exchanges on good practices of ALMP provision with countries beyond the Nordic region enrich the evidence available for continuous improvement processes and reforms.

1.2. Nordic PES are undergoing significant digital transformations

1.2.1. Nordic PES have all taken advantage of digital tools and service channels with the aim of providing more efficient and effective services

PES in all five Nordic countries now offer hybrid of blended models of service delivery, offering digital and remote options for core services like job-search support and counselling. While several Nordic PES already provided digital or remote access to certain services pre-COVID, the permanent move towards hybrid engagement models was in part thanks to positive experiences in remote and digital service provision during the pandemic period. All Nordic PES also facilitate registration and monitoring of job-search activities on a digital or remote basis. This widespread availability of digital and remote access solutions for core PES services in the Nordic region offers PES clients greater flexibility to interact with the services according to their personal preferences.

In managing multi-channel services, several Nordic PES have implemented rules to guide the choice of appropriate engagement stream for clients. For example, Denmark mandates an initial in-person meeting, meanwhile in Norway digital services are primarily targeted at clients capable of self-sufficient job-search, with high digital skills and aged between 30-59 years. In Norway, this approach is underpinned by the Channel Strategy of the PES, which establishes the shift towards digital service delivery as a means to achieve greater efficiency, by focusing in person resources on clients requiring the most intensive support.

While the transition towards increased prevalence of digital solutions and services by Nordic PES presents a number of substantial benefits, it is important to ensure that nobody is left behind on this journey – in particular clients from vulnerable backgrounds and those lacking digital skills. Inclusive digitalisation is something being prioritised also at the Nordic Council of Ministers level. To address the risk of potential digital exclusion, Nordic PES are maintaining traditional in-person services, allowing clients to choose the most effective engagement channel for their needs. Additionally, PES across the region offer digital skills training, such as Sweden's "Digital Me" program, which helps clients build confidence in using digital tools. To further support those with limited digital skills or access, PES in Denmark, Iceland and Norway provide digital access points in their offices, ensuring assistance is available for navigating online resources. To further align channels of service provision with the digital capacities of clients, there is scope for Nordic PES to develop digital skills assessment tools, such as the simple diagnostic tool developed by the PES in Wallonia, Belgium which assesses the digital autonomy of a jobseeker during the initial registration meeting.

1.2.2. While Nordic PES now all have AI solutions in place, steps should be taken to bolster AI governance

All Nordic PES have implemented at least one AI solution to aid PES services and processes, compared to just over one-in-two PES in OECD countries. However, AI use by Nordic PES is limited to comparatively fewer areas of PES activity. Most commonly, PES are using AI to provide information to clients, using AI-powered chatbots or virtual assistants, and to aid various aspects of the labour market matching process. Among Nordic PES, Sweden is at the forefront of AI use, seeing the most AI solutions deployed to date, including being the sole Nordic PES currently using AI to detect illegal vacancy postings, detect fraud in the benefit administration system and generate labour market information. However, just like trends in OECD countries more widely, the prevalence of AI use within Nordic PES can be expected to increase in the coming years.

While AI offers many potential opportunities and benefits for Nordic PES, these technologies are not without risks. These include the need to define accountability for AI systems, concerns about transparency and explainability, risks related to data quality and privacy, the potential for bias and discrimination, possible resistance and skill gaps among staff and clients, as well as the need for continuous monitoring and evaluation. Successful AI adoption, involving the proactive mitigation of risks, will require Nordic PES to closely monitor and adequately govern the use of such solutions, including through the development of governance frameworks and strategies. In the Nordic region, the PES in Norway is the first to take such formal steps to navigate these issues, through the development of a dedicated AI strategy which establishes the ambitions, enablers and principles to guide AI use. There is also opportunity for Nordic PES to learn from approaches to AI governance in other OECD countries, including in France and Belgium (Flanders) for example where the PES have established Ethics Committees to ensure responsible AI use within the PES.

1.2.3. Efforts to measure the impact of digital and AI solutions are not yet systematic and should be advanced

Digital solutions, including tools and services, introduced by PES should undergo regular monitoring and evaluation to understand their effects on users and optimise their impacts. In the Nordic region, customer satisfaction surveys are the main method used by PES to gather insights on digital tool performance. For example, Iceland's PES collects feedback from both jobseekers and employers on digital services as part of its annual client survey, while Denmark's PES involves clients directly in the development phase by inviting users to review and provide input on new digital initiatives.

Despite progress in monitoring, formal evaluations of digital advancements in Nordic PES are not yet commonplace, even in those Nordic countries with a strong track record of evaluating ALMPs. Nordic PES could benefit from embedding formal assessment channels directly into the development of digital tools to gain insights into their real-world impact. In the same vein, AI technologies used by Nordic PES also require ongoing oversight to monitor effectiveness, prevent bias, and identify any decline in model performance over time. Evidence generation surrounding digital and AI solutions can take a variety of forms, including during roll out by piloting new initiatives (utilising randomised control trial methodology) or after implementation, through various approaches including counterfactual impact evaluations (to isolate the impact of a digital solution on end-users), process evaluations (to assess the integration of a digital solution in PES processes), and cost-benefit analyses (to assess the cost-effectiveness of digital interventions by weighing the costs against the benefits).

As important as evidence generation is the establishment of feedback loops that can incorporate the insights gained from monitoring and evaluation activities into decision-making regarding future iterations of digital solutions. This allows for corrective action to be taken, particularly concerning poor or underperforming tools, and can help ensure the long-term effectiveness of solutions.

1.2.4. A number of international policies and regulations are having significant impacts on Nordic PES digitalisation patterns

Within the regulatory environment Nordic PES are operating, the General Data Protection Regulation (GDPR) has significant implications for Nordic PES given the highly sensitive information they hold and process on their client base. It also impacts their digitalisation agendas, with digital tools relying on access to PES data to operate. Interpretation of GDPR varies across Nordic countries, as well as national data protection legislation, resulting in differing outcomes and constraints in the modernisation agendas of Nordic PES. For example, despite advanced digital job-matching systems in Finland and Sweden, the Norwegian PES has been facing challenges in identifying a solution that complies with the stringent national interpretation of GDPR. Furthermore, the recent EU AI Act, which categorises AI use according to four risk levels, poses additional compliance hurdles across EU countries. Nordic PES need to ensure

AI integration is responsible, emphasising transparency, fairness, and human oversight, with opportunities to embed these principles in an overall strategy or framework to govern the use of these advanced technologies – as has already been done by the Norwegian PES. Nordic PES co-operation could be expanded to facilitate the sharing of experiences and lessons in the interpretation of such regulations, including sharing the kinds of safeguards and other accommodations made to facilitate the implementation of specific digital tools and processes.

All Nordic PES have worked to implement the European Skills, Competences, Qualifications, and Occupations (ESCO) classification, primarily to enhance matching tools and associated vacancy portals that process jobseeker profiles and employer-registered vacancies, by enabling better competency-based matching and in turn increasing the quality of overall recommendations. Implementation was a major, resource-intensive, multi-year effort for several Nordic PES, with challenges encountered along the way, including in adapting translations and terminology to the nuances of national contexts. However, overall experiences post-implementation has been positive, particularly in enhancing job-matching tools like that available through the Finnish PES' digital service platform *Job Market Finland*. ESCO is also a useful resource for Nordic PES in navigating changing labour markets, including in response to the green and digital transitions, with the Swedish PES in particular spearheading efforts at the European level to explore how ESCO can be used to help understand green and digital jobs and skills. In addition, ESCO provides opportunities for Nordic PES to enhance the analysis of skills needs in the context of the common Nordic labour market, which in turn can be used to inform career guidance, job-search support and training recommendations provided to clients.

1.3. Co-operation between Nordic PES to promote the common Nordic labour market is certainly an asset, but could go further

1.3.1. Nordic PES co-operate closely in border regions, particularly in providing information and aiding intra-Nordic job matching activities

The common Nordic labour market offers opportunities for Nordic citizens to seek employment across Nordic borders, either through migration or commuting. Beyond the general job-search and support services offered by Nordic PES, specialised cross-border services have been established in key border regions to facilitate labour mobility. These include Øresunddirekt in the Öresund region (Sweden-Denmark), Grensetjensten on the Sweden-Norway border, and Gränstjänsten on the Sweden-Norway-Finland border. Each service operates through multi-institutional collaboration between the relevant PES and various government offices (including most commonly the tax and social insurance authorities) to assist both citizens interested in working in and employers seeking to hire from another Nordic country.

Within these cross-border information services, the primary work of Nordic PES is information provision and assisting job-matching. Thanks to the multi-disciplinary teams in these services, citizens can access critical information on tax, pensions, unemployment benefits, and employment laws through a single access point. Cross-border job-matching is most commonly facilitated through the EURES platform, and in some cases using national PES portals, with additional efforts such as tailored recruitment services, job fairs, and interview support to connect jobseekers with employers in the neighbouring Nordic country (or countries). In the border region between Sweden and Finland, the relevant PES also engage in outreach activities, to widen the reach of the cross-border service and associated information provision. To streamline cross-border co-ordination and address emerging issues, structures like cross-border committees and councils have been established to foster intergovernmental dialogue and solutions, enhancing the resilience and efficiency of Nordic cross-border labour mobility.

During the COVID-19 pandemic, border closures and fast changing public health restrictions in the Nordic countries had significant impacts on cross-border regions, restricting access to public services, disrupting labour mobility (particularly for cross-border commuters) and heavily impacting businesses operating across these borders. The unique positioning of the cross-border information services saw them play a critical role during the emergency period; identifying issues and providing critical information to national and Nordic authorities to inform responsive policy actions in these regions, including in the area of employment services and ALMPs.

1.3.2. Nordic PES in border regions face a number of challenges that inhibit their work in supporting the common Nordic labour market

Nordic PES face significant challenges in supporting cross-border labour mobility due to limited access to timely, harmonised data on migration and commuting trends within the Nordic region. The lack of reliable statistics means that Nordic PES rely on indirect indicators, such as website traffic, to estimate changes in demand for cross-border information and job-matching services. Data protection regulations like GDPR also complicate data collection, and where data is available, it often comes with considerable delays (at times exceeding one year). A formal solution for the official production of reliable cross-border statistics in the Nordic region will require alignment between national and European legislation, political will, financial backing and a Nordic agreement on the matter. A recent ongoing Nordregio project, Nordic Mobility II, aims to progress this objective. In addition, where possible, exchange of data between Nordic PES themselves (as permitted by relevant legislation, including in the realm of data protection) could facilitate more informed job-matching activities in border regions.

Administrative requirements related to cross-border employment further complicate labour mobility, as individuals, and in turn Nordic PES through their advice to citizens provided through cross-border information services, need to navigate complex national and EU regulations, including those on tax, social security, and e-identification. Bilateral agreements, like the newly renegotiated Öresund Tax Agreement between Sweden and Denmark, address some of these barriers by allowing flexible remote work arrangements for cross-border commuters without negative tax implications, but these agreements are limited and require extensive political negotiation.

While the common Nordic labour market agreement promotes intra-regional mobility, structural barriers persist in reality, particularly for third-country nationals who do not automatically gain cross-border work rights within the Nordic countries. This limits the potential labour pool in border areas and restricts employer access to talent, creating added complexity for Nordic PES and contributing to skills shortages amid the shift toward digital and green economies. There is scope for Nordic countries to consider the solutions in place in other cross-border regions in Europe, including for example in the Germany-Netherlands border region where a cross-border endorsement sticker has been implemented to facilitate commuting of third country nationals. In addition, job-matching efforts by PES in border regions are made more complex by labour shortages common across the region and salary disparities, such as those in the Öresund region where higher Danish wages attract Swedish jobseekers, potentially contributing to intensified shortages on one side of the border and making it difficult for PES to aid job-matching efforts in the opposite direction. There is opportunity for Nordic PES to co-operate on proactive efforts in tackling shortages and recruitment challenges, including through potential joint recruitment and talent attraction campaigns.

Finally, for many cross-border obstacles to be resolved, heighted political prioritisation of these issues will be required. While a number of structures exist to enhance co-operation on this topic – including the cross-border information services, border councils, the Freedom of Movement Council, Info Norden and dedicated Ministers for Nordic co-operation – persistent challenges to Nordic labour mobility remain. Effective progress will need strong political commitment at both national and Nordic levels and financial support for initiatives like improved mobility data collection and data sharing.

1.3.3. Nordic PES also co-operate through a number of existing channels and groups at both the Nordic and international level

At the Nordic level, co-operation between PES is facilitated through two committees under the Nordic Council of Ministers. High-level Nordic co-operation on labour issues is directed by the Nordic Council of Ministers of Labour (MR-A) and in turn supported by the Nordic Committee of Senior Officials for Labour (ÄK-A, which includes senior representatives from each Nordic country and autonomous area. This committee monitors labour market trends and associated policy measures. Another key body, the Nordic Labour Market Committee, was established to uphold the agreement on a common Nordic labour market, providing a platform for discussing labour policies, proposing joint initiatives, and fostering collaboration among national labour authorities. This committee comprises representatives from national labour ministry and, in some cases, representatives of PES and provides an important channel for information exchange between Nordic PES, including reforms to ALMP systems. Representatives from the Åland islands, Faroe Islands and Greenland also take part in these two committees. In addition to formal co-operation through Nordic-level committees, PES also co-operate through a number of other channels, including staff exchanges, mutual learning activities, and informal events. However, these co-operation practices are often ad hoc and infrequent.

At the international level, Nordic PES co-operation takes place through a number of existing frameworks. First, Nordic PES engage in international recruitment and job-matching efforts using EURES; the European initiative to enhance labour mobility and facilitate the free movement of workers across EU and European Economic Area (EEA) countries. Within the context of EURES, Nordic PES have longstanding co-operation, including through the joint organisation of job fairs and the creation of informal working groups among Nordic EURES advisors to enhance information exchange and co-ordination. However, the experience of EURES among Nordic PES is not without challenges, such as resource limitations and demanding reporting requirements, particularly for smaller PES like in Iceland. Additionally, for those Nordic PES that have developed advanced digital matching tools, including in some cases aided by AI technologies, the basic and manual approach to matching required by the EURES portal can be less efficient and effective for users (both staff and clients). Second, Nordic PES take part in the European Network of Public Employment Services (henceforth EU PES Network); which is a network of all EU PES, along with Norway, Iceland, and Liechtenstein. It serves as a key platform for knowledge sharing and mutual learning, allowing PES to discuss policy developments and reforms, and includes various working groups, such as the one focused on creating a taxonomy for green jobs and skills chaired by the Swedish PES. Additionally, Nordic members of the EU PES Network benefit from an informal sub-group that meets to co-ordinate their contributions and preparations for forthcoming meetings.

1.3.4. Overall co-operation between Nordic PES is an important avenue for information exchange, but room for improvement exists

Although no formal co-operation agreements or frameworks exist co-operation between Nordic PES is well-developed, taking place through a number of formal and informal channels at the regional, Nordic and international level. This strong co-operation among Nordic PES is aided by a number of key enablers, including shared common values on working life, similar labour market models – including in particular the strong role of social partners – and the prevalence of a number of common labour market challenges. This strong co-operation between Nordic PES is certainly an asset, allowing for peer learning and sharing of good practices including in times of reform. However, there is certainly opportunity for it to be further enhanced and its scope extended.

First, in the context of the involvement of Nordic PES in cross-border information services, the core services delivered are information provision and recruitment services to jobseekers and employers. Overall, these limited employment services are only a fraction of the work of cross-border information services, which have a much broader role in providing information on a multitude of topics relating to

working, operating a business, recruiting from or studying in another Nordic country. In addition, the employment service offering provided by Nordic PES in these cross-border services is much narrower than available through regular PES offices, most prominently due to a lack of ALMP provision and the inability to provide specialised and individualised services due to the very small scale of these services in terms of PES staff numbers.

Second, while Nordic PES co-operate and engage with each other under the auspices of various committees and networks, this co-operation and knowledge exchange is limited to certain parts of the PES (i.e. most commonly those staff that participate in Nordic and European level networks) and focusses mainly on knowledge exchange. Therefore, gaps in awareness of good practices from Nordic and other PES more widely exist, particularly among technical experts within Nordic PES. In addition, Nordic PES co-operation does not include joint actions, policies, agreements, or strategies. Therefore, there is scope to expand the scope of Nordic PES co-operation both on an expert level (on topics such as digitalisation, AI and legal matters) and through aligned approaches or responses to shared challenges such as the green and digital transitions, labour shortages, and attracting talent from outside the region.

Key policy recommendations

Ensure continuous improvements in ALMP provision

- Implement continuous improvement processes throughout PES activities as a default way to strengthen and modernise ALMP provision, keep up with the changing labour market needs, technological change and changes in PES environment and ecosystem more generally.

- Consider supporting the implementation of continuous improvement processes with adopting change management and quality management approaches.

- Consider reforms in ALMP systems when the continuous improvement processes are not sufficient to address substantial and permanent shifts in labour market needs, investments in PES and its modernisation have not been kept up, or new evidence on ALMPs and related strategies calls for significant changes.

Apply comprehensive approaches to on-going and planned ALMP reforms

- Incentivise strengthened efforts in service content in Denmark to balance any potential negative effects of cutting costs and processes.

- Ensure that the different stakeholders to be involved in the new model for more comprehensive support to people with disabilities in Iceland will also have sufficient capacity to deliver the reformed support.

- Support the new ALMP delivery models with strong accountability frameworks for local-level ALMP providers in Finland, and for private providers of employment services and unemployment insurance funds in Denmark and Sweden.

- Establish co-ordination and co-operation models for the new organisational set-ups of ALMP provision in Denmark, Finland and Sweden.

- Balance prerequisites for bottom-up innovation and ensuring good unfragmented services across the country in Denmark, Finland and Sweden. The relevant mechanisms can resemble those used for more centralised public service delivery, such as a benchmarking framework, accompanied by mechanisms to identify and share best practices.

- Continue improving data exchange as the number of providers increases in Denmark, Finland and Sweden. In particular, establish an efficient data exchange with private partners.

Continue moving from politically motivated reforms to evidence-driven reforms

- Collect evidence before launching any ALMP reforms in the Nordic countries in the future. Complement evidence collection for the design of the reform by pilots for fine-tuning the new design.

- Gather evidence throughout the reform implementation phase and extend to several years after the end of the reform to evaluate whether the reform had the intended outcomes and fine-tune policies as needed.

- Strengthen efforts to design monitoring and evaluation frameworks already during the design phase of the ALMP change agendas.

- Restore the funding of ALMP evaluation and cross-policy research to at least the levels of 2023 in Finland to evaluate the ALMP reform and the new system appropriately.

Continue the PES modernisation journey, while enhancing evidence generation and formalising AI governance

- Continue to offer and promote a hybrid operating model combining both digital and in person services, providing flexibility for clients and ensuring that in-person support remains available for those who need it most (including vulnerable groups and those with limited digital skills).

- Develop a digital skills assessment tool to inform both a jobseeker's need for digital skills training and the choice of channel of service provision.

- Ensure that end-users (both staff and clients) are included and consulted in the development of digital tools to ensure that they are user friendly and provide added value.

- Develop dedicated AI strategies (potentially as part of wider digitalisation strategies) to set out the objectives and principles for AI use within the PES, establishing accountability for AI systems and promoting transparency and explainability.

- Establish systematic and comprehensive approaches to both the monitoring and evaluation of digital solutions, including formal evidence generation on their impacts (such as counterfactual impact evaluations).

- Utilise progress made in implementing the ESCO classification to enhance analysis and the production of labour market information to inform service provision and the design of ALMPs, including regarding the green and digital transition and overall skills needs of the common Nordic labour market.

- Exchange knowledge between Nordic and EU PES on the interpretation and implementation of GDPR and the EU AI Act.

Strengthen Nordic PES co-operation, including by expanding its scope and promoting more formal joint actions

- Consider formalising the co-operation between the Nordic PES in the future to strengthen exchanges on topics particularly relevant to the Nordic labour markets and good practices that are more likely transferable.

- Explore avenues for the regular and systematic production and sharing of cross-border statistics on mobility within the Nordic region, while complying with data protection and other relevant national and international legislation.

- Strengthen the work of Nordic PES in border regions by sharing data, including for example high-level vacancy data to enhance job-matching activities.

- Enhance Nordic co-operation on an expert level, including on topics such as digitalisation, AI and legal topics, and on common challenges (e.g. skills shortages and the twin green and digital transitions).

- Consider developing dedicated training for PES staff working in cross-border areas to share expertise and good practices from across the different border regions.

- Strengthen and expand the role of PES within Nordic cross-border information services, including through joint initiatives by PES on both sides of the border(s), such as dedicated talent attraction campaigns for border regions and the development of joint training and other ALMP measures.

- Explore legislative options to facilitate third country nationals to commute across Nordic borders.

Continue co-operation with other countries

- Continue exchanges on good practices of ALMP provision with countries beyond the Nordic region to enrich the evidence available for continuous improvement processes and reforms.

- Consider joint actions vis-à-vis third countries to further support the attractiveness of the common Nordic labour market and address labour and skill shortages that can be undertaken alongside the ALMP reforms, such as co-operating on recruitment, co-ordinating Memorandums of Understanding, and developing joint Skill Mobility Partnerships (SMPs) in line with long-term goals for securing skills and improving co-operation with third countries.

2 Reforms of active labour market policies in Nordic and OECD countries

Nordic labour markets consistently perform well, yet labour shortages, the twin green and digital transitions and demographic trends represent significant challenges for the common Nordic labour market. Against this backdrop, the systems of active labour market policies (ALMPs) are being extensively reformed in Nordic countries. The reforms in Denmark, Finland and Sweden are changing the landscape of organisations that deliver employment services, and Iceland is planning to improve labour market support for people with disabilities. To provide better insights for peer learning and move towards more evidence-based policies, the ALMP reforms and improvements should be thoroughly monitored and evaluated. While the common Nordic labour market is not addressed in the ALMP reform agendas, joint actions to ensure the functioning of the common labour market can be taken alongside the major reforms.

2.1. Introduction

Nordic labour markets, despite strong performance in recent years, are facing a number of concurrent challenges and megatrends – many of which are common among OECD countries. These include, most recently, prevailing labour shortages, the twin green and digital transitions and demographic trends (including an ageing workforce), all having significant implications for the Nordic common labour market as a whole and the role of active labour market policies (ALMPs)[1] and Public Employment Services (PES)[2] in supporting the economy and promoting inclusive labour markets. Against this backdrop, PES are called to serve a more diverse set of clients, identify and anticipate skills shortages, address jobseekers' employability, prevent unemployment and promote more inclusive labour markets by supporting marginalised and vulnerable groups. At the same time, tight budgets call for effective and efficient use of resources and a robust accountability framework.

To address labour market challenges, many OECD countries are implementing or considering reforms to their systems of ALMPs and PES. The Nordic region is currently undergoing particularly extensive ALMP reforms,[3] where four of the five Nordic countries reviewed in this report are reforming their ALMP system. Denmark is designing and Finland just started implementing major revisions to the organisation of ALMP provision. Sweden has just scaled up contracting-out employment services[4] and is evaluating and fine-tuning its new model. Iceland is about to reform its ALMP and other support systems for people with disabilities, aiming to implement the reform in September 2025. The only OECD Nordic country not going through a reform process is Norway which overhauled its ALMP system in 2006 and merged employment services, benefits and other related functions into a single agency.

The ALMP reforms in the Nordics have been inspired by good practices in other Nordic countries and mutual learning from each other has continued throughout the reform processes. Furthermore, the reform designs have been guided by evidence, with a dedicated expert committee to help the authorities prepare the reform in Denmark and pilots of the new ALMP delivery models in Finland and Sweden. More evidence on the performance of institutional set-ups of ALMP provision could lead to even more informed reforms in the future. Hence, the ongoing and planned reforms should be thoroughly monitored and evaluated to provide lessons on good (and bad) practices to other countries, particularly those in the Nordic region. Tighter co-operation and sharing of best practices within the region should be maintained and further complemented by the mutual exchange of good practices with countries beyond the region.

Addressing the common Nordic labour market is not part of the ongoing and planned reforms in the ALMP systems or revisions to ALMP packages. Nevertheless, there will still be some impact on the common labour market. The Nordic countries need to be mindful of the possibilities for co-operation in achieving an inclusive labour market for the Nordic citizens and attracting talent beyond the region, even if such efforts do not need to be part of the ALMP reform agendas.

The next section of this chapter discusses the recent trends and key challenges of the Nordic labour markets. Section 2.3 provides a high-level overview of the ALMP reforms in the Nordic countries to address the labour market challenges, and Section 2.4 focuses on the changes being made in the institutional set-ups of ALMP provision in the context of ALMP reforms. Section 2.5 discusses the importance of continuous improvement processes that should be the default way of strengthening the services for jobseekers, people at risk of job loss, and employers. The last section encourages evidence-driven policy making in the reform and continuous improvement processes. The chapter discusses ALMP reforms in other OECD countries along with those in the Nordic countries for comparison and good practices.

2.2. Nordic PES are operating against the backdrop of changing labour markets

This section provides an overview of the labour market trends facing Nordic countries in recent years. This includes an examination of key labour market indicators since the COVID-19 pandemic period and gives consideration to the various ongoing challenges, including labour shortages, demographic trends and the twin green and digital transitions. These trends and challenges have significant ramifications for Nordic PES and ALMP systems, as well as for the common Nordic market (Box 2.1) more generally.

Box 2.1. The common Nordic labour market agreement was signed in 1954

The common Nordic labour market agreement, which marked 70 years in force in 2024, was introduced to foster integration and co-operation among Nordic countries in terms of employment and mobility. The core principle of the common Nordic labour market agreement is the facilitation of Nordic nationals to freely take up employment and establish residence in another Nordic country. In practice, this means that Nordic citizens should not be required to have work permits to work in another Nordic country and should face equal treatment in terms of working conditions and wages.

Regarding PES, the common Nordic labour market agreement establishes a number of provisions. Primarily these relate to the requirement of Nordic PES to provide support to both persons seeking employment in another Nordic country and employers wishing to recruit from another Nordic country.

Source: The Nordic Council and the Nordic Council of Ministers (2019[1]), *Agreement Concerning a Common Nordic Labour Market*, www.norden.org/en/treaties-and-agreements/agreement-concerning-common-nordic-labour-market.

2.2.1. Despite significant impacts of the COVID-19 pandemic, Nordic labour markets have shown robust recoveries in recent years

The COVID-19 pandemic had significant implications for economic activity, and in turn labour markets, across OECD countries. In response, Nordic countries implemented a wide range of interventions seeking to mitigate the impact of the crisis, including most commonly to protect jobs and incomes. All five Nordic countries saw greater rises in unemployment compared to most other European nations that also extensively used job retention schemes during this period, with Iceland experiencing a particularly sharp increase (OECD, 2023[2]). Unemployment levels in Denmark, Iceland, and Norway were quickly brought back down, while Finland and Sweden faced comparatively prolonged higher unemployment rates, remaining above the OECD average (Figure 2.1). Since then, unemployment rates are now below their pandemic highs in all Nordic countries, with Denmark (4.8%), Iceland (3.5%) and Norway (3.7%) seeing rates below the OECD average of 5.6% in 2023. However, in 2023 all Nordic countries except Iceland experienced a year-on-year increase in unemployment rates, despite a reduction on average across the OECD in the same period.

Figure 2.1. Variation in unemployment levels exists across Nordic countries

Annual unemployment rates (ages 15-64), 2010-23
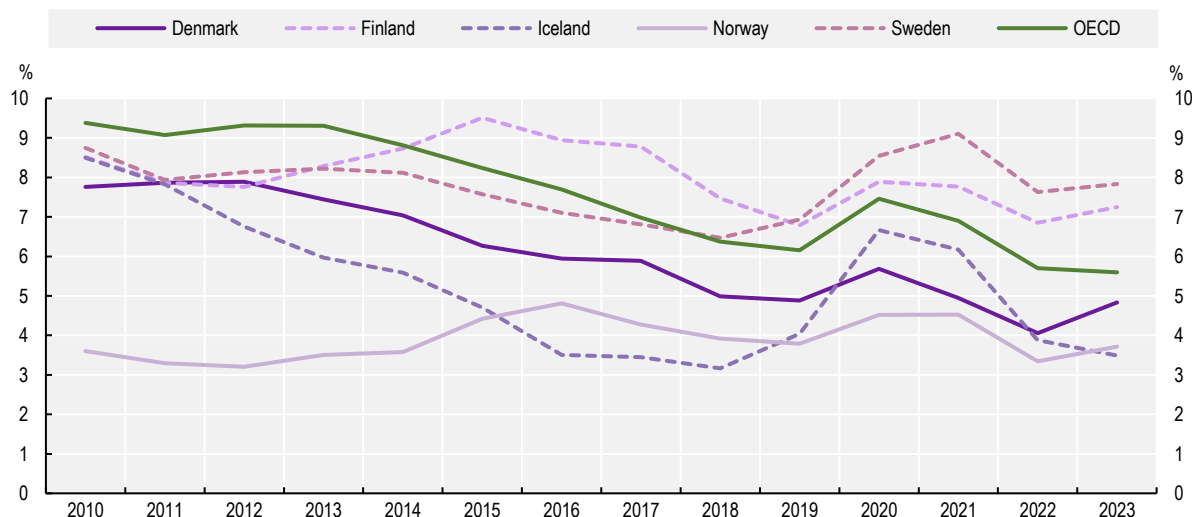
Note: OECD is an unweighted average.
Source: OECD Data Explorer • Employment and unemployment by five-year age group and sex - indicators.

StatLink 🔗 https://stat.link/u3a167

All Nordic countries consistently exceed the OECD average employment rate (Figure 2.2). As in other OECD countries, employment rates in the Nordic countries declined during the pandemic period, but by 2021 had already begun to increase again in all Nordic countries except Sweden. By 2022, annual employment rates in all Nordic countries except Sweden exceeded their pre-pandemic levels (compared to 2019). As of 2023, employment rates in the Nordics sat above the OECD average of 72%, with Iceland having the highest rate among all Nordic and OECD countries at 83.7%; 6.9 percentage points higher than the next highest rate of any Nordic country (76.8% in Denmark).

Employment rates among foreign-born populations in the Nordic countries are relatively strong but still remain below those of the native-born population, including in Sweden where the differential was largest among the Nordics at 11.3 percentage points in 2022 (OECD, 2024[3]). In addition, unemployment rates among foreign-born populations also exceed those of native-born, with Sweden in particular seeing the highest unemployment rate for this group among Nordic countries at 16% (3.4 times higher than that of the native-born).

Figure 2.2. Employment rates of all Nordic countries outperform the OECD average

Annual employment rates (ages 15-64), 2010-23
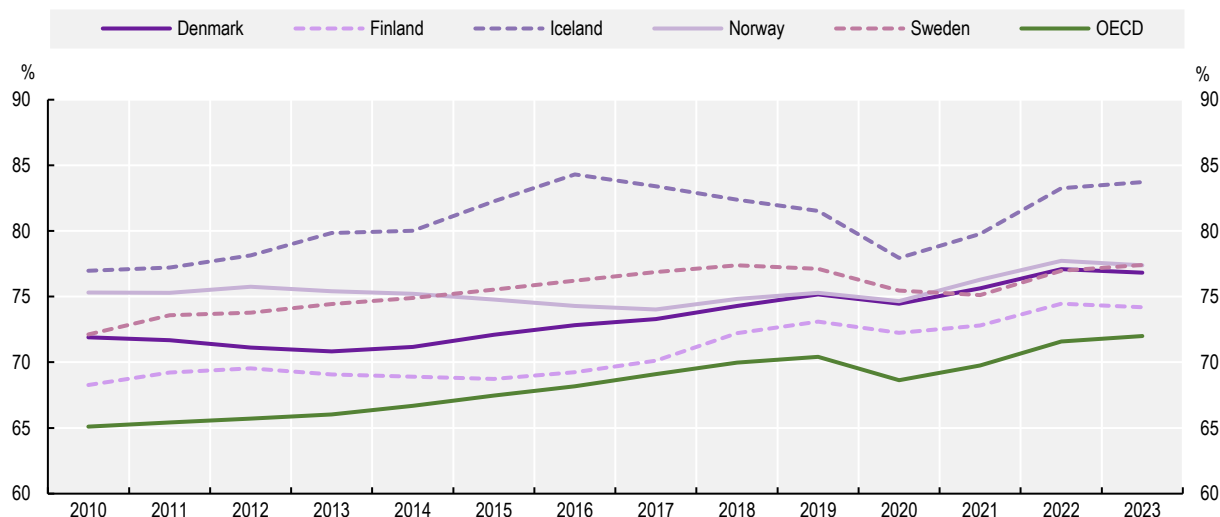
Note: OECD is an unweighted average.
Source: OECD Data Explorer • Employment and unemployment by five-year age group and sex - indicators.

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Labour force participation rates within the Nordics also rank well compared to OECD countries on average (Figure 2.3). As of 2023, participation rates in all Nordic countries were 80% or higher, compared to a weighted average among OECD countries of 76.2%. Again, this rate was highest in Iceland across all OECD countries, where labour force participation reached 86.7%. For Nordic women, labour force participation rates are comparatively high, including in Iceland and Sweden in particular which have the two highest rates of female labour force participation across OECD countries (at 83.7% and 82.2% respectively in 2023). Looking at the gender gap in labour force participation, this was just over 10 percentage points in 2023 on average in OECD countries. In the Nordic region, this gender gap in participation is significantly less: with Iceland (5.8 percentage points) and Finland (1.3 percentage points) having the highest and lowest in the Nordic region respectively. Finland has the second lowest gender gap in labour force participation across all OECD countries, just narrowly behind Estonia with a gap of 1.2 percentage points in 2023.

Figure 2.3. Nordic labour markets are characterised by high labour force participation and small gender gaps

Labour force participation rate and gender gap (ages 15-64), 2023
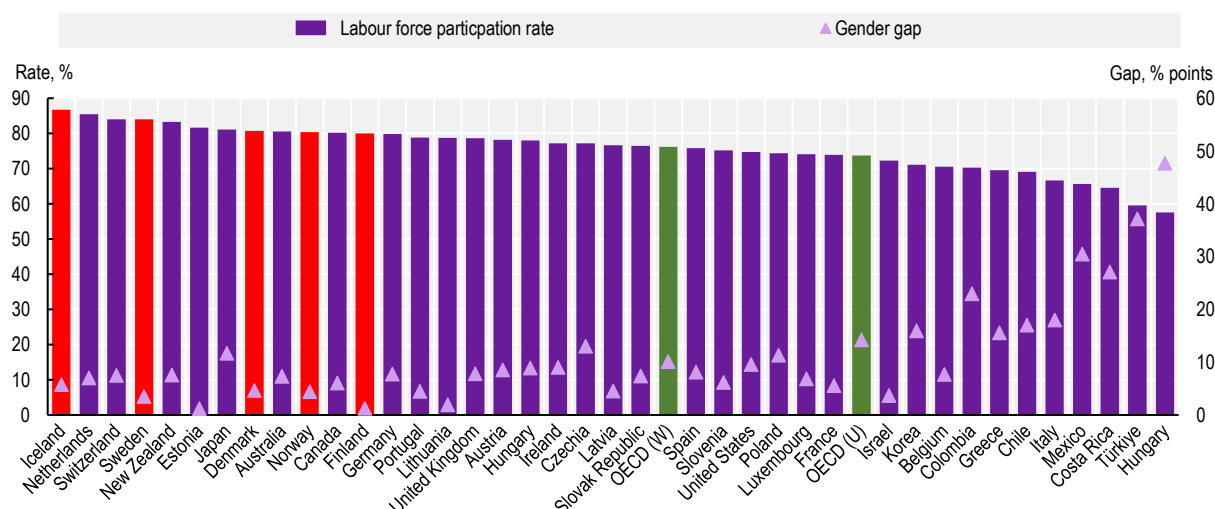
Note: W: weighted, U unweighted.
Source: OECD calculations based Source: OECD Data Explorer • Employment and unemployment by five-year age group and sex - indicators.

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2.2.2. Despite strong standings overall, Nordic labour markets are experiencing a number of challenges

Nordic labour markets are facing several challenges and megatrends, many of which are also prevailing in OECD labour markets more widely. Many of these challenges are also closely interlinked, leading to compounding effects and creating a challenging backdrop for Nordic Governments and PES to navigate.

First, despite high employment rates, labour shortages in many sectors and occupations have been a common challenge for all Nordic countries in recent years; a challenge also faced more widely in many European and OECD countries. In the past, the common Nordic labour market has acted as a vehicle to help correct imbalances between those countries with higher levels of unemployment and those facing labour shortages (The Nordic Council and the Nordic Council of Ministers, n.d.[4]). While shortages pre-dated the pandemic, they have further intensified in the post-pandemic period.

In addition, while labour demand is at historical levels and unemployment rates are low across Nordic countries, those currently outside the labour market are often those facing significant barriers to employment. A recent study indicated that approximately 21% of the working-age population in the Nordic countries have weak or no attachment to the labour market (Højbjerre et al., 2023[5]; Norlén et al., 2024[6]). This study examines a number of groups typically the traditional target groups of various labour market interventions (including older people, young people, people with disabilities and immigrants) and, using latent class analysis, finds that members of these groups are highly heterogeneous in the employment obstacles they face.[5] This indicates that designing policies, including ALMPs, that target and address only the most visible or assumed barrier faced by a given group may not be enough to improve their employment prospects.

Given these various labour market challenges, international migration remains one of the key potential avenues through which labour shortages can be addressed. However, given the prevalence of labour shortages in the labour markets of many other European and OECD countries, competition to attract

suitable foreign workers will continue to remain high. Therefore, while Nordic countries are considered above average in terms of overall attractiveness to highly skilled migrants (with Sweden and Norway in the top five), more can be done to enhance the talent attractiveness of Nordic countries, including reduced administrative burdens and enhanced pathways to permanent settlement (OECD, 2023[7]; OECD, 2024[8]).

Alongside this, large structural changes in Nordic economies are underway, including the twin green and digital transition and demographic changes. The green and digital transitions bring with them significant implications for Nordic labour markets, changing the profile of skills and occupations demanded by employers and having ramifications for the allocation of jobs across sectors, occupations and regions (OECD, 2024[9]). An ageing population, likely to be a key contributor to future labour shortages for many countries, is also an important factor for the Nordics. By 2060 the working age population (aged 15-64 years) is predicted to shrink to 58.7% of the total population on average across OECD countries, with all Nordic countries except Iceland projected to be slightly below the OECD average by this time period (OECD, 2023[10]). Combined with falling fertility rates, well below replacement levels, and natural population decline, these trends pose significant demographic challenges for the Nordics.

2.3. Extensive reforms of ALMP systems are taking place in the Nordic countries

To better tackle labour market challenges, Nordic and other OECD countries are revising and reforming their ALMP systems. This report defines reforms in ALMP systems as comprehensive changes that affect several functions and processes of PES, substantially alter eligibility criteria or target groups of ALMP provision, remodel the organisational landscape of ALMP provision or extensively reshuffle tasks and co-ordination models of ALMP providers and providers of other types of services and measures. In the case of major reforms, all these changes occur simultaneously. Such overarching changes in ALMP systems and PES can significantly increase efficiency and effectiveness in supporting strong labour market performance while requiring strong political and stakeholder engagement.

2.3.1. Four out of five Nordic countries are undergoing a reform of ALMP provision

Some of the most significant reforms of the ALMP systems across the OECD are currently taking place in the Nordic countries, where four of the five countries are undergoing reform. These reforms can potentially make the Nordic systems more resilient to labour market shocks and megatrends and help the countries better address the current challenges like labour shortages and mismatches.

As of early 2025, Denmark is designing and Finland has just started to implement major revisions in the organisation of ALMP provision (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]; OECD, 2023[12]), and Sweden has recently re-organised its ALMP delivery system and is currently evaluating and fine-tuning it (OECD, 2023[13]). These three reforms are changing the high-level institutional set-up of ALMP provision, including organisational set-up, legislative set-up, governance and funding models. More specifically:

- In January 2019, Sweden decided to contract most of its employment services for jobseekers out to private providers and non-governmental organisations (NGOs), while the PES (*Arbetsförmedlingen*) will remain responsible for labour market policy co-ordination, basic employment services for all jobseekers, and intensive support to the most vulnerable groups.[6] The new performance-based contracting model (*rusta och matcha*) was launched in 32 pilot municipalities in March 2020 and gradually rolled out nationwide. The reform aimed to increase the efficiency of employment services and give jobseekers the freedom to choose their preferred service provider. Nevertheless, the data from the first years of the new service indicate that a significant proportion of clients have difficulties in making informed choices when trying to find a suitable provider (OECD, 2023[14]). Furthermore, the evaluation of the new system indicates

decreased efficiency, at least regarding the first years of rollout (Egebark et al., 2024[15]). The external providers have not been able to generate better labour-market or educational outcomes for the jobseekers (e.g. no significant improvements in employment rates, sustainable employment and wages). Yet, their costs are higher than the same services provided by the public system by 46% to support jobseekers closer to the labour market and by 71% to support jobseekers further from the labour market. Due to the evaluation results, the Swedish Government aims to further fine-tune the system in 2025, decreasing the share of contracted-out employment services again and increasing those by *Arbetsförmedlingen*.

- Finland transferred the responsibilities for employment services from the state to municipalities and municipal co-operation areas[7] on 1 January 2025. The staff from the local PES offices was transferred to the municipalities, and the latter became responsible for organising employment services and ALMPs. The reform aims to bring services closer to jobseekers and employers and better utilise the municipal ecosystem to provide comprehensive support. The devolution of responsibilities is supported by a funding model to incentivise municipalities to provide effective employment services as the municipalities now participate in the funding of the basic amount of earnings-related and basic unemployment allowances (MEAE, 2023[16]). The Ministry of Economic Affairs and Employment (MEAE) has remained responsible for ensuring the functioning of the system of employment services, drafting the legislation regarding ALMP provision and setting national targets for the municipalities (the latter being approved by the government). The role of the national level Development and Administrative Centre (KEHA Centre) that has been previously responsible for supporting the local PES offices and regional Centres for Economic Development, Transport and the Environment (ELY Centres) in charge of steering local PES Offices, is being strengthened to better co-ordinate and support the new system. The KEHA Centre also provides the digital infrastructure for ALMP provision and produces information on the functioning, performance and impact of the municipal employment services. The regional ELY Centres remain operational to support the employment authorities by maintaining an overall picture of regional labour markets and producing labour market forecasts (MEAE, 2024[17]) and organising yearly co-operation and follow-up discussions for the employment areas. The *ex-ante* evaluations of the reform performed by the MEAE and the Ministry of Finance expect positive effects on employment (Ministry of Finance, 2022[18]) and a reduction in costs (MEAE, 2022[19]), although the actual results will heavily depend on the final design (OECD, 2023[12]).

- Denmark has transferred the responsibilities for ALMPs for insured unemployed persons from the local job centres to the unemployment insurance funds for the first three months of unemployment as of January 2024. This change aims to simplify the process for the newly unemployed, having a single point of contact for the first three months. A further and more far-reaching reform is being planned for the years ahead. To prepare for such a reform, the government set up a group of experts, including academics and researchers, among others, in May 2023. The expert group was tasked to make proposals for a new system that would abolish local job centres and a greater role would be played by the unemployment insurance funds and private providers of employment services (although municipalities would remain responsible for employment services), the jobseekers would have more freedom to choose their path to employment and be subject to less restrictive administrative processes, and above all, the new system should cost DKK 3 billion less annually than currently, while the labour market outcomes should not suffer because of the cost-cutting. The expert group published the report with reform proposals in June 2024, focusing on simplifying administrative processes, increasing the user-friendliness of the system responding to individual needs, and re-arranging tasks between stakeholders to increase efficiency and performance (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]). As of January 2025, the government has initiated a broader consultation process of the expert group's proposals for the reform design and is expected to commence negotiations with relevant stakeholders in the near future. As no political agreement has been reached yet, this report refers to the broad intention of

the Danish Government to reform and the proposals of the dedicated expert group when discussing the upcoming ALMP reform in Denmark.

Iceland is about to reform its ALMP and other support systems for people with disabilities, aiming to implement the reform in September 2025 (Social Insurance Administration, 2024[20]). The reform agenda aims to thoroughly revise all key pillars of supporting and incentivising people with reduced work ability to look for and find employment. As such, the reform agenda foresees revisions in disability assessments and the disability benefits system to tie these better with employment opportunities, new measures to prevent long-term disabilities and provide support during rehabilitation, improvements in the co-ordination of services and co-operation between service providers, and very importantly, also strengthened support by the PES (VMST).

Norway is the only OECD Nordic country currently not going through a reform. The country overhauled its ALMP system in 2006, merging employment services, benefits and many other related functions into a single agency, the Norwegian Labour and Welfare Administration, NAV (Duell, Singh and Tergeist, 2009[21]). The reform aimed to create a one-stop-shop of support to help the unemployed quickly return to employment, implying more formal collaboration between national and local administrations. The evaluations of this one of the most significant public sector reforms in modern Norwegian history have not shown that the fragmentation of service provision necessarily decreased as a result of the reform (see, e.g. Aakvik, Monstad and Holmås (2014[22])), also because such a vast reform has been challenging to evaluate comprehensively (Nielsen Breidahl, et al., 2017[23]). While Norway is not reforming its ALMP system currently, the services and measures to support jobseekers and workers are being strengthened and improved to raise the employment rate of 20-65 year-olds to 82% by 2030, and to 83% by 2035 (see more in Section 2.5).

2.3.2. Two-thirds of OECD countries have reformed their ALMP system at least once during the past 15 years

Similarly to the Nordic countries, many OECD countries have identified shortcomings in their ALMP systems in recent years and launched reforms to overcome these. Altogether, almost a quarter of OECD countries have started implementing a reform in their ALMP system in 2024 or are planning a reform in the coming years (i.e. nine countries, out of which three Nordic countries). About 61% of OECD countries have reformed their ALMP system in the past 15 years or are designing a reform (i.e. 23 countries, including four Nordic countries, see a high-level overview in Figure 2.4, details in Annex 2.A).

The ALMP systems in the Baltic region went through several major reforms a few years ago. A thorough system overhaul took place in Estonia in 2009, giving the responsibilities for ALMP provision to an independent public organisation with tripartite governance, merging the responsibilities for benefits and ALMPs, introducing a new accountability framework, and implementing new modern concepts of ALMP provision across all functions of PES (OECD, 2021[24]; HoPES, 2013[25]). Another reform in Estonia in 2016 created a modern system for work ability assessments, benefits and ALMPs, successfully increasing the share of people with disabilities in employment (Masso, 2019[26]). The changes to introduce a new approach to prevent unemployment in 2017, and consolidate all career services for adults in PES in 2019 were additional smaller-scale reforms. Lithuania modernised its ALMP system fundamentally in 2017, centralising PES and thoroughly and successfully revising its services and processes (OECD, 2022[27]). Lithuania has continued its reforms in PES support, making career services by PES accessible for all adults in 2022 and institutionalising co-ordination and joint case management between PES and social services in 2023 (OECD, 2023[28]).

Figure 2.4. Many OECD countries have thoroughly reformed the organisation and content of ALMP delivery in recent years

National reforms in ALMP systems in OECD countries by the starting date of the reform

Note: ALMP – active labour market policy. Only national reforms strongly affecting ALMP provision or PES indicated, excluding other functions that some of the PES fulfil. For example, many PES are also responsible for unemployment benefits, but reforms in benefits are not indicated in this figure. Furthermore, many OECD countries have revised activation criteria for unemployment benefit recipients over the past years, which are also not marked as ALMP reforms in the figure. Reforms in ALMP systems that only touch upon digital transformation of PES are not included either.

A noteworthy initiative to reform the ALMP system in Central and Eastern Europe beyond the Baltics is being prepared in Poland (a planned adoption date of the new regulation in Q4 2024). This reform aims to prioritise the needs of jobseekers and employers, widen the groups eligible for ALMP support (e.g. inactive, retirees, farmers, people with disabilities, etc.), redesign ALMPs to shorten job search duration and lead to sustainable quality employment, as well as reduce bureaucracy, increase automation and modernise PES offices (Kancelaria Prezesa Rady Ministrów, 2024[29]).

The most significant reform of ALMP systems in Western Europe is ongoing in France. The reform aims to implement a better co-ordination framework between the first-tier ALMP provider (the national PES) and systems to provide ALMPs for social assistance beneficiaries, jobseekers with disabilities and young jobseekers (OECD, 2024[30]; Gouvernement de la République française, 2023[31]; Ministère du Travail, 2023[32]). The new system, which will be fully implemented by 2030, aims at elaborate data exchanges between the ALMP providers, a joint monitoring and evaluation system, as well as improved services for jobseekers, people at risk of job loss, and employers. In addition, the new government in the United Kingdom published a white paper declaring a reform in the system of employment services in November 2024 (His Majesty's Government, 2024[33]). The reform aims to transform PES offices (Jobcentre Plus) into genuine providers of employment services rather than administrative centres monitoring benefit compliance. The new national jobs and career service will co-ordinate better with other types of services, provide personalised support, engage with employers, and involve place-based services. The reform will be fully implemented in England where the PES will be merged with the National Careers Service. Responsibilities for skills, career and/or employment services are devolved in other areas, limiting national level changes in service provision.

In Southern Europe, the Greek PES is going through major reorganisation and modernisation, aiming to make the organisation more agile, efficient, and performance-oriented and make its services more evidence-based and user-friendly (OECD, 2024[34]). The reform touches upon issues ranging from re-branding the PES and introducing an accountability framework to dropping or revising low-performing measures and introducing modern digital tools. The two decentralised systems of ALMP provision in Southern Europe, Italy and Spain, are also attempting to improve the performance of their systems and strengthen accountability frameworks. Spain successfully implemented a common digital infrastructure, introduced an accountability framework tied to budgeting in 2013 (OECD, 2019[35]), and established a National Employment System in 2023. This network includes the national agency and regional PES to

support identifying and sharing good practices and tightening co-operation. The ALMP system in Italy has undergone many reforms in the past decades. The most notable reform in Italy took place in 2014-16, centralising the responsibilities for ALMP provision from local to regional level, as further centralisation was not possible due to the negative results of a referendum to change the constitution (OECD, 2019[35]). The same reform also created a national co-ordination agency for ALMP provision that initiated many improvements in the system, such as agreements on minimum service standards, service outsourcing models or a common accountability framework. Despite the efforts of the national agency, not all regional PES in Italy have started to fully co-operate in a common network, and the national agency was abolished again in 2024.

Regarding the OECD countries in Asia and the Pacific, Australia moved away from the model where all employment services were contracted out to private providers in 2022. Further, extensive changes will likely be implemented in the coming years (see section 2.5). Korea has been tackling the challenge of co-ordination between different types of services and providing comprehensive support that considers jobseekers' individual needs. Since 2014, local offices of employment services have been gradually transformed into Employment Welfare Plus Centres, host employment counsellors, social workers from local governments and experts from microfinance support agencies, among others (OECD, 2024[30]). These one-stop shops enable different experts to collaborate to support jobseekers with more complex challenges. They have also been evaluated to indeed be able to better support the labour market integration of some vulnerable groups (Choi, Choe and Kang, 2021[36]).

The overall frameworks for ALMP provision have stayed broadly similar over the past years in Canada and the United States, where the responsibilities for ALMPs are decentralised. Nevertheless, changes and reforms are happening on the sub-national level. For example, the province of Ontario in Canada announced a new employment service delivery model in 2019 that integrates social assistance employment services and started piloting a prime contractor model to outsource these services in 2020 (Government of Ontario, 2019[37]; Government of Ontario, 2020[38]). The new model is being scaled up to make Ontario's employment services more efficient, streamlined, and outcomes-focused (Government of Ontario, 2024[39]).

In Latin America, significant developments are happening in the system to provide ALMPs in Costa Rica. The ALMP system in Costa Rica is relatively young, as a network of essential employment services was created only in 2009. Over 2019-21, the National Learning Institute (INA) has been given additional tasks related to vocational education and ALMPs. A National Employment Agency (ANE) has been established under INA, which co-ordinates public employment services, has established a modern digital platform for job matching, and continues to improve the content and accessibility of ALMPs (OECD, 2023[40]; EUROsociAL, 2021[41]).

As many OECD countries have gone through ALMP reforms in the past years, and several of these have been subject to some *ex-post* evaluations, these experiences and results provide the Nordic countries valuable insights for their ALMP reforms and smaller-scale changes. Furthermore, these reforms have touched upon a wide range of aspects related to PES and ALMP provision, offering insights not only for the on-going reforms in the Nordic countries, but also for any potential future changes.

2.4. ALMP reforms in the Nordic countries make changes to the institutional set-ups

2.4.1. Reforms in the organisation and content of ALMPs are often intertwined and need to be approached holistically

Reforms in ALMP systems can concern the organisation of ALMP provision, such as the organisations responsible for ALMP delivery, co-ordination between stakeholders or ALMP funding schemes. Others focus directly on the content of support to jobseekers and employers, such as improving outreach to vulnerable groups, providing comprehensive services based on individual needs, and addressing skill mismatches due to megatrends. Some reforms aim to change the organisation and content of ALMP provision simultaneously.

Reforms addressing ALMP content as the primary objective aim straightforwardly at the effectiveness and user-friendliness of ALMP provision, improving the systems beyond what the usual continuous improvement processes can achieve. Yet, some of such reforms trigger changes in the organisational set-up as well. For example, making service provision more comprehensive and involving different types of services available as a one-stop-shop requires the co-operation and co-ordination models between different organisations to change (e.g. to implement Employment Welfare Plus Centres in Korea), setting up new frameworks to exchange data and information, and sometimes a task re-allocation altogether (e.g. implementing comprehensive support to people with disabilities in Estonia). In the Nordic countries, such a reform is being planned in Iceland, where the focus of the reform is on improving support to people with disabilities, but better co-ordination between services and tighter co-operation between are some of the key pillars of the reform.

Reforms addressing primarily (or only) the organisation of ALMP provision can have somewhat weaker links to prescribing how the actual support to jobseekers and employers should look like. Furthermore, the evidence on whether some institutional set-ups of ALMPs (e.g. level of decentralisation or outsourcing employment services) perform better than others is currently ambiguous (Lauringson and Lüske, 2021[42]; Vodopivec, 2023[43]; Langenbucher and Vodopivec, 2022[44]). For example, the reform launched in Finland in 2025, shifting the responsibilities for ALMP provision to the local level, assumes that the municipalities would be able to understand the needs of local jobseekers better. However, the evidence on the performance of decentralised versus centralised set-ups of ALMP provision is still ambiguous (Lauringson and Lüske, 2021[42]; OECD, 2023[45]). Nevertheless, the reforms focusing primarily on the organisation of ALMP provision promise efficiency or financial gains. Potential cost savings have been highlighted as one of the benefits of the reform in Finland and set as crucial goals for the on-going reform in Sweden and the reform being designed in Denmark (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]; OECD, 2022[46]).

Whether a reform aims to improve the elements of ALMP organisation, content, or both simultaneously, any such reform needs to be designed and implemented using a holistic approach, as the different elements of ALMP organisation and content are intertwined. Only addressing limited or isolated aspects might not yield the desired results.

For example, the reform in Italy in 2014-16 was not able to create sufficient prerequisites to put in place a binding accountability framework and sufficient minimum service standards to enable a shift in support for jobseekers and employers across the country (OECD, 2019[35]). The current reform in Finland faces a similar challenge to the content and effectiveness of ALMP support. It will be primarily determined by the new accountability framework, co-ordination model and co-operation practices, as the responsibilities for the content of ALMPs will be fully decentralised.

Denmark has acknowledged the trade-off between expenditures and effective support to jobseekers and employers already since the launch of designing the reform. Nevertheless, the proposals of the dedicated expert group for the potential reform focus primarily on administrative processes. The policymakers in Denmark need to be mindful that cutting expenditures by simplifying processes needs to be accompanied by incentivising strengthened efforts in service content so that the system performance does not decrease.

Iceland has rightfully acknowledged the importance of changes across policy areas and service providers to achieve better support for people with disabilities. In addition, Iceland should ensure that these different stakeholders will have sufficient capacity to deliver the reformed support. For example, although the reform in Estonia in 2016 has positively affected the employment rate of people with disabilities, the full potential of the reform has not likely been realised. While the ALMPs to support people with disabilities were significantly strengthened, the capacity to provide complementary social and health services and services to prevent long-term illnesses was not sufficiently increased (OECD, 2021[24]).

2.4.2. The reform in Finland is changing the organisational landscape most radically

The institutional set-up of ALMP provision covers such elements as the organisational set-up (organisations involved in designing and implementing ALMPs, governance, co-operation and co-ordination models), regulatory set-up (acts and decrees defining the organisation and package of ALMPs) and the capacity of ALMP systems (financing frameworks). The different elements of the institutional set-up can influence the performance of the ALMP systems and how these adjust to the changing needs of the labour market (Lauringson and Lüske, 2021[42]; OECD, 2023[45]). For example, during the COVID-19 pandemic, those ALMP systems where the PES had some autonomy from the government could quickly implement new working methods and introduce new measures to address the challenges imposed by the pandemic. Less decentralised systems were able to implement more homogenous approaches across the country (OECD, 2021[47]; OECD, 2021[48]).

The ongoing reforms of the institutional set-ups of ALMP provision in Finland and Denmark, as well as the reform in Italy, are significantly changing the landscape of organisations responsible for designing and implementing ALMPs (marked in red in Figure 2.5; the reforms in countries marked in blue and green are undergoing some changes in the institutional set-up of ALMP provision without changing the overall organisational framework, i.e. they are dismantling or creating new public organisations tasked with designing or implementing ALMPs or shifting ALMP responsibilities across governance levels). The reform in Finland is changing the organisational landscape most dramatically as the system is undergoing a significant decentralisation process. The responsibilities for designing and implementing ALMPs have been move from the ministry level to municipalities (although the ministry is remaining responsible for the overall system and drafting the related legislation), and the role of the national level support centre is being strengthened to monitor and assess the performance and effectiveness of employment services. While the details of the reform in Denmark are still to be decided, the overall decision to keep the responsibilities for employment services at the municipal level has been announced early on, even if the unemployment insurance funds and private providers will play a more significant role.

Figure 2.5. On-going and upcoming reforms of organisational set-ups of ALMP provision

Reforms of ALMP systems touching upon organisational set-ups, on-going or announced as of 2024
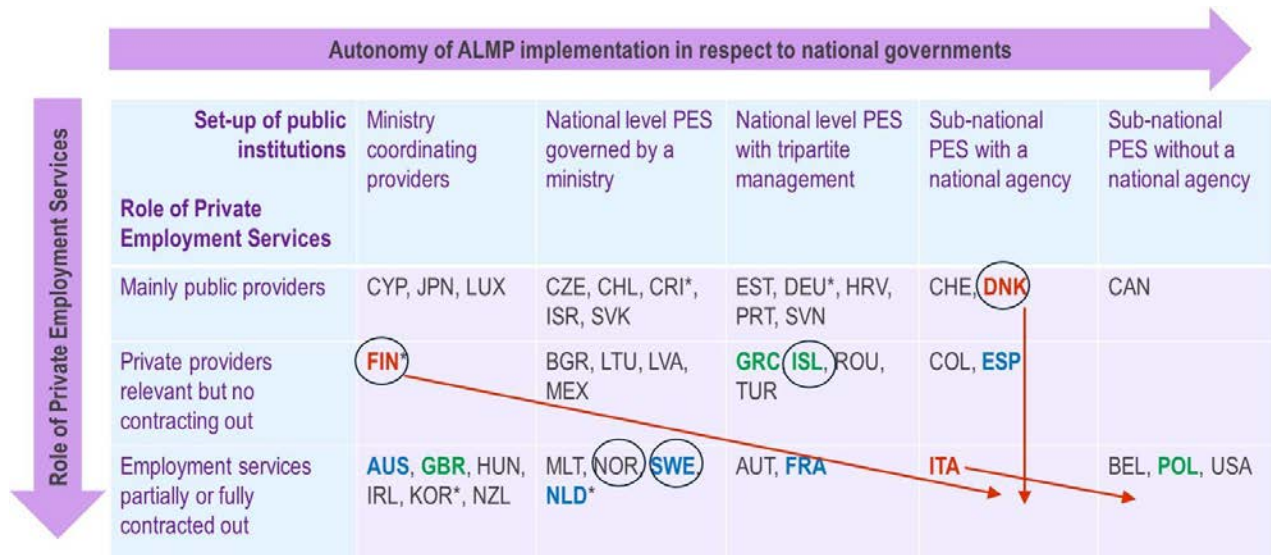
Note: * The mainstream / first-tier system is mapped, but alternative systems are present. Red labels (Denmark, Finland, Italy) – the reform changes the high-level organisational set-up; arrows to indicate the new model. Blue labels (Australia, France, the Netherlands, Spain, Sweden) – the reform addresses the institutional set-up without high-level changes in the organisational set-up. Green labels (Greece, Iceland, Poland, the United Kingdom) – the main focus of the reform is on the content of ALMP provision, but some aspects of the institutional set-up are also changed. The circled countries – the Nordic countries of the OECD.

Private Employment Services – Private companies and NGOs providing employment services (category 1.1 in the methodology of the OECD Labour Market Policy database, https://doi.org/10.1787/data-00312-en: placement and related services).

The changes indicated for the system in Denmark rely on the recommendations made by the dedicated Expert Group. However, no decisions on the reform have been taken by the government as of early 2025.

Source: Updated based on Lauringson and Luske (2021[42]) "Institutional set-up of active labour market policy provision in OECD and EU countries. Organisational set-up, regulation and capacity", https://doi.org/10.1787/9f2cbaa5-en.

From 2025 onwards, the high-level organisational framework of the ALMP system in Finland will be similar to the current system in Denmark as intended, but also to Chile, Colombia, Spain, Switzerland and the recent framework in Italy. However, many differences exist and will remain between these countries' institutional set-ups of ALMP provision in finer detail. These differences concern, for example, the exact division of tasks between the ministry, national agency and municipalities, and the role and functions of other actors, such as organisations to implement unemployment insurance, private providers of employment services, social partners, and other sub-national agencies. Nevertheless, some of these differences are likely to enhance or inhibit the performance of the ALMP system. For example, the countries with more decentralised ALMP systems can better ensure access to ALMPs across the country if they are able to implement binding accountability frameworks, agreed minimum service standards and frameworks for sharing innovative solutions and best practices (Lauringson and Lüske, 2021[42]). To fully reap the benefits of being able to better respond to the local needs and encouraging bottom-up innovation, Finland has to simultaneously ensure that national frameworks will be implemented timely to support good services to be available across the country.

Contrary to the Nordic countries, the reform in Italy is likely to have only a minor impact on its labour market. The people who were employed by the Ministry of Labor and Social Policies and the research institute for Public Policy Analysis (INAPP) in 2014 to work in the national PES National Agency for Active Labour Market Policies (ANPAL), have broadly returned to their previous employers after the closure of ANPAL and continue fulfilling similar tasks.

2.4.3. Revisions in the role of private providers of employment services aim for higher efficiency and budget savings

Many of the ongoing reforms of institutional frameworks of ALMP systems are revising the role of and co-operation with NGOs and private providers in delivering employment services. Nevertheless, the revisions are taking place in opposite directions as some countries are increasing the role of private providers of employment services while others are scaling it down. Although the considerations for customer choice and scalability of services play some role, the considerations for more effective and efficient services are the focus of these revisions. Yet, the countries are taking different paths in these reform processes as the evidence on whether public or private providers can deliver more effective and efficient employment services is ambiguous (Langenbucher and Vodopivec, 2022[44]) and, at the end of the day, the details of the contracting model are instrumental to drive its performance (Vodopivec, 2023[43]).

Cutting costs, in addition to providing jobseekers with the opportunity to choose a suitable service provider and thus increasing client satisfaction, has been the main objective of significantly scaling up the market share of private providers of employment services within the on-going reform in Sweden, (OECD, 2023[13]). By 2024, one-fourth of all jobseekers in Sweden are supported by private employment services. Yet, the expenditures on PES and administration of ALMPs have remained among the highest among Nordic and OECD countries (Figure 2.6). Furthermore, these expenditures were significantly higher in 2021 and 2022 than in previous years, both in absolute terms and in terms of GDP per capita, although the unemployment rate was decreasing (Annex 2.B). The first evaluations have confirmed that contracting out employment services has become significantly more expensive than delivering the same services in-house (Egebark et al., 2024[15]). Thus, the reform has not yet met its objectives, and further revisions to the contracting-out model will be necessary. For 2025, the government has again slightly reduced the budget for contracting out employment services and aiming to deliver more in-house services. However, this does not necessarily mean reconsidering the new PES model altogether, and the share of contracted-out services will remain high.

Cutting the expenditures of the ALMP system is also one of the main objectives of the reform being designed in Denmark, as Denmark spends more on PES and administration than most other OECD countries, and its expenditures on ALMP measures are far beyond other countries. One of the main tools to achieve the savings will be revisions in administrative processes. Instead of the local employment offices under the municipalities, the role of the unemployment insurance funds to provide employment services may be further extended, and the public market might be opened to private employment services (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]). Concluding from the Swedish experience, only opening the market for private employment services might not necessarily increase the efficiency and effectiveness of the system, and further changes in driving ALMP content might be relevant.

Also, Finland aims to strengthen the role of private providers of employment services as per the current government programme, and the respective changes are being prepared. The main effects of the reform on employment and cost savings are expected to arise from providing services closer to the people and synergies by providing employment, business and education services all at the local level, and a new incentivising funding model for the municipalities. A tighter co-operation and better data exchange with private employment services would further strengthen the new ecosystem of employment services. A somewhat similar change regarding the private providers is taking place within the PES reform in France, where the role of and co-operation with private providers of employment services will be strengthened, and contracting-out models will be improved. Still, also in France this change is not among the key pillars of the reform.

Figure 2.6. Denmark and Sweden have some of the highest expenditures on PES and ALMP administration in the OECD

Expenditures on ALMPs in 2022
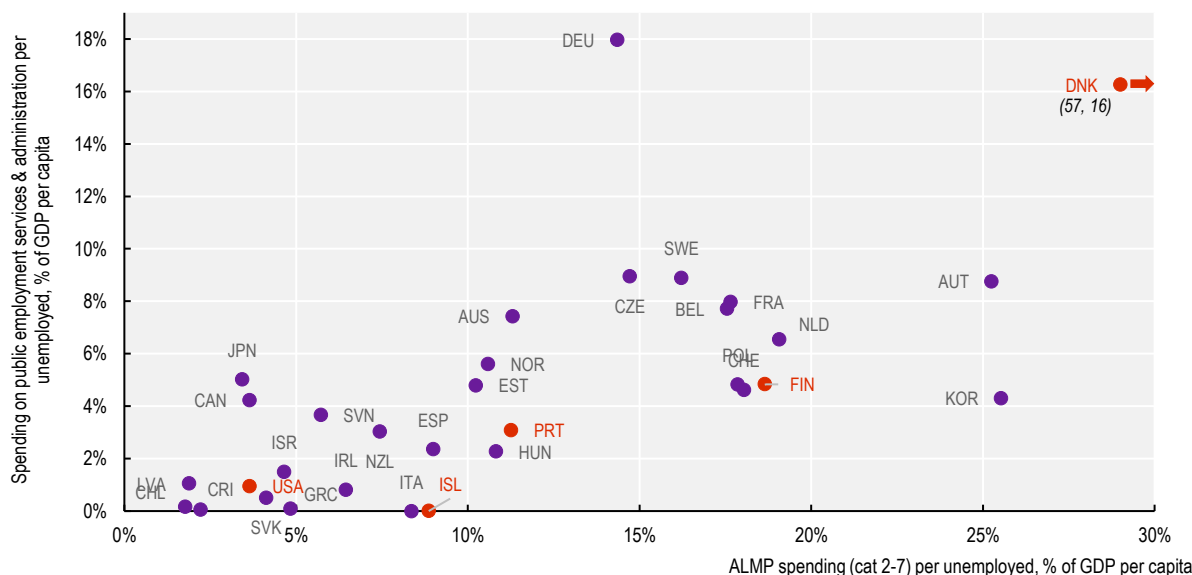
ALMP: Active Labour Market Policy.

Note: Data refer to 2020 (Italy) and 2021 (Greece, Ireland, Israel).

Y-axis: Publicly funded expenditures on public employment services and administration (ALMP services, category 1) per unemployed person as a percentage of GDP per capita. X-axis: Publicly funded expenditures on ALMP measures (categories 2 to 7: training, employment incentives, supported employment and rehabilitation, direct jobs creation, start-up incentives) per unemployed person as a percentage of GDP per capita. Employment incentives exclude category 4.2 (Employment maintenance incentives) to remove as much as possible measures that are specific to COVID-19. Expenditures on ALMPs per unemployed as a percentage of GDP per capita are calculated as expenditures on ALMP relative to GDP multiplied by population size over the number of unemployed.

Unemployed according to the International Labour Organization (ILO) definition of unemployment and based on OECD Labour Force Statistics. For detailed ALMP categories, see www.oecd.org/els/emp/Coverage-and-classification-of-OECD-data-2015.pdf.

Source: OECD calculations based on OECD Data Explorer • Labour Market Programmes and OECD Data Explorer • Employment and unemployment by five-year age group and sex - levels.

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In some respects, contrary to the Nordic countries, Australia has moved in the opposite direction and has decreased the role of private employment services. Instead of a fully contracted-out model, Australia now provides public services online to those closest to the labour market. This saves costs while ensuring the job-ready group receives sufficient and homogenous services across Australia. Further changes in the model to contract out employment services will likely aim at higher service quality and potentially more co-ordination of service provision (Australian Government, 2024[49]). These changes are similar to those in Sweden; the fully contracted-out model has evidently not encouraged innovation in service delivery, while services to the most vulnerable and co-operation with employers have suffered (Select Committee on Workforce Australia Employment Services, 2023[50]).

Although the reforms in Denmark, Finland, and Sweden aim to lower budgetary needs, these reforms are designed carefully to maintain the ALMP systems' overall capacity. These reforms aim for more efficient use of resources and eliminate unnecessary administrative processes (according to the proposals by the expert group in Denmark) or increase the flexibility of budgets at a local level, closer to the jobseekers and employers (Finland and Sweden). Furthermore, Denmark, Finland and Sweden as well as Australia and France, that also revise their co-operation models with private providers of employment services are

increasingly conscious that opting for in-house or contracted-out provision does not determine the effectiveness and efficiency of service provision per se and good performance can only be reached with appropriate accountability frameworks and performance management systems. As such, all of the countries mentioned above are rightly investing a lot in developing accountability frameworks for the providers to ensure effective support to jobseekers and employers.

In addition to the accountability frameworks, other mechanisms must support the systems where employment services are contracted out and/or decentralised, balancing prerequisites for bottom-up innovation and ensuring that all jobseekers and employers access good services. Learning from the experience of Australia, the Nordic countries increasing the role of private providers of employment services need to avoid causing a fragmentation of the service provision. The relevant mechanisms to do so can resemble those used for more centralised in-house service delivery, even if leaving more opportunities to design ALMPs to the stakeholders delivering ALMPs. The Nordic countries should create frameworks encouraging innovation among private employment services and facilitate sharing these new practices with other providers, e.g. benchmarking frameworks accompanied by identifying and sharing best practices. Furthermore, national (digital) systems will be key to ensuring that employers access the skills they need and jobseekers access good jobs, regardless of which provider of employment services supports them or where the provider is situated in the country. While Finland and Sweden are already trying to improve the bi-directional data exchange between the public system and private partners, establishing an efficient data exchange will likely also become crucial for the new ALMP delivery model in Denmark.

2.4.4. Several other OECD countries are revising the co-ordination models rather than shifting responsibilities around

Several Nordic countries are shifting the responsibilities for ALMP implementation across government levels and stakeholders. To support the new organisational set-ups, the duties for co-ordination are being shifted, redesigned and strengthened.

Instead of dismantling the organisations involved in ALMP delivery and reconsidering their roles, several other OECD countries aim to make their ALMP systems more efficient and effective by strengthening the co-ordination between the existing stakeholders. Indeed, regardless of the specific set-up of a PES, co-operation, co-ordination, and involvement of all relevant stakeholders have been identified as critical enablers for successfully adjusting the ALMP provision (OECD, 2021[47]; OECD, 2021[48]). As such, successful implementation of the on-going reforms has the potential to make many of the ALMP systems better prepared for future labour market shocks.

Particularly, the reforms in France, the Netherlands and Spain are centred around the co-ordination and co-operation between the stakeholders, including strengthening data exchange between them:

- The reform in France is the most extensive, aiming to implement a shared IT infrastructure to exchange data, a joint accountability framework and tight interaction between the national and sub-national providers of ALMPs. The reform also foresees many common approaches to improve the content of ALMP provision, such as preventing unemployment, providing comprehensive support to jobseekers and engaging with employers (OECD, 2024[30]; Gouvernement de la République française, 2023[31]; Ministère du Travail, 2023[32]).
- The changes in the Netherlands aim to put in place one-stop shops across the country for jobseekers regardless of whether they are receiving benefits from the PES or municipalities, or do not receive benefits at all (Rijksoverheid, 2024[51]; UWV, 2024[52]). The new Regional Work Centres operated jointly by the PES and the municipalities will tackle the current complicated system where the point of contact is tied to benefit entitlements. In addition, other partners, such as educational institutions and private partners are part of the Regional Work Centres as relevant in each of the 35 labour market regions.

- Spain established a Network of Public Employment Services in 2023 that includes the national agency (SEPE) and regional PES. The new institutional set-up is expected to enable even greater co-operation and co-ordination, such as identifying best practices of ALMP provision across Spain and sharing these within the new network.

Contrary to the countries listed above, Italy still needs to consider how to encourage co-operation in its yet again revised organisational set-up. Without a binding accountability framework, its previous model could not create sufficient co-operation between the decentralised service providers, regardless of having a dedicated agency with a primary task to co-ordinate ALMPs and encourage co-operation. Regardless of the degree of changes in the organisational landscape of ALMP provision in the different Nordic countries, improving the co-ordination and co-operation models between the existing or newly established stakeholders will need to be a crucial part of the reforms.

Some of the on-going reforms also shift and adjust the tasks for ALMP design. Although high-level policy design remains, as a rule, the responsibility of the ministry in charge of labour policy, changes concern the devolution of more detailed ALMP design and the range of stakeholders involved in or co-ordinated within the policy design process.

In the context of involving all relevant stakeholders in policy design, the involvement of the social partners was identified as one of the key enablers by the labour authorities of the OECD countries to design effective and agile responses to the labour market needs during the COVID-19 pandemic (OECD, 2021[47]; OECD, 2021[48]). Almost all OECD and European Union (EU) countries involve the social partners in their ALMP systems, whether assigning them an official supervisory (e.g. tripartite PES management) or advisory role or involving the social partners informally in the discussions. Furthermore, the involvement of the social partners in designing labour policies has been traditionally particularly strong in the Nordic countries (OECD, 2023[2]).

Nevertheless, the current reforms of the institutional set-ups are not further increasing the role of the social partners in the Nordic or other OECD countries. Within the Greek PES (DYPA) reform, its supervisory body (Board of Directors) remains tripartite. Still, the number of representatives was scaled down to make decision-making processes more efficient and agile (OECD, 2024[34]). Although this change was met with scepticism and even protests by the social partners, DYPA has progressed in its modernisation pathway. The ALMP system in Denmark might scale down the numerous advisory and supervisory bodies in the system as per the recommendations by the dedicated expert group (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]), including the tripartite body supervising the national PES agency (Board of Supervisors) and the regional advisory bodies (Regional Labour Councils). Even if these changes will take place, the role of the social partners will remain strong in the Danish system as they will still have a formal advisory role to the Minister of Employment and various informal engagements on the national, regional, and local levels.

2.5. Continuous improvement processes need to be the default mechanism for change

In addition to major reforms in ALMP systems making extensive revisions in the set-up and content of ALMPs requiring the involvement of a wide range of stakeholders and political will, many smaller adjustments are made in ALMP provision continuously. Such continuous improvement processes can ensure that ALMP provision meets the labour market needs constantly. Contrary to the other Nordic countries that are currently going through major reforms, Norway is aiming to adjust its ALMP provision to match the labour market needs using the continuous improvement process, proposing a range of adjustments to its ALMP services and measures and adjusting PES approaches in the government's white paper (Regjeringen, 2024[53]).

A continuous improvement process helps the PES to keep up with the changing labour market needs, technological change and changes in its environment and ecosystem more generally. This process also helps to swiftly incorporate best practices from peer organisations and adjust PES service provision to the newest evidence available. Continuous improvement processes still need sufficient PES capacity and stakeholder engagement to design and implement change, but generally do not require major political push and can thus be managed in a more agile way.

A continuously updated change agenda can maximise PES performance without major disruptions, particularly if a continuous improvement process is becoming well-rooted in the PES organisational culture. Such continuous improvement processes can be successfully implemented by adopting appropriate change management and quality management approaches, e.g. following a Plan-Do-Check-Act framework for all PES processes. In this case, all PES activities are thoughtfully planned before implementation, and monitoring and evaluation activities take place to adjust implementation if necessary (acted upon).

2.5.1. Reforms in ALMP delivery are needed when continuous improvements do not suffice

Sometimes, more than continuous improvement processes are needed to modernise ALMP delivery, and significant revisions in ALMP systems are necessary to close the gap between current and potential performance. Although the drivers and objectives of continuous improvement processes and major reforms in ALMP systems can be similar, it is particularly relevant to consider launching a reform of the system in certain situations.

Some ALMP reforms are triggered by megatrends, new knowledge, and ideologies that create a need for more permanent and significant shifts in frameworks and concepts of service provision across policy areas. For example, labour shortages in many OECD countries have pushed governments to boost their efforts to support people in inactivity to enter the labour force. One of the critical labour reserves in some countries has been people with disabilities who have not been sufficiently accessing support to integrate into the labour market and society. More and more OECD countries are changing the systems traditionally focussing on benefits and limited essential services to empowering people with disabilities, providing them with comprehensive support structures, and re-arranging the organisational set-ups of service provision, incentive systems and ALMP packages. Among the Nordic countries, such a reform is being launched in Iceland in 2025. Another OECD country, Estonia, implemented such a reform successfully in 2016-21.

Reforms in ALMP systems are also required when continuous improvement processes have not been sufficiently implemented in PES processes and organisation. Low funding and insufficient political priorities can make the capacity of PES inadequate and its operating model outdated. A strong political will and stakeholder agreements are needed to overhaul such systems. While the Nordic countries have been generally fortunate not to suffer from inadequate PES funding in the past years, a few other OECD countries have acknowledged that significant investments are now in order. Such a thorough reform is currently being implemented in Greece, where the PES has fundamentally changed its governance, business and operating model, its resources for core services have been increased, and it is moving towards evidence-based services supported by efficient administrative processes (OECD, 2024[34]). The operating model and administrative processes are also being revised in Bulgaria's PES (OECD, 2023[54]), an OECD accession country. Still, without substantial additional funding and political prioritisation, the modernisation process will likely only occur gradually there. The Latvian PES faces similar challenges and aims at gradual improvement rather than a reform using funding from the EU facilities (OECD, 2024[55]).

Revisions in ALMP systems can also be relevant when evidence shows that a previous reform or the chosen path has not been successful. For example, the system of ALMP provision in Australia opted for a fully contracted-out model of employment services in 1998 (Vodopivec, 2023[43]). In 2022, Australia launched online public employment services for those closest to the labour market (OECD, 2023[56]). In

2024, the Australian Government acknowledged that an even larger reform of the ALMP system is needed to establish a responsive system of employment services that actively supports meaningful participation in ALMPs, leads to secure and sustainable employment of people, and meets the workforce needs of employers and industry (Australian Government, 2024[49]). The need for reform is underpinned by inquiries into the system indicating severe shortcomings (Select Committee on Workforce Australia Employment Services, 2023[50]). Among the Nordic countries, data indicating low client satisfaction with PES services have been some of the arguments for a recent reform of the ALMP system in Sweden (OECD, 2022[57]) and an upcoming reform in Denmark (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]).

Although major reforms in ALMP systems are sometimes necessary to successfully and sufficiently improve system performance, frequent overhauls can be more damaging than beneficial. Dismantling existing organisations, frameworks, and approaches is likely to disrupt for several years ahead, considerable investments might be required for the initial years of the reform, and the true benefits might emerge only over the longer term. Policymakers must be mindful of the trade-offs between these disruptions and the expected benefits when launching a reform, keeping the effects on jobseekers, people at risk of job loss and employers at the heart of the reform.

2.5.2. ALMPs and their delivery models change continuously in the Nordic and the OECD countries

Besides the occasional major reforms, ALMP services, measures, and the organisation of ALMP delivery are going through a continuous improvement process in all OECD countries. Although the pace of this process differs across countries, ALMPs are constantly adjusted to better align with the labour market needs and policy priorities, and new ALMPs are designed to tackle newly identified challenges.

Labour market shocks trigger quicker and more widespread revisions in ALMPs. For example, the content and delivery channels of ALMPs were quickly revised across all Nordic and OECD countries during the outbreak of COVID-19 in 2020, and regulatory processes were sped up to implement innovative solutions for jobseekers and people working reduced hours (OECD, 2021[47]; OECD, 2020[58]; OECD, 2021[48]; OECD, 2023[2]). Dedicated solutions to identify suitable job opportunities, provide labour market information and learn essential level of local languages were swiftly emerging in 2022 to help the refugees from Ukraine and integrate them into the labour markets of the destination countries (European Commission, 2023[59]). And even further improvements in supporting refugees have been triggered by these changes. For example, the PES of Iceland has made additional support measures available for refugees in 2024. Denmark set an objective to increase the economic autonomy of refugees and other migrants in 2023 (Jakubowska et al., 2024[60]).

Responses of ALMP systems to megatrends are more sluggish but still emerging steadily. As of 2024:

- Half of OECD countries are providing ALMPs that are designed to explicitly support the green transition – supporting the green transition is (one of) the objectives of these ALMPs and prominent in their features of design and implementation, such as the labour market groups and industries these ALMPs support. The Swedish PES has developed one of the most extensive approaches among Nordic and OECD countries to support the green transition (Box 2.2).
- Reaching out to people at risk of job loss and vulnerable workers has significantly increased over the past decade, including better support for displaced workers due to digital and technological transformation and the green transition. In 2024, 81% of PES in the EEA/EU countries engage with employees at risk of job loss and their employers (Jakubowska et al., 2024[60]), above all to provide career counselling, job mediation, upskilling and reskilling. Although such unemployment prevention measures mostly focus on large-scale redundancies, more and more comprehensive approaches to unemployment prevention have emerged over the past few years across OECD countries, including e.g. Norway.

- Supporting active ageing has been less prominent in PES agendas. Targeted ALMPs for older workers in pre-retirement age exist in most OECD countries, particularly as employment incentives for employers (Jakubowska et al., 2024[60]) and to some extent other interventions like training or job fairs (OECD, 2023[61]). However, comprehensive ALMPs for people of retirement age to support job retention or re-integration into the labour market are still uncommon (for example, available in Estonia and likely from 2025 onwards in Poland (Kancelaria Prezesa Rady Ministrów, 2024[29])). Also, ALMPs for older workers are often less prioritised than for some other groups, such as youth (e.g. comprehensive approaches in the EU countries under Youth Guarantee).

PES operating models and processes to deliver ALMPs go through continuous improvements to respond better to clients' needs and increase efficiency as well. Administrative tasks are being streamlined to increase PES capacity and reallocate more resources to support jobseekers, people at risk of job loss and employers. Digitalisation in PES is going hand in hand with digitalisation in society at large, making bigger leaps when new technologies become widely available (such as tools using large language models in 2023) or, exceptionally in 2020 when the COVID-19 pandemic made face-to-face service provision impossible (OECD, 2021[47]; OECD, 2020[58]; OECD, 2021[48]), see also Chapter 3.

Box 2.2. The Swedish PES provides extensive support for the green transition

Half of OECD countries have adapted existing ALMPs or introduced new green initiatives to assist jobseekers, workers, and employers through the green transition. Most ALMPs related to the green transition focus on training, employment incentives for employers and jobseekers, and job counselling and mediation services. Many programmes aim to support the green transition comprehensively and combine different ALMPs to achieve that. For example, several programmes provide job counselling and employment incentives alongside training opportunities to ensure that the training is relevant to the needs of jobseekers and incentivise a transition to green jobs. These new or adapted ALMPs are emerging in addition to the "traditional" ALMPs that encourage mobility across economic sectors, occupations and geographic areas and support responding to different changes and trends in the labour market, including those incurred by the green transition.

The Swedish PES, *Arbetsförmedlingen*, has invested considerable efforts in supporting the green transition over the past years, setting an excellent example for the other Nordic and OECD countries. *Arbetsförmedlingen* drives the development of taxonomies relevant to effectively support the green transition in the EU (see Chapter 3), addresses supporting the green transition in its strategic documents, has dedicated ALMPs for jobseekers and employers and invests in the skills of its staff and IT infrastructure to implement the strategic objectives and ALMPs related to greening.

Furthermore, *Arbetsförmedlingen* has established a dedicated green transition office in *Skellefteå*, tasked explicitly with recruiting workers to emerging green industries in this northern region. Actions have included trialling employment incentives and vocational training schemes, raising awareness of job opportunities in the north through advertising on their webpage, organising job fairs with employers, and providing information to all PES employees through their internal website and site visits. The office in *Skellefteå* collaborates closely with a wide range of stakeholders, such as other governmental agencies, municipalities, regional agencies and employers, to better facilitate recruiting workers to green industries. Furthermore, the *Skellefteå* office is constantly developing new ways to improve its support as the labour needs in this region's emerging green industries are still beyond the supply. A crucial lesson from *Skellefteå's* experience underlines that ALMPs alone are insufficient to attract people to move to their region for greener jobs, and other public services need to be sufficiently available (e.g. childcare, public transport and health services).

Source: Lauringson, Pantelaiou and Westlake (forthcoming[62]), "*The pivotal role of active labour market policies and public employment services in the green transition*".

All in all, the changes in ALMP system are often broadly going in a similar direction as the OECD countries are affected by many of the same labour market trends and challenges. Furthermore, the trends in the OECD countries are similar regardless of whether these take place as reforms or more gradually, as the high-level objectives of all changes are above all improving the performance of ALMP systems and modernising PES.

In particular, PES are taking more proactive approaches to reach out to and support people at risk of job loss and inactive people, and are strengthening their engagement with employers. Co-ordination between ALMPs and passive labour market policies, as well as other services and measures, is increased to provide more comprehensive and individualised support to jobseekers. Co-operation between support providers is being strengthened particularly considering the needs of the most vulnerable. Digital infrastructure for ALMP provision is being modernised and administrative processes are being streamlined for more efficient, effective and user-friendly services. Governance and accountability frameworks are being reinforced for public and private providers of employment services, and policy design and implementation are becoming more evidence-driven. Only the organisational set-ups of ALMP provision have remained different across countries and are not converging.

2.5.3. Continuous improvement processes in the Nordic countries should pay particular attention to the content of support

The changes in the Nordic ALMP systems are generally aligned with those in other OECD countries. The reforms in the ALMP systems are for example strengthening co-ordination, governance and accountability frameworks. In addition, the Nordic countries are adjusting their ALMP packages to provide more comprehensive and individualised support to vulnerable jobseekers and engage with employers:

- Iceland is improving ALMP support to the most vulnerable groups. In 2023, Iceland implemented an evidence-based approach called Individual Placement Service (IPS) to support better the labour market integration of young people with special needs.[8] This is a comprehensive service that is increasingly popular internationally due to its effectiveness in helping people with severe mental disabilities (OECD, 2021[63]). In the same year, Iceland also implemented a two-tier counselling model to focus on job search support for jobseekers close to the labour market and enable more intensive counselling and case management for those at risk of long-term unemployment.

- Also, Sweden is adjusting ALMPs to those furthest from the labour market. Over 2022-24, employment incentives were adjusted for newly arrived immigrants and people who have been unemployed for over two years. In the case of such "entry jobs", a wage subsidy is paid directly to the individual instead of reimbursing part of the salary to the employer. In such a framework, the subsidy is expected to incentivise both the jobseeker and the employer.

- Denmark aims to relieve skill mismatches and shortages, particularly regarding vocational skills. A scheme that enables better access to vocational education for those over 30 and educational gaps was rolled out in 2024. The scheme was previously trialled and evaluated positively.

- Finland has strengthened its support delivered to employers by the PES in 2022-23 (although not part of the ALMP package, as the services are not targeted at hiring jobseekers, inactive or people at risk of job loss). The new services have helped sole entrepreneurs to hire appropriate staff and develop their skills.

- In Norway, the government published a white paper on ALMP provision in September 2024, aiming to increase employment rate by adjusting a wide range of ALMP services and measures, as well as PES approaches, in addition to making other changes in economic, employment and welfare policies (Regjeringen, 2024[53]). The white paper proposes to increase investments into ALMPs and PES, adjust training to meet better the skill needs, provide more individualised support to address the different employment barriers with appropriate pathways of ALMPs, better support jobseekers and workers with health limitations, strengthen employment support to youths, and provide follow-

up support for sustainable employment. The paper also highlights the importance of PES engaging with employers, and co-operating with municipalities, heath care providers and educational institutions to provide more comprehensive support. Furthermore, the government aims to strengthen the role of evidence in ALMP implementation. Three newly proposed ALMPs are planned to be implemented first as trials to collect sufficient evidence (a comprehensive work-oriented support package for youths, a four-year wage subsidy for vulnerable youths, and a wage subsidy programme to be implemented by municipalities).

In addition, Denmark, Finland and Sweden are adjusting the activation criteria for jobseekers and unemployment benefit recipients and their mutual responsibilities with the PES. Finland strengthened the activation criteria in 2022, learning from the framework used in Denmark. At the same time, Denmark has revised the activation criteria for unemployment benefit recipients to enforce work obligations for the particularly long-term unemployed (in the form of community service, internships, and small jobs) and rights for a reassessment of support needs. Sweden plans to redesign its unemployment insurance altogether in 2025 to make it more fit for purpose, incentivise employment and simplify administrative processes.

Taking the main on-going and planned changes via reforms and continuous improvement processes together, the focus of the changes is currently slightly more on ALMP organisation than ALMP content in several of the Nordic countries (Table 2.1). Many changes in the Nordic systems concern the organisational landscape, accountability frameworks and financing models, and digital transformation of PES (Chapter 3). At least the main changes are somewhat limited regarding the actual content of support provided to jobseekers, people at risk of job loss or employers – for example, on reaching out to those who need support, providing comprehensive individualised support or making sure that ALMP support is in line with the current and future labour market needs. Nevertheless, the changes in the content of support are in the main focus for example within the revisions in ALMP delivery currently taking place in Norway and within the planned reform in Iceland.

Table 2.1. The changes in the Nordic ALMP systems currently focus more on the organisation of ALMPs rather than ALMP content

Main recent and upcoming changes in the Nordic ALMP systems, either via reforms or continuous improvement processes

	Denmark	Finland	Iceland	Norway	Sweden
Organisation of support					
Stakeholders of ALMP system, co-ordination and co-operation	✓	✓		✓	
Co-operation with private employment services	✓	✓		✓	✓
Performance management and accountability frameworks		✓		✓	✓
Financing model	✓	✓		✓	✓
Digital infrastructure, data exchange, harnessing AI	✓	✓	✓	✓	✓
Content of support					
Supporting groups beyond registered jobseekers			✓	✓	
Assessing individual needs to provide targeted services			✓		
Individual action plans and mutual responsibilities	✓	✓			✓
Holistic support for labour market inclusion pathway			✓	✓	
Strengthened co-operation with employers		✓		✓	✓
Future-proofing ALMPs to address megatrends, such as greening	✓				✓

As the ALMP reforms above all drive the changes in the organisation of ALMP delivery in several of the Nordic countries, these countries need to ensure that the content of ALMPs will be subject to continuous improvement processes. Even if ALMP content does not need to be fundamentally reformed, minor adjustments are always relevant to keep the ALMP provision up to date with current labour market needs and the newest evidence.

2.5.4. Continuous improvements should consider potential benefits for the common Nordic labour market

Promoting the common Nordic labour market is not part of the ongoing and planned reforms in the Nordic ALMP systems or revisions to ALMP packages. The reforms are launched considering the internal political priorities and aim to address issues identified in each country. Furthermore, cross-border labour mobility is facilitated instead by local-level initiatives or at the EU level beyond the Nordic labour market (see Chapter 4) rather than a subject of national-level changes.

Nevertheless, the ALMP reforms will still impact the common labour market, as these reforms will likely affect the labour market situation and institutions in individual countries. The expected changes in the performance of the ALMP systems are likely to influence the success of addressing short-term labour market shocks, as well as megatrends like digitalisation, greening and ageing. The capability to absorb shocks and respond to megatrends in some Nordic countries worse than others can put pressure on the common Nordic labour market. While the common labour market concept should facilitate labour mobility across the Nordic countries when some of them experience labour market deterioration, absorbing additional labour force in others will be limited in the short-term, and more significant outflows of labour will damage the economy of the origin country in the long-term.

Thus, to best support the common Nordic labour market, all Nordic countries need to have functioning institutional set-ups and ALMP packages to address the specific challenges in their countries. Reforms and continuous improvements in ALMP provision that enhance labour market outcomes for citizens and skill supply for employers in individual countries, will also benefit the functioning of the common Nordic labour market. Such goals are more explicit in some of the reforms in the Nordic countries (particularly Iceland) and many of the recent improvements in ALMP packages but less so in changes that aim at cutting ALMP costs and shifting ALMP responsibilities driven by political decisions rather than evidence. A shift towards more citizen-centric and evidence-driven improvement processes would enhance the labour market prospects of the individual Nordic countries, as well as the common Nordic labour market.

As the functioning of the common Nordic labour market is underpinned by the functioning of the individual labour markets, supporting each other's efforts to design ALMP reforms and improvements can bear fruits for the whole region. Inter-governmental co-operation and exchange of good practices and knowledge, such as co-operation between the Nordic PES and ministries of labour (see Chapter 4) can thus support ALMP improvements in individual countries and have positive spill-over effects for the common Nordic labour market.

Furthermore, the reforms and changes in ALMP systems will affect achieving an inclusive labour market for the Nordic citizens, as well as attracting talent from beyond the region. Hence, there might be scope for more joint action to address the common labour market challenges, such as those associated with labour and skills shortages. The joint actions do not need to be part of the ALMP reform agendas and can be undertaken alongside the major reforms.

For example, the Nordic countries and their PES could co-operate on recruiting talent from third countries to take advantage of scale in their outreach efforts.[9] Agencies with the mandate to attract talent – whether the PES or another body – can co-operate in organizing information campaigns, virtual and in-person job fairs, and agreements and operating principles with institutional partners in origin countries. Co-ordinating Memorandums of Understanding with origin countries can help Nordic countries ensure that standards for

fair recruitment practices are respected. Even in the absence of structured collaboration with origin countries, co-ordinated talent attraction campaigns would allow the Nordic countries to share knowledge and resources for maximum effect.

Joint initiatives would also be able to take advantage of resources available at the EU level to develop joint Skill Mobility Partnerships (SMPs) with third countries in line with long-term goals for securing skills and improving co-operation. The advantage of Nordic co-operation in developing SMPs depends on the convergence of skills and training standards, since combined efforts can promote human capital development and positive labour market outcomes for both the countries of origin and the Nordic countries, as well as directly benefiting the migrants and employers participating in the SMPs (European Migration Network, 2022[64]). Developing training in origin countries through co-operation agreements between the Nordic countries before engagement with the origin countries would allow for SMPs to scale up more easily.

2.6. Evidence needs to drive change

2.6.1. Evidence instead of political motivation to launch reforms

High-level political will helps overcome resistance to large-scale reforms. Political will is needed to reach agreements for major changes in legislation and policy implementation that can simultaneously concern various stakeholders of the ALMP system and different policy areas. For example, the governments or ministers in charge of employment and social policies have announced the need for reforms in Denmark, Finland, Iceland and Sweden.[10]

While political will is desirable to push for change, the decision to launch a reform in the first place and the direction that the reform should take should rely on evidence. Many of the on-going ALMP reforms in the OECD and Nordic countries have gone through a thorough evidence-collection phase to guide reform design or even the decision to undertake reform. An increase in the evidence on what works and for whom has made evidence-based ALMP reforms ever more feasible and widespread across countries.

In Australia, the decision that a reform of the ALMP system was needed, was based on evidence. The House Select Committee on Workforce Australia Employment Service (Select Committee) was established in August 2022 to review the ALMP system in Australia (Australian Government, 2024[49]). Within two years, the Select Committee delivered interim and final reports to the Australian Government that relied on extensive evidence, collecting these through engagement with the OECD experts on ALMPs, and learning from good practices from over ten other OECD countries, among other activities. In response to these reports, the Australian Government has deemed that a reform in the ALMP system is indeed necessary.

In Denmark, as well as France, a need for reform was announced on a political level, assigning high-level objectives for the reforms. Nevertheless, a thorough collection of evidence was conducted in both countries before the reforms were designed. In France, a thorough consultation and evidence collection was launched in September 2023 by the Minister of Labour. Among other stakeholders, the process involved consultations with the OECD experts on ALMPs and top researchers and experts from other OECD countries, enabling the High Commissioner for Employment and Business Engagement to propose a comprehensive and cohesive evidence-based reform plan in April 2023 (Guilluy, 2023[65]). The Government of Denmark initiated an expert group consisting of researchers and local-level stakeholders in May 2023 to design a reform of the ALMP system that would save costs but not decrease service quality for job seekers and employers (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]). Similarly to the consultation processes conducted in Australia and France, the expert group met with a wide range of stakeholders and researchers, including the OECD experts, to put forward the reform plan a year later (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]).

The on-going reforms in the ALMP systems in Finland and Sweden have not had as thorough evidence collection in the early design phase of the reforms but have nevertheless included a substantial piloting or trialling phase to collect the necessary evidence before full-scale implementation of the new systems. To move towards large-scale contracting out of employment services as declared by the Swedish Government in 2019, a trial of a new contracting model, called *rusta och matcha*, was launched in March 2020. The early results of this trial, as well as support from the OECD and the Directorate General for Structural Reform Support of the European Commission[11] helped Sweden to fine-tune the concept of contracting out one-fourth of employment services, relying on performance, fair competition, availability of services at the local level and a free choice of providers for jobseekers (OECD, 2023[13]). The results of the evaluation of the first few years of the new contracting-out model conducted jointly by the Swedish PES and the Institute for Evaluation of Labour Market and Education Policy (IFAU) are further used to improve the system design (Ekspertgruppe for fremtidens beskæftigelsesindsats, 2024[11]). Finland initiated a pilot to test the decentralised set-up of employment services in March 2021, with a foreseen end date in June 2023. Nevertheless, the political decision to move forward with the reform was taken already in September 2021 before waiting for the results of the pilot (OECD, 2023[12]), while the pilot end-date has been extended until the end of 2024.

While evidence has guided the on-going ALMP reforms in the Nordic countries and plays a more significant role than ever, political motivation remains the main driver for launching reform. Launching ALMP reforms in the Nordic countries in the future should be preceded by evidence collection, such as recently done in Australia. Furthermore, ideally, combining evidence collection for the design of the reform with pilots for fine-tuning the new design should be considered to be the best practice in the future. For example, France combines the thorough evidence collection conducted to design the reform with extensive piloting throughout the country to fine-tune the details of the reform further (Guilluy, 2023[65]).

2.6.2. Peer learning to support continuous improvements and reforms

During the design phase of ALMP reforms, the OECD countries increasingly seek evidence and good practice examples from other countries. Evidence from different countries was systematically reviewed in the reform preparation phases in Denmark, as well as Australia and France. With the help of the OECD and the European Commission, international good practices also guided the reform design in Sweden. In other cases, the consultations have taken place ad hoc bilaterally with other countries and using the frameworks for best practice exchange of the OECD and the European Commission (such as the EU PES Network).

Learning from peers has been particularly strong in the Nordic countries. The current institutional set-up of Denmark has inspired the ongoing reform in Finland to decentralise ALMP provision. The Swedish system inspired Finland to revise its jobseeker activation criteria in May 2022. The officials and experts from Finland, Denmark and Sweden have visited each others' countries in the reform design phases, as the good practices are believed to be more transferable across the Nordic societies due to similarities in their broader institutions (like the importance of the social partners), the social and economic situation, and shared values. Although Norway is not currently reforming its ALMP system, study-visits to other Nordic countries are taking place regularly on political and administrative level to mutually exchange on good practices.

Some countries have established even more formalised and systematic frameworks for mutual learning than the Nordic countries. For example, the PES in the Baltic states have held regular meetings since 2016 to learn from each other on different aspects related to services for job seekers, workers, and employers. They have also implemented each other's best practices over the years. An Ibero-American Network of Public Employment Services involving Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Mexico, Panama, Portugal, Spain and Uruguay was established in 2023 (WAPES, 2023[66]). The PES of Austria, Flanders (Belgium), Liechtenstein, Luxembourg, the Netherlands, Germany, South Tyrol (Alto Adige, Italy)

and Switzerland are exchanging on topical issues for the PES on the management level and have had mutual exchanges on good practices on previous years as the network of German-speaking PES.

In the future, it will be important for the Nordic countries to ensure that good practices regarding the organisation and provision of ALMPs within the region will be shared. On the example of more systematic mutual learning frameworks in other countries, the Nordic PES could consider formalising their co-operation in the future to strengthen exchanges on topics particularly relevant to the Nordic labour markets and good practices that are more likely transferable. Nevertheless, tighter collaboration within the region should not lead to isolation from the rest of the world. The Nordic labour market must remain interconnected with other countries to alleviate labour shortages. For example, the labour authorities and PES need to be readily available to discuss any issues arising with those countries that contribute particularly to the Nordic labour supply. In addition, a mutual exchange of good practices of ALMP provision with countries beyond the Nordic region enriches the evidence available for continuous improvement processes and reforms.

2.6.3. Reforms and changes need to be evaluated systematically

To provide lessons on good (and bad) practices for peer learning and future reforms and improvements for the countries internally, the on-going and planned reforms and changes should be thoroughly monitored and evaluated. Following the evidence collection for the design of reform, evidence generation should continue throughout the reform implementation phase and extend to several years after the end of the reform to evaluate whether the reform had the intended outcomes and fine-tune policies as needed. A good understanding of the challenges of the ALMP system and knowledge of what it takes to address them is essential for legitimate, evidence-based policy making. Such evidence-based policy making ensures support for the changes from the stakeholders and the public and improves labour market outcomes for jobseekers and employers.

Crucially, more evidence on the performance of different institutional set-ups of ALMP provision undergoing particularly comprehensive reforms in the Nordic countries could lead to more informed reforms in the future. The availability of such evidence would enable the Nordic countries to move further from politically-driven reforms to evidence-driven reforms.

Sweden has started with the evidence-generation process for its on-going reform. The gradual roll-out of this reform has enabled the Swedish PES and IFAU to evaluate the reform using the gold standard of impact evaluation, a Randomised Controlled Trial framework. Nevertheless, even in this case, the monitoring and evaluation framework could have been designed earlier. Denmark and Iceland are currently in the early stages of the reform design and, thus, have yet to start to develop a monitoring and evaluation framework for their upcoming changes. The fundamentally reformed ALMP system was rolled out in Finland on 1 January 2025, but the monitoring and evaluation framework had not been fully designed by that time. Furthermore, Finland's capacity to evaluate ALMPs and changes in ALMP design and provision has decreased in recent years. The already limited research budget of MEAE has been cut, and the cross-ministerial joint research instrument VN-TEAS was abolished at the end of 2023 (Valtioneuvoston Viestintäosasto, 2023[67]). The joint research instrument facilitated strategic research across policy fields to support evidence-based policies and was a good practice example for other OECD countries (OECD, 2023[12]). More positive developments are taking place in Norway, where the government published a white paper on ALMP provision in 2024, referring to the need to conduct systematic evaluations on ALMPs and move towards evidence-driven policies (Regjeringen, 2024[53]).

The Nordic countries must strengthen their efforts to design monitoring and evaluation frameworks already during the design phase of the change agendas (e.g. decide how to measure the fulfilment of the objectives of the changes and data collection needed for that). Additionally, Finland should restore the funding of ALMP evaluation and cross-policy research to at least the levels of 2023. Good examples for approaching evidence generation systematically are available to learn from in other OECD countries. For example, a

scientific committee consisting of ten well-established French economists and sociologists was set up in France in 2024 to evaluate the on-going reform and its labour market effects, together with the public research organisation assisting the ministry responsible for employment policy (*Direction de l'animation de la recherche, des études et des statistiques*, DARES) (Ministère du Travail, de la Santé et des Solidarités, 2024[68]).

Notes

[1] Categories 1 to 7 in the methodology of the OECD Labour Market Policy database https://doi.org/10.1787/data-00312-en: public employment services and administration, training, employment incentives, supported employment and rehabilitation, direct jobs creation, start-up incentives.

[2] Public employment service – throughout this report referred to as a public body whose main responsibility is to actively facilitate the integration of jobseekers into the labour market and which implements employment services (providing placement and related services as defined by category 1.1 in the methodology of the OECD Labour Market Policy database, https://doi.org/10.1787/data-00312-en: services that facilitate the integration of jobseekers in the labour market or which assist employers in recruiting and selecting staff, including the provision of self-service facilities such as on-line job-banks), potentially in addition to other active labour market policies (training, employment incentives, sheltered and supported employment and rehabilitation, direct job creation, start-up incentives), and which optionally fulfils additional public functions (such as administering unemployment benefits).

[3] This report and particularly this chapter uses the term "ALMP reforms" rather than "PES reforms" when generally discussing major changes in the systems of ALMP provision, as these reforms often revise the responsibilities and roles of the stakeholders beyond PES, such as ministries, sub-national governments and private providers of employment services.

[4] Employment services as defined in category 1.1 in the methodology of the OECD Labour Market Policy database, https://doi.org/10.1787/data-00312-en: services that facilitate the integration of jobseekers in the labour market or which assist employers in recruiting and selecting staff, including the provision of self-service facilities such as on-line job-banks. Employment services are part of active labour market policies.

[5] Latent class analysis (LCA) is a statistical technique used to identify distinct subgroups (or latent classes) within populations that may share similar observable characteristics.

[6] In the new model, all jobseekers have an initial contact with the Arbetsförmedlingen where an action plan is drawn up that indicates any needs for additional support by ALMPs, and is revised regularly (Egebark et al., 2024[15]). Those jobseeker that are very close to the labour market are referred to the digital support systems of the Arbetsförmedlingen, and those very far from the labour market receive intensive support from Arbetsförmedlingen (e.g. training, including using private training providers). Those jobseekers that are in between these two groups in terms of their labour market integration prospects are referred to the private providers of employment services to get supported by individual job placement and job brokerage services. The private providers have considerable freedom to design these support services themselves as long as these are compatible with the labour market policy regulations. Thorough overviews of the reformed system in Sweden are available e.g. in OECD (2023[14]; 2022[46]), Egebark et al. (2024[15]) and Arbetsförmedlingen (2021[70]; 2021[69]).

7 Smaller municipalities need to co-operate to have sufficient client base and capacity. Employment services are now implemented by 45 employment areas (municipalities or municipal co-operation areas).

8 IPS is already used for example in Norway.

9 There are already examples within the Nordic area of regions co-operating to target skilled potential migrants in third countries (e.g. Copenhagen Capacity for the Greater Copenhagen Region).

10 Some of the recent and on-going reforms in other OECD countries have been launched on an even higher political level. The current reform of the ALMP system in France was announced by President Emmanuel Macron during his re-election campaign in March 2022, and the preparations quickly started in his second term. Prime Minister Matteo Renzi launched the reform to centralise the responsibilities of ALMPs in Italy in 2014. However, the negative result of the referendum on the necessary change of the constitution in 2016 prevented the full implementation of the planned changes (OECD, 2019[35]).

11 The OECD and the European Commission's Directorate-General for Structural Reform Support (DG Reform) were providing support to Arbetsförmedlingen from July 2021 until March 2023 through the Technical Support Instrument of the European Commission: https://web-archive.oecd.org/temp/2023-03-16/621887-reforming-swedish-pes.htm

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Annex 2.A. Reforms in the systems of ALMPs in the OECD countries launched in the past 15 years

**Annex Table 2.A.1. Reforms in ALMP provision in 2009-24 or announced for the years ahead**

Country	Starting date	Main changes
Australia	2022	Decreasing the share of outsourced employment services and providing public online support for people closest to the labour market
	2025+	Possibly further reorganising and revising system design to support continuous improvement and innovation, moving towards more individualised service provision to better meet jobseekers' needs, strengthening engagement with employers
Costa Rica	2009	Creating a network of basic employment services
	2019	Establishing the National Employment Agency under the National Learning Institute to co-ordinate the provision of employment services and develop ALMPs
Denmark	2009	Decentralising the responsibilities for ALMP implementation to municipalities under a national supervisory agency
	2025+	A dedicated expert group has proposed increasing the role of unemployment funds and private providers to provide employment services, adjusting the role of the national PES co-ordination agency, revising administrative procedures for clients, abolishing some of the supervisory/advisory bodies, redesigning activation criteria to move away from administrative tasks and support labour market integration. The government has not yet taken a position on the recommendations as of early 2025.
Estonia	2009	Establishing national PES with a tripartite management board, merging UB and ALMP delivery, revising all aspects of PES and ALMPs fundamentally
	2016	PES becoming responsible for supporting working age people with disabilities, thorough revision of assessments, benefits and ALMPs for people with disabilities
	2017	Launching a package of unemployment prevention measures, extension of PES clients to workers at risk of unemployment
	2019	PES becoming responsible for career services for all working age people
Finland	2013	Reorganising (centralising) local employment offices
	2015	Establishing a national agency to provide administrative and development support to the network of employment offices
	2025	Decentralising PES responsibilities to municipalities, strengthening the supervisory and co-ordination role of the national PES agency
France	2024	Establishing a new co-ordination model for the ALMP system, data exchange between stakeholders, monitoring and evaluation framework, principles for outsourcing to external providers; implementing extensive improvements in ALMP delivery (regarding vulnerable groups, unemployment prevention, employer engagement)
Germany	2012	Shifting the responsibilities for public employment offices to the district level within 41 of Germany's 402 districts for social assistance recipients
Greece	2022	Launching major revisions across PES business model and processes, including streamlining PES governance, establishing an accountability framework, rebranding, increasing counselling capacity, designing evidence-driven ALMPs
Hungary	2011	Integrating PES into general administrative structure under different ministries
	2015	Abolishing the national PES agency
Iceland	2025	Reorganising the support to people with disabilities, including ALMPs
Ireland	2012	Merging the three streams of employment services into a single network under the respective ministry and reorganising the regional structure.
Italy	2014	Shifting ALMP responsibilities from municipalities to regions, establishing a national PES agency and a network of ALMPs
	2015	Increasing the capacity of employment services and ALMPs, particularly regarding the recipients of the

Country	Starting date	Main changes
		new minimum income scheme
	2024	Abolishing the national PES agency
Korea	2014	Creating one-stop shops hosting employment counsellors, social workers local governments and experts from microfinance support agencies
Latvia	2021	Restructuring of PES internally
Lithuania	2017	Centralising PES responsibilities to a national level PES, establishing an accountability framework, revising ALMP content and delivery models fundamentally
	2022	Reorganising career services, the national PES becoming responsible for career services for all adults, career services become available for all working age people
	2023	Institutionalising co-ordination and joint case management between PES and social services (after successful pilots since 2020)
Luxembourg	2019	Institutionalising a co-ordination model for employment and social services, establishing a joint framework to assess support needs
Netherlands	2009	Merging of UB and ALMP provision
	2024	Establishing single points of contact (one-stop shops) for all jobseekers regardless of benefit status in regions
Poland	2025	Many additional groups becoming eligible for ALMPs (retirees, people with disabilities, inactive etc), modernising ALMP design to focus on jobseeker and employer needs, modernising PES offices
Portugal	2012	Reorganising PES but maintaining the tripartite management
Spain	2013	Strengthening the accountability framework of the decentralised system of PES
	2023	Creating a Network of Public Employment Services involving the national agency and regional PES to support tighter co-operation and co-ordination between the stakeholders
Sweden	2019	Increasing the share of contracting out employment services, revising the size, local presence and responsibilities of PES
Türkiye	2018	Restructuring of the national PES without changes to the overall institutional set-up
	2021	Restructuring of the national PES without changes to the overall institutional set-up
United Kingdom	2011	Scaling up a quasi-market approach to employment services and adopting the New Public Management model
	2025	Transforming PES offices to provide meaningful support, merging employment services with career services in England (while career services remain devolved in other areas), strengthening place-based employment support, revising co-ordination with health and skills services, strengthening employer engagement

Note: ALMP – active labour market policy. PES – Public Employment Service. UB – unemployment benefit. Only national reforms strongly affecting ALMPs provision or PES indicated, excluding other functions that some of the PES fulfil. For example, many PES are also responsible for unemployment benefits, but reforms in benefits are not indicated. Furthermore, many OECD countries have revised activation criteria for unemployment benefit recipients over the past years, which are also not marked as ALMP reforms in the table. Reforms in ALMP systems that only touch upon digital transformation are not included.

Annex 2.B. Active labour market policy expenditure in the Nordic countries

Annex Figure 2.B.1. Active labour market policy expenditure by category in the Nordic countries and the OECD as a share of GDP, 2004-22
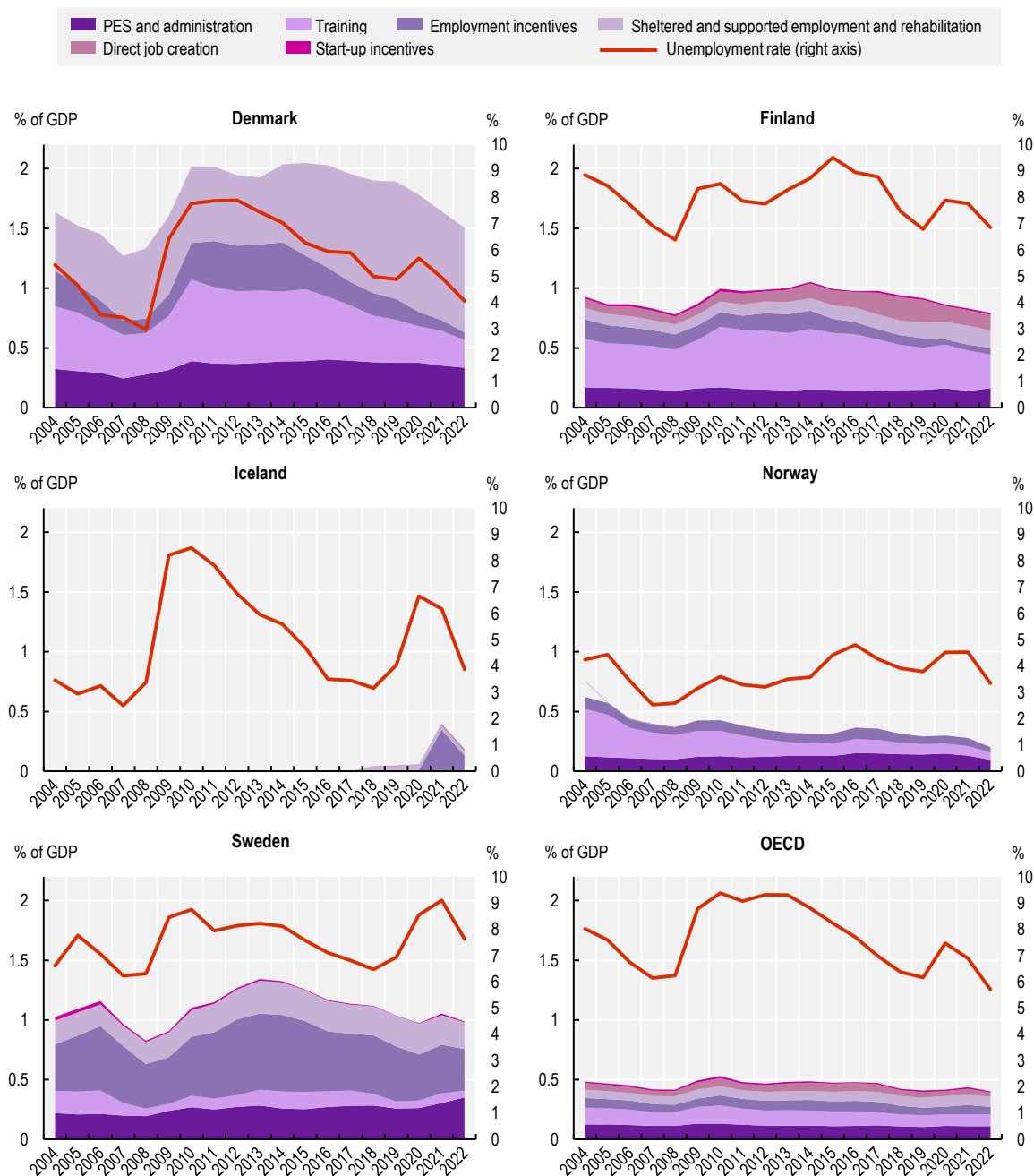
Note: ALMP: Active labour market policy. PES: public employment service. GDP: gross domestic product. OECD is an unweighted of 33 member countries for which data are available over the time period shown. The ALMP expenditures for Iceland are available in the OECD Database from 2018 onwards. Employment incentives exclude category 4.2 (Employment maintenance incentives), to remove as much as possible measures that are specific to COVID-19.
Source: OECD Data Explorer • Labour Market Programmes and OECD Data Explorer • Employment and unemployment by five-year age group and sex - indicators.

StatLink 🔗 https://stat.link/9fpu80

3 The use of digital technologies to enhance Nordic PES provision

One of the biggest megatrends in the world of Public Employment Services (PES) across OECD countries is the increased deployment of digital solutions to enhance service provision and processes. This chapter explores this PES modernisation journey underway within Nordic countries, all of which have taken significant steps to enhance their digital capacities in recent years. The chapter explores the digital channels and tools being used by Nordic PES to enhance and enable service provision to jobseekers and employers and discusses how Nordic PES are utilising advanced Artificial Intelligence (AI) technologies across their core areas of PES activities. The chapter also discusses the efforts taken by Nordic PES to measure the success of digital solutions and the impacts of certain international policies and regulations on digital innovations within Nordic PES.

3.1. Introduction

In addition to reforms to overall active labour market policy (ALMP systems), Public Employment Services (PES) in Nordic countries are also undergoing significant transformation through their digitalisation and modernisation agendas. In line with trends across OECD countries more widely, these efforts by Nordic PES to modernise their digital infrastructure has been underway to various degrees over recent decades.

Most recently, the COVID-19 pandemic undoubtedly acted as an accelerant for digitalisation of many OECD and Nordic PES, seeing them turn to digital tools and service channels to ensure some level of service continuity for clients during the emergency period. In addition, it highlighted the different states of digitalisation across OECD PES and for some highlighted the need for upgrades or further investments in their digital capabilities (OECD, 2022[1]). While Nordic PES were comparatively well-positioned upon the onset of the COVID-19 pandemic, further steps were still taken to enhance their digital capabilities and services during this time (OECD, 2023[2]).

Across OECD countries, PES modernisation is taking place through two main avenues. First, PES are increasingly adopting digital solutions to aid processes and service provision, be that digital solutions or service streams. Second, PES are advancing their digital capacity as part of more largescale and systematic upgrades to their operational and IT infrastructure.

This two-fold approach to PES digitalisation applies also in the Nordic region, with Nordic PES pursuing modernisation through both channels, including in some cases in line with wider reform PES agendas. Nordic PES have deployed both digital tools and service streams to contribute to more effective and flexible services for both jobseekers and employers. In addition, Nordic PES have undertaken more significant digital advancements to improve their digital and IT infrastructure. This includes, among others, a new customer relationship management (CRM) system for PES staff in Finland (with widespread implications for services, including profiling, monitoring job-search activity of clients and targeting of ALMPs), the new PES operational IT system *Galdur* (or magic) in Iceland enabling more modern and data-driven processes and services, the gradual transition from legacy systems to more modern architecture in Sweden (including several AI solutions) and the modernisation of the case handling process in Norway.

These modernisation efforts offer significant opportunities for Nordic PES to enhance their efficiency and effectiveness. However, ensuring these digital solutions and tools have their desired impacts on end-users, both PES staff and clients, will require Nordic PES to further enhance monitoring and evaluation activities. Furthermore, the adoption of Artificial Intelligence (AI) by all Nordic PES, will require proactive steps to mitigate against the associated risks and challenges these technologies bring with them.

This chapter explores the core components of the modernisation journeys of Nordic PES, including the deployment of digital channels and tools (Section 3.2), the use of AI technologies (Section 3.3), how the success or impact of digital developments is being measured (Section 3.4) and finally gives consideration to the international policies and regulations impacting modernisation efforts of Nordic PES (Section 3.5).

3.2. Nordic PES are increasingly deploying digital channels and tools to enable and enhance service provision

As part of the digitalisation trend, PES in the Nordic region are increasingly relying on digital channels and tools to aid and directly facilitate service provision. This sees the vast majority of activities and services provided to jobseekers and employers able to be conducted on a remote or digital basis. However, across Nordic PES variation exists in the degree of service digitalisation. This section explores the availability of digital channels and solutions within Nordic PES in comparison to PES in OECD countries as a whole and considers the efforts being made by Nordic PES to mitigate against the risk of digital exclusion.

3.2.1. Thanks to positive experiences during the COVID-19 pandemic, digital engagement channels have now been made permanent in all Nordic PES

In line with trends seen across OECD countries more widely, Nordic PES now all operate hybrid or blended models of service delivery, providing core services on a digital or remote basis. Looking at the core activity of job-search support and counselling, all Nordic PES facilitate this client support through a digital channel; either through a digital PES user interface or using a digital communications software and often to higher degrees than on average across OECD countries (Table 3.1). For the Danish PES in particular, this marks a departure from the pre-COVID policy which did not facilitate digital or remote counselling. However, positive experiences during this emergency period have resulted in the maintenance of digital counselling as a permanent component of the service offering in Denmark.

Table 3.1. Job-search support and counselling is now available on a digital basis in all Nordic PES, but traditional face-to-face services are still being maintained

Channels used for the provision of job-search support and counselling by country

	Digital PES user interface	Digital communication software	Phone	Face-to-face (in person)
Denmark	✓		✓	✓
Finland	✓	✓	✓	✓
Iceland		✓	✓	✓
Norway	✓		✓	✓
Sweden	✓	✓	✓	✓
Prevalences across OECD countries	72%	64%	77%	87%

Note: This figure is based on information from 39 PES in 38 countries, with information from two responding sub-national Belgian PES reported separately.
Source: Authors' calculation based on responses to OECD questionnaire on digitalisation and AI use in PES conducted in spring 2023.

Outside of counselling, Nordic PES also perform well in providing flexible access to core PES activities. This includes the use of digital interfaces by all Nordic PES to facilitate both registration with the PES (compared to 95% of PES in OECD countries) and to enable the monitoring of clients' job-search activities (compared to 79% of PES in OECD countries). The prevalence of these digital and remote access solutions to core PES services in the Nordic region provides additional flexibility to PES clients to engage with the PES according to their own preferences.

In providing multiple service streams, some Nordic PES have established rules or criteria to determine the channel of engagement used. In Denmark, the first interview must be in person, after which the client is free to decide their preferred mode of engagement (in person, digitally or by phone). In Norway, a client's eligibility for counselling provided through digital channels is based on a number of criteria, including the ability for effective self-sufficient job-search, adequate digital literacy and being aged between 30-59 years. This allows for more intensive engagement, including through other channels, with younger jobseekers and other target groups. The basis for this approach in Norway is NAV's Channel Strategy, first introduced in 2015, coinciding with the organisation's gradual shift away from traditional service delivery and towards increased use of digital technologies and solutions. The aim of this transition is to improve efficiency within NAV, including by prioritising resources towards those clients in need of the most-intensive engagement and support (Løberg, 2022[3]).

For PES in some OECD countries, the decision regarding the channel of service provision is further enhanced by the use of a profiling or diagnostic tool to assess a jobseeker's digital skills or competencies. For example, the PES in the Walloon Region of Belgium has developed a simple diagnostic tool to

diagnose the digital skills and autonomy of a jobseeker, deployed during the jobseeker's initial registration meeting (European Commission, 2024[4]). It comprises four questions; the first two assessing the jobseeker's ability to access the internet easily, regularly, and independently, while the next two evaluate their proficiency and autonomy in using online digital tools (such as for purchases or administrative tasks) and their familiarity with digital job-search tools. The recommended channel of service provision is then jointly informed by the outcome of the digital skills assessment and the profiling score (proximity to employment is calculated based on around 20 parameters). Similarly, the *Pix Emploi* online tool was developed in France jointly between the PES and a non-profit organisation to assess a jobseeker's digital skills and is recommended jobseekers following their registration with the PES (OECD, 2024[5]).

3.2.2. Nordic PES perform comparatively well in the availability of digital and online solutions for both jobseekers and employers

First, looking at digital services for jobseekers, the availability of various digital services differs across Nordic countries (Table 3.2). In the beginning of a jobseeker's journey, registering with the PES is possible online across all Nordic countries compared to 90% of OECD and EU PES. After this, some variation exists in how jobseekers can receive information on and access services. All Nordic PES except Denmark have deployed chatbots to provide information to jobseekers on ALMPs and associated eligibility conditions, compared to just over half of all PES (Section 3.3.1). Three-in-five Nordic PES have digital solutions to both aid jobseekers to identify potential training options (Iceland, Norway and Sweden) and directly apply for such measures (Finland, Iceland and Sweden).

Table 3.2. Availability of digital services for jobseekers varies across Nordic PES, but is mostly above the average across the OECD and EU

Online or digital solutions available for jobseekers, people at risk of job loss and citizens in Nordic PES and the share of OECD and EU PES

Functionality	Denmark	Finland	Iceland	Norway	Sweden	Share of OECD and EU PES
Apply for registration / register with the PES	✓	✓	✓	✓	✓	90%
Receive info on ALMPs & their eligibility conditions, incl. via chatbots		✓	✓	✓	✓	55%
Find suitable training options			✓	✓	✓	73%
Apply for services & measures (incl. training)		✓	✓		✓	60%
Choose a provider (training provider, private provider of employment services)					✓	33%
Recommender systems in career services to analyse expected skills of employers & career history of workers		✓			✓	33%
Test skills					✓	40%
Create CVs & job application documents	✓		✓	✓	✓	80%
Find suitable vacancies	✓	✓	✓	✓	✓	95%
Apply for suitable vacancies			✓	✓	✓	73%
Report job-search activities	✓	✓	✓	✓	✓	78%

Note: Tick mark signifies that a functionality is available through an online solution in a given Nordic country. Share of OECD and EU PES refers to the share of responding countries with a given functionality available online or digitally (answers received from 40 PES in 38 countries).
Source: Authors' calculation based on responses to OECD questionnaire on digitalisation and AI use in PES conducted in Spring 2023.

Digital recommender systems to suggest suitable occupations to jobseekers and aid their career orientation are implemented in Finland and Sweden, making them slightly more prevalent in the Nordic region than on average across OECD and EU countries (at 33%). Meanwhile, solutions to allow jobseekers

to identify and test their competencies and skills are seen in two-in-four OECD and EU countries, but in only one Nordic PES (Sweden). Such tools to better understand the skillsets of jobseekers can contribute to better targeted services and measures (particularly training) and can also be used as an input to career services. Digital solutions to aid the job-search journey of jobseekers are commonplace in Nordic PES, largely through the deployment of PES vacancy portals in all Nordic countries. In two Nordic countries, this is further enhanced by using AI algorithms to directly recommend suitable vacancies to jobseekers (Section 3.3.1). Finally, in meeting the job-search requirements often part of the mutual obligations of jobseekers, all Nordic PES offer digital solutions to facilitate jobseekers to report their job-search activities; compared to only 78% of OECD and EU PES.

The use of digital tools to serve employers is also well-developed in Nordic countries (Table 3.3). Much of this activity is to aid the matching process, with digital solutions to advertise vacancies and design vacancy postings present in all Nordic PES and at higher rates than across the OECD. In addition, the aforementioned chatbots used in four-of-five Nordic PES to provide information to jobseekers have a dual functionality, also providing information to employers on available services and measures – an approach used in only one-third of PES in OECD countries. Similarly, digital procedures for employers to apply for measures is a feature of all Nordic PES, despite only being possible in less than three-in-five total PES. The main differences in digital services for employers in the Nordic region emerge in the area of information reporting. Three Nordic PES have online solutions for employers to share information with the PES on the status of their vacancies (compared to 65% of OECD and EU PES) and no Nordic PES provide digital means for employers to report information associated with their use of PES measures (compared to 43% of OECD and EU PES).

Table 3.3. Digital services for employers in Nordic PES primarily focus on aiding matching, providing information and facilitating applications for measures

Online or digital solutions available for employers in Nordic PES and the share of OECD and EU PES

Functionality	Denmark	Finland	Iceland	Norway	Sweden	Share of OECD and EU PES
Upload & advertise vacancies	✓	✓	✓	✓	✓	98%
Design vacancy postings	✓	✓	✓	✓	✓	65%
Find suitable employees	✓	✓	✓		✓	90%
Share info with PES (on hired jobseekers, filled vacancies)	✓	✓	✓			65%
Receive information & counselling, including via chatbots & conversation bots		✓	✓	✓	✓	33%
Apply for measures for employers (employment incentives, staff training etc.)	✓	✓	✓	✓	✓	58%
Reporting on use of PES measures (wage data for employment incentives etc.)						43%

Note: Tick mark signifies that a functionality is available through an online solution in a given Nordic country. Share of OECD and EU PES refers to the share of responding countries with a given functionality available online or digitally (answers received from 41 PES in 39 countries).
Source: Authors' calculation based on responses to OECD questionnaire on digitalisation and AI use in PES conducted in Spring 2023.

3.2.3. Nordic PES provide digital skills training and maintain in-person services to mitigate the risk of digital exclusion

The deployment of digital service streams and digital tools undoubtedly provide significant opportunities and benefits for PES, including in providing end-user flexibility and efficiency gains for PES. However, in moving towards these more modern and digital-driven services, PES must ensure that nobody is left behind on this journey and engage in efforts to mitigate any potential risk of digital exclusion. This includes, in

particular, clients from vulnerable backgrounds, those without sufficient digital skills and those without means of accessing digital services (OECD, 2022[1]). At the Nordic level, Nordic ministers for digitalisation have also called for inclusivity to be central in the digital transition and digital public services (The Nordic Council and the Nordic Council of Ministers, 2021[6]).

In deploying multi-channel or hybrid services, a core objective for PES should be to endeavour to help clients access services through the most effective channel for them. In the Nordic region, the most common avenue by which PES are taking steps to mitigate digital exclusion is through the maintenance of traditional in-person access to PES services, providing flexibility for clients to engage with the PES according to their own preferences and needs. Such in-person services are particularly important for clients from vulnerable backgrounds and others where more intensive support and engagement is necessary.

For those clients without or with limited digital skills, PES clients in all Nordic countries can access opportunities to engage in digital skills training. In Sweden, this training known as "Digital Me" (*Digitalajag*) has been developed jointly between the PES and Google Digital Academy and aims to support clients to become more confident in using digital services (Arbetsförmedlingen, n.d.[7]). The training comprises three learning tracks: security and privacy, digital communication and online job-search. In Finland, guide materials are also present to help clients use digital solutions. In addition, to aid both clients without sufficient digital skills and those without means of accessing digital services (e.g. lack of access to a suitable device or internet connectivity), the PES in Denmark, Iceland and Norway provide digital access points in PES offices for clients to use and, if needed, to receive assistance in navigating digital solutions and resources.

3.3. All Nordic PES now have at least one AI solution in place

Nestled within wider digital advancements, Nordic PES are also experimenting with AI technologies to enhance their process and services. This section explores these AI use cases by Nordic PES across the relevant areas of PES activity and the approaches being undertaken by Nordic and OECD PES to guide and govern the use of these technologies.

3.3.1. Experimentation with AI by Nordic PES is primarily limited to a number of core areas of PES activity

AI use is more widespread among PES in the Nordic region than across OECD countries more widely. All Nordic PES now have at least one AI solution in place, compared to just over one-in-two PES in OECD countries as a whole (Brioscú et al., 2024[8]). Across OECD countries, examples of AI use are seen in all core areas of PES activity, however AI use cases within Nordic PES are limited to comparatively fewer areas of PES activity (Figure 3.1).

Figure 3.1. Among Nordic PES, AI use is most common to provide information to clients using virtual assistants

Share of PES in OECD and Nordic countries using AI by area of PES activity
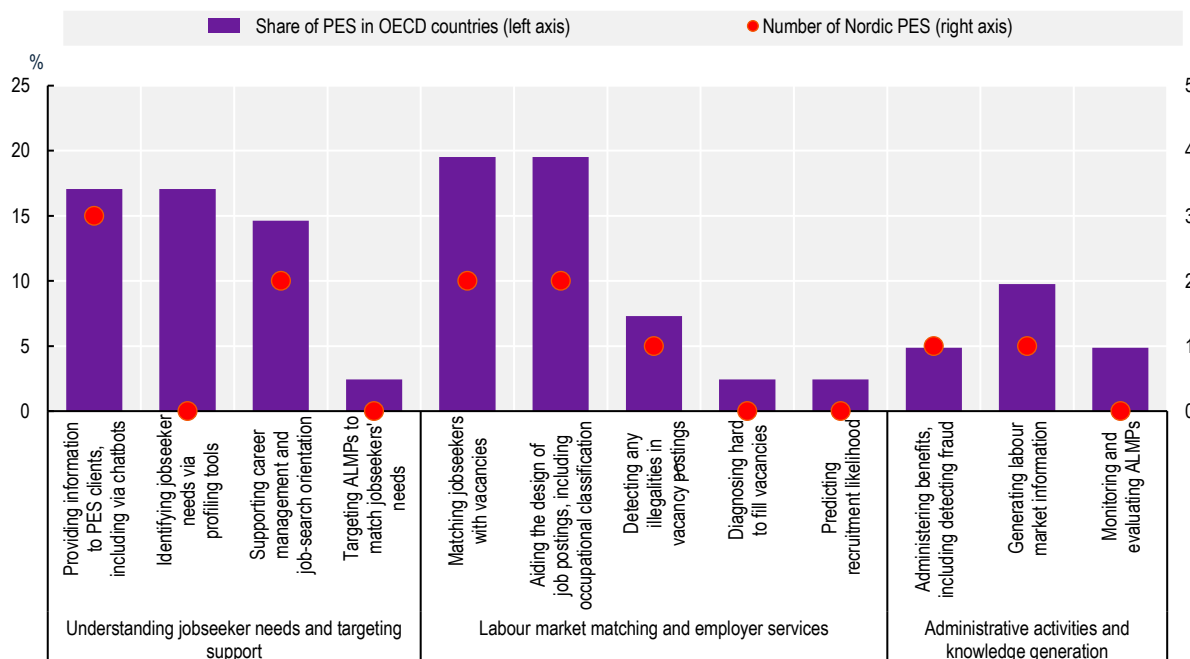
Note: Share of PES refers to the percentage out of the total number of responding PES, whether they use AI or not. Based on information from 41 PES in 39 OECD and EU countries, with information from the three sub-national Belgian PES reported separately.
Source: Authors' calculation based on responses to OECD questionnaire on digitalisation and AI use in PES and adapted based on Brioscú et al. (2024[8]), *A new dawn for public employment services: Service delivery in the age of artificial intelligence*, https://doi.org/10.1787/5dc3eb8e-en.

StatLink 🔢 https://stat.link/pagrym

AI developments among Nordic PES see different levels of experimentation, in different areas and using differing algorithm types (Table 3.4). In terms of number of tools live or in production at the time of writing, the PES in Sweden stands out as a front-runner in the Nordic region with five AI-powered solutions. The other Nordic PES are using AI to enhance activities in either two (Finland, Norway) or one area (Denmark, Iceland). With these technologies becoming increasingly accessible, the prevalence of AI use among Nordic PES can likely be expected to increase in the coming years – along with adoption of AI in PES across OECD countries more widely.

Chatbots are the most common AI tool, seen in three-in-five Nordic PES

The PES in Finland, Iceland and Norway are among the 17% of PES in OECD countries that have deployed AI powered chatbots to provide information to jobseekers and employers (Brioscú et al., 2024[8]). These developments have undoubtedly been aided by advancements in recent years, particularly in natural language processing; enabling chatbots to more intuitively process and respond to more complex prompts. This provides a clear advantage over traditional rule-based chatbots, which can often require the recognition of predefined keywords to respond to a query and, unlike AI-driven models, cannot learn from their interactions with users over time.

Table 3.4. In the Nordic region, the PES in Sweden and Finland have deployed the most AI solutions to date

AI use by area country and area of PES activity

	Understanding jobseeker needs & providing targeted support		Labour market matching & employer services			Administrative activities & knowledge generation	
	Providing information to clients	Supporting career management & job-search orientation	Matching jobseekers with vacancies	Aiding the design of job vacancy postings	Detecting illegalities in vacancies	Administering benefits, incl. fraud detection	Generating labour market information
Denmark		✓					
Finland	✓		✓	✓			
Iceland	✓						
Norway	✓			✓			
Sweden		✓	✓		✓	✓	✓
OECD average	17%	15%	20%	20%	7%	5%	10%

Note: OECD average refers to the percentage of PES in OECD countries using AI in this area as a percentage of the total number of responding PES, whether they use AI or not.

Source: Based on both responses to OECD questionnaire on digitalisation and AI use in PES and Brioscú et al. (2024[8]), *A new dawn for public employment services: Service delivery in the age of artificial intelligence*, https://doi.org/10.1787/5dc3eb8e-en.

In Iceland and Norway, the PES have deployed AI chatbots to respond to queries from jobseekers and employers developed by Boost.AI (*Vinný* and *Frida* respectively), a Norwegian company specialising in conversational AI solutions. The PES in Finland has deployed two AI chatbots, *Tarmo* to answer queries from clients relating to PES services and measures and *Aino* which specialises answering queries relating to working in or hiring from Finland (Table 3.4).

Both *Vinný* and *Frida* have provided essential customer service capacity to their respective PES, including during times of increased demand such as during the COVID-19 pandemic (OECD, 2023[2]; Brioscú et al., 2024[8]). During this emergency period, Norway's PES faced a 250% increase in queries. *Frida*, the PES chatbot launched in 2018, provided the extra capacity needed, handling a workload equivalent to 220 full-time employees and resolving 80% of queries without human assistance. This significantly reduced the pressure on PES staff during the crisis, ensuring clients received timely and efficient responses to their questions.

Two Nordic PES are using AI to support career guidance services

Across OECD countries, 15% of PES are using AI to assist career management and job-search orientation activities. In the Nordic region, two-in-five PES are using AI in this domain to date.

In Sweden, the PES has rolled out an AI-based tool designed to assist jobseekers in exploring potential career opportunities. The system uses various AI techniques to suggest occupations that align with an individual's existing skills. Beyond offering new career ideas, the tool also connects jobseekers with relevant job listings from the Swedish national employment platform. Future updates are planned to broaden the tool's functionality, such as integrating additional data sources, offering training suggestions, and providing more personalised job recommendations for individuals with disabilities.

Meanwhile, in Denmark, the PES launched an AI-driven tool in 2020 aimed at identifying the skills in demand by employers (OECD, 2022[1]; Westh Wiencken Vizel and Opstrup Hansen, 2021[9]). By analysing job advertisements using machine learning, the tool compiles an index of the most sought-after skills at any given time. This tool serves two main purposes: first, to help PES counsellors understand labour

market trends and guide clients towards suitable jobs, education, or training; and second, to support education and training providers in evaluating the market relevance of their courses.

Several Nordic PES have deployed AI solutions to assist different aspects of the matching process

One-in-five OECD PES have implemented AI-enabled matching solutions, which directly produce recommendations of job vacancies based on the profile of a jobseeker. Traditional (non-AI) vacancy matching tools use rigid one-to-one comparisons for each criterion, which often leads to poor performance in identifying strong matches. This is partly because these tools can only process limited information, making them less effective in dynamic and ever-changing labour markets. In contrast, AI-assisted matching has the potential to incorporate a broader range of data sources, including user behaviour such as click data. This allows for a more comprehensive analysis of the alignment between jobseeker profiles and job descriptions, resulting in broader and more accurate matching opportunities. In the Nordic region, Finland and Sweden are the only PES currently seeking to yield the benefits of AI in aiding the matching job-matching process.

In 2022, Finland launched *Job Market Finland*, a digital platform designed to connect jobseekers and employers using advanced AI technology. The platform offers an AI-powered vacancy matching service that calculates a compatibility score between candidates and job openings through two methods (Job Market Finland, 2023[10]; Hirsimäki, 2023[11]; Työmarkkinatori, 2023[12]). The first method involves structural data matching, where factors such as jobseeker's work experience, skills, education, language proficiency, and location are assessed. Points are awarded for relevant professional history and skills, while mismatches in language, education, or location can reduce the score. The second method applies natural language processing (NLP) to job postings on the platform, using neural networks to extract key terms. This allows for the analysis of job relevance to individual profiles, with the system trained on vacancies in Finnish, Swedish, and English. As a result, jobseekers receive personalised lists of suitable jobs, while employers get lists of compatible candidates. Before its development, an ex-ante evaluation of *Job Market Finland* was conducted, which included a literature review and analysis of Finnish PES vacancy data. The study revealed that web-based matching methods improve vacancy filling efficiency by 33%, reducing both vacancy duration and recruitment periods (Räisänen, 2023[13]).

Sweden has been working on the development of an AI-driven matching tool, which had its initial release in early 2024. This tool integrates a range of advanced techniques, including machine learning, deep learning, graph analytics, and natural language processing. It leverages data from both administrative records and vacancy listings to analyse jobseekers' profiles and match them with relevant opportunities. In addition to its core matching function, the system offers extra features to support jobseekers in making broader career decisions and improving their overall career orientation.

In addition to directly producing job recommendations, a number of PES in OECD countries are also using AI to further support job matching, including to help aid the design of vacancy postings including occupational classification, detect illegalities in vacancies, diagnose hard to fill vacancies and proactively predict recruitment likelihood. In the Nordic region, the use of AI in these areas is limited to three examples in three PES:

- Finland's matching platform, *Job Market Finland*, features an integrated Skills Suggester tool that utilises natural language processing to analyse user input from both jobseekers and employers. Based on ESCO (the European Skills, Competences, and Occupations classification), it recommends relevant occupations and skills.

- AI can also be used to assist employers in drafting job advertisements that they submit to the PES vacancy portal. Here, the PES in Norway has since 2023 deployed a large language model to offer suggestions to employers when they are drafting vacancy postings.

- Since 2023, Sweden has employed AI to detect instances of discrimination in job vacancies submitted to the PES. This tool leverages deep learning and natural language processing to assist case managers in reviewing job advertisements posted on the PES vacancy portal.

Sweden is the only Nordic PES using AI to contribute to administrative activities and knowledge generation

While not yet widespread, a number of PES in OECD countries are also using AI to assist certain back-office activities and processes. Sweden has deployed two AI powered solutions related to these activities.

Benefit fraud refers to the illegal receipt of benefits, with no underlying entitlement or under false pretences. AI has the potential to detect such fraudulent activity, with the Swedish PES being the only example in Nordic and OECD countries currently using AI for this purpose. This system, implemented in early 2024, uses a number of technologies (machine learning, deep learning, social network analysis, and knowledge graphs) and draws on a diverse array of data sources, incorporating details about jobseekers, employees, employers (including contract information), and suppliers (partners and service providers associated with the PES). AI use in this domain carries considerable risks if implemented poorly. When these systems incorrectly identify fraud, they may issue corrective action requests – such as demands for benefit repayment, often with additional fines or interest – targeting individuals who are genuinely eligible for the benefits, leading to wrongful sanctions and significant distress for impacted individuals (Brioscú et al., 2024[8]).

AI also presents opportunities to enhance its analytical capacity, both through the production of evidence (including, for example, counterfactual impact evaluations) and generation of labour market information. At present, only a few PES in OECD countries are using AI in this realm but can be expected to increase in prevalence in the near future. In the Nordic region, the Swedish PES is utilising AI to analyse labour market trends. Natural language processing is employed to analyse job postings from the preceding two years to gain insights into the skills required, educational qualifications needed, and the task composition of various occupations. This initiative is part of a broader effort within the Swedish PES to create AI solutions that monitor and analyse labour market trends, including shifts in demand for specific occupations and competencies. Additionally, the AI-generated labour market information also acts as an input into the aforementioned career orientation and matching tools of the Swedish PES.

3.3.2. The Norwegian PES has taken formal steps to guide the use of AI and mitigate its risks

While AI brings with it many potential opportunities for PES to aid their processes and service provision and to contribute to their objective in connecting people with jobs, it also presents a number of challenges and risks (Brioscú et al., 2024[8]). These include, among others, the need to establish clear lines of responsibility for AI systems, issues surrounding transparency and explainability, risks concerning data quality and privacy, the risk of bias and discrimination, potential resistance and lack of skills among staff and clients and the need for ongoing monitoring and evaluation. Therefore, successfully seizing the benefits AI presents will require Nordic PES to be cognisant of and take steps to mitigate the associated risks.

In grappling with these risks and navigating the governance of these developments, one approach can be the development of a strategy to guide the AI transformation within the PES. While all Nordic PES recognise and acknowledge the challenges that AI presents, the PES in Norway is the first to take formal steps to tackle these concerns by developing an AI-specific strategy in 2024 (Box 3.1). Such a strategy can be useful to help define the vision, rationale and objectives for AI use within the PES and can help promote understanding and acceptance of the associated changes that AI may bring, including to the processes and tasks undertaken by staff. In the case of Norway, this new strategy is intended to be a

"living document" that can be adapted based on experiences and lessons gained from further deployment of AI solutions in the coming years. Other similar initiatives across OECD countries, include the "Charter for Ethical AI" introduced by the French PES in 2022, drafted by a multi-disciplinary working group which included PES counsellors and jobseekers in its membership (Pôle emploi, 2022[14]). For other Nordic PES considering developing a strategy to guide AI developments, the OECD's AI Principles offer a useful starting point to identify the core values that should be embedded in this work (OECD, 2024[15]).

Box 3.1. The Norwegian PES has deployed an AI strategy, following extensive internal consultations

NAV, the Norwegian Labour and Welfare Administration, has been experimenting with AI since 2017 following the creation of an "AI laboratory" (or AI lab) to explore how AI could aid various aspects of its services and processes. With a number of AI tools in production and several more in the exploratory phase, a strategy to set the vision and objectives for AI use within NAV was launched in 2024.

This AI strategy is structured around three core strands:

- *Ambitions* – NAV's aim is to use AI to contribute to: i) getting more people into employment, ii) more accurate benefit decisions, that are understood by the user, iii) greater inclusion and a reduced rate of people not in education, employment or training (NEET), and iv) making the working day of NAV employees easier.
- *Enablers* – The strategy sets out a variety of key enablers that will impact NAV's ability to achieve its AI's ambitions. These include, among others, the need for clearly defined roles and accountability, high-quality data, competence and experience with AI at all levels of the organisation, clear and efficient processes and frameworks for AI initiatives, easy to use technology and the involvement of expertise from various disciplines to be involved in and learn from these developments.
- *Principles* – Finally, the strategy establishes the six principles to ensure responsible use of AI within NAV: i) assess consequences (potential impacts and outcomes), ii) privacy, iii) fairness, iv) explainability, v) security, and vii) transparency.

The development of the strategy was kick-started by the AI lab, before being presented to NAV's senior leadership. Consultations were held across the organisation to shape the draft strategy, drawing input from cross-disciplinary experts, including those from IT, employment services, and benefit administration departments. The strategy is intended to evolve and be revisited over time, with semi-regular updates, to take into account lessons learned and experiences gained as AI becomes more prevalent within the organisation.

Source: Vegard Sparre (2024[16]), "NAV's AI strategy and use cases", presentation at an OECD-EC-NEA international workshop on the use of AI by PES organised in the context of the joint OECD-European Commission (Directorate-General for Structural Reform Support) project: Optimising processes and services at the National Employment Agency of Bulgaria.

Governing and promoting responsible use of AI by PES can also take to form of frameworks or structures to oversee these developments. While examples in Nordic PES are yet to be seen, prominent examples from OECD countries more widely include the Ethics Committees or Boards utilised by both the PES in France and Flanders, Belgium:

- The Ethics Committee of the French PES was established in 2021 and is composed of 11 independent experts from diverse backgrounds. This includes members of the PES Board of Directors, technical, ethical, and legal experts, as well as representatives of both the unemployed and recruiters. The Committee's role is to offer advice and recommendations on AI-related initiatives, ensuring they align with the values and public service mission of the PES (Pôle emploi, 2021[17]).

- In Flanders, the PES Ethics Board was established in 2022 and consists of seven members (three internal and four external), with a mix of academic, legal, and operational expertise. The board's role is to oversee the responsible and ethical use of AI within the PES and to offer independent advice on AI-related issues and developments (VDAB, 2022[18]).

Ensuring close co-operation with developers of AI tools for PES, whether internal or external, is also crucially important, particularly to ensure that solutions meet the needs of the PES and end-users (Brioscú et al., 2024[8]). This is being prioritised in the Norwegian PES, where developers of digital and AI solutions are being placed within the relevant departments of the PES, so that they can work alongside the relevant experts and enhance their understanding of the context for the developments.

3.4. Efforts to measure the success of digital solutions could be furthered

Just like changes to ALMP measures themselves, digital solutions (both tools and services) implemented by PES should be subject to both monitoring and evaluation efforts to assess end-user experiences and understand their impacts.

For Nordic PES, the primary approach to monitoring the success of digital tools and services is through the conduction of customer satisfaction surveys. For example, user views of digital services are sought as part of the Icelandic PES' annual client survey (of both jobseekers and employers). In Denmark, client views are also sought in the development process of digital solutions. The Danish PES offers users of their services and systems the opportunity to participate in panels, which are then used to receive feedback on new proposals or solutions that are being developed. Take-up and usage rates and patterns are also examined by most Nordic PES.

Regarding evaluations, such assessments of digital advancements by Nordic PES are largely not well-developed. Nordic PES note that while increased digitalisation and data-driven processes are indeed enabling better monitoring, formal evaluation still remains more difficult to operationalise. Even in those Nordic countries with strong track records in undertaking counterfactual impact evaluations of ALMPs, including through randomised control trials and piloting (for example in Denmark and Sweden in particular), systematic and rigorous efforts to measure the effectiveness of digital services and solutions are not yet developed. Nordic PES should take steps to embed channels for evidence generation into the development of digital tools, in order to understand their true impacts on end-users and on their contribution to the effectiveness of PES services. For example, in the Netherlands, the PES moved to a blended service (both in person and online) model in 2016, following a digital first approach in the years prior (Lieman, 2024[19]). To assess the impact of this transition to blended services, an evaluation was undertaken between 2017-20. The study randomised participants into one of three groups: i) new blended services, ii) online service only and iii) online services with extra attention to enforcement. The study found that conversations with a counsellor had a positive impact on client outflow and found a positive return on investment of blended services (EUR 115 million after 30 months); resulting in multi-channel services, encompassing both digital and face-to-face engagement methods, being retained as part of the strategy of the PES. In addition, the OECD undertook an evaluation of a digital counselling tool in Spain (*Send@*), finding that jobseekers counselled with the tool increased their participation in ALMPs and contributed to positive employment outcomes (OECD, 2023[20]).

In the case of AI technologies, rigorous monitoring and evaluation should also take place on a continuous basis. This should not only take place to measure the effectiveness of AI solutions, but also to detect any deterioration in the model or potential bias development (Brioscú et al., 2024[8]). Furthermore, establishing a feedback loop is just as crucial as the monitoring and evaluation process itself, ensuring that corrective actions can be taken and learnings from monitoring and evaluation activities can be fed into future updates and developments.

3.5. Several international policies and regulations are impacting the digital developments of Nordic PES

A number of international policies and regulations are having an impact on the digitalisation decisions and developments undertaken by Nordic PES. In addition, differences in interpretation in some cases are leading to differing outcomes in what digital services or solutions are considered.

All Nordic countries are subject to the General Data Protection Regulation (GDPR), directly for EU Members (Denmark, Finland and Sweden) and by adopting the regulation through national laws for Iceland and Norway, as part of the European Economic Area (EEA). GDPR has significant implications for PES as holders and handlers of a wealth of sensitive administrative data sources, requiring significant time and work for PES to implement. In the realm of digitalisation, all Nordic PES report GDPR as being one of the main obstacles or challenges they face. Despite the common legal basis, differences in interpretation of GDPR exist across and within European countries. The same holds true in the Nordic region, with differences in interpretation of GDPR across countries, as well as differing national legislation on data privacy, in turn resulting in differing approaches to digitalisation and the development and use of digital tools within Nordic PES. For example, despite advanced job-matching systems or tools in several PES (including in Sweden and Finland in the Nordic region), the Norwegian PES has been struggling to find a solution that satisfies the strict national interpretation of the regulation. In addition, the use of a digital communications software (such as Microsoft Teams, etc) to facilitate client engagement is not permissible in the Norwegian PES, also as a result of GDPR, despite being an available channel in Finland, Iceland and Sweden.

The use of AI by Nordic PES is also impacted by international regulation, both GDPR and the recently approved EU AI Act (European Parliament and Council of the European Union, 2024[21]). While AI is not explicitly referenced in GDPR, many of its principles are highly relevant to the field of AI, particularly those concerning fairness and transparency. GDPR also addresses automated decision-making, stipulating that individuals should not be subject to decisions based only on automated processes. This challenge is particularly acute for those Nordic PES responsible for the administration of benefits and seeking to modernise these processes. In other European countries, automating aspects of the benefit administration system has been possible under GDPR, provided human supervision takes place. For example, in Estonia, although not powered by an AI-algorithm, the PES has been for several years using automated decision-making to process unemployment benefit applications (Estonian Unemployment Insurance Fund, n.d.[22]). However, in some cases the decision of PES not to engage in the use of AI or other algorithms in such sensitive areas of activity are not only driven by regulatory restrictions, but also due ethical concerns, high-profile cases that led to poor results and the high-risk nature of this work and its impact on citizens (Brioscú et al., 2024[8]; OECD, 2024[23]).

The EU AI Act classifies AI according to its risk, defining four risk levels (unacceptable, high, limited and minimal) and establishing associated obligations for developers and deployers (OECD, 2024[24]). The Act also establishes the necessary governance structures required to oversee and supervise implementation and enforcement at both the national and European levels. Similar to the OECD's AI Principles (OECD, 2024[15]), the AI Act underpins the essential nature of transparency, explainability and accountability in AI use and the implementation of rigorous data governance practices, including to prevent the potential for bias. These principles should be at the centre of all Nordic PES AI developments, with the development of PES AI strategies (such as those discussed in Section 3.3.2) to ensure compliance with regulations such as the AI Act and GDPR and transpose the core principles into the overall PES vision and operating processes. In addition, establishing avenues for communication and exchange between technical and legals teams across Nordic PES could help in unlocking certain challenges relating to GDPR and the EU AI Act.

All Nordic PES have also engaged in efforts to employ the European Skills, Competences, Qualifications and Occupations (ESCO) classification, most commonly to aid matching tools and associated infrastructure that processes jobseeker profiles and vacancies registered by employers. In addition, as members of EURES (EURopean Employment Services), the European initiative to facilitate the free movement of workers, the adoption of ESCO also facilitates Nordic PES to enable job mediation through the EURES system and portal (see Chapter 4 for further details on EURES). ESCO functions as a comprehensive dictionary that describes, identifies and classifies skills, competences and occupations pertinent to the EU labour market (European Commission, 2024[25]). Currently, ESCO provides definitions for 3 039 occupations and associated 13 939 skills and is available in 28 languages – all official EU languages, Icelandic, Norwegian, Ukrainian and Arabic. The aim of ESCO is to provide a common framework and understanding of occupations and skills, with the objective of contributing to labour mobility within Europe. In an increasingly digital labour market, where the vast majority of both jobseekers and employers utilise digital tools to facilitate job-search and recruitment, ESCO provides a useful framework to understand the knowledge, skills and competences associated with a given occupation. In addition, in the work of Nordic PES in promoting the common Nordic labour market and addressing skills shortages, having a common approach to occupations and skills between Nordic and European countries is certainly an asset.

For several Nordic PES, ESCO implementation was a significant and resource-intensive multi-year undertaking; an experience also felt more widely by many European PES (OECD, 2024[5]). In addition, some report various challenges, including in manually validating and updating translations and adapting terminology to the national context, including to account for colloquial terms used for many occupations in local vernacular. However, once operational, Nordic PES report positive experiences in using ESCO, including in particular in powering job-matching tools such as *Job Market Finland* for example (discussed in Section 3.3.1). In addition, ESCO provides opportunities to assist Nordic PES in navigating changing labour market dynamics, including those presented by the twin green and digital transitions – something being explored at the European level by the Swedish PES (Box 3.2). In addition, opportunities exist for Nordic PES to further utilise ESCO to promote the common Nordic labour market. This includes producing analysis and labour market information to better understand skills needs, advise the provision of training and inform career guidance and job-search support provided to clients.

Box 3.2. Using ESCO, the Swedish PES is seeking to enhance understanding of green and digital jobs and skills

Within the remit of the European Network of Public Employment Services (as discussed in Chapter 4), the Swedish PES is chairing the Working Group on Taxonomies. The Working Group, in collaboration with ESCO, has developed a comprehensive methodology and a dataset for green and digital competencies, adapted to the Swedish labour market context. Based on the ESCO classification framework, this work seeks to enhance interoperability and to establish a common language to support the green and digital transition throughout the European labour market.

The Swedish PES is piloting the taxonomy dataset. The aim is to create a clearer understanding of which skills are green or digital, which down the line could help the PES in decisions surrounding the targeting of supports, including for example in assessing whether employment incentives (such as wage subsidies for example) are contributing to a more low-carbon economy and in helping counsellors guide clients towards training in green and digital competencies in demand in the labour market (see also Chapter 2).

Source: JobTech Development (2024[26]), *Mapping ESCO Skills and Occupations: Testimonial from Sweden*, https://jobtechdev.se/en/news/mappning-mot-esco-erfarenheter-sverige-; Arbetsförmedlingen (2023[27]), *ESF-projekt Kickstart React-EU: Slutrapport*, https://arbetsformedlingen.se/statistik/analyser-och-prognoser/analys-och-utvardering/2023/slutrapport-kickstart-react-eu.

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4 Nordic PES co-operation to promote the common Nordic labour market

Nordic Public Employment Services (PES) co-operate at three main levels: locally in specific border regions, at the Nordic level through a number of initiatives, and internationally within broader European frameworks. In border regions, co-operation between Nordic PES focuses on promoting intra-Nordic mobility through information provision and supporting cross-border job-search and recruitment. At the Nordic and European levels, Nordic PES collaboration primarily focuses on knowledge exchange and mutual learning, with some co-ordination on international recruitment through EURES (the European initiative to support international recruitment and labour mobility). This co-operation fosters close ties and mutual awareness between Nordic PES; however a number of limitations exist, including through insufficient data, minimal co-operation between technical experts, a lack of joint actions or strategies to address shared challenges and a number of specific obstacles related to their border regions.

4.1. Introduction

This chapter explores how public employment services (PES) in the Nordic countries co-operate with each other. This includes actions taken to promote the common Nordic labour market and to ensure that the necessary skills are available in light of changing labour market dynamics, including those brought about by the green and digital transitions.

Co-operation between Nordic PES largely takes place at three levels: i) at the local level in specific border regions, ii) at the Nordic level through a number of initiatives, and iii) through existing frameworks at the international level. In cross-border regions, this co-operation between Nordic PES involves the co-ordinated provision of on-the-ground support and information to individuals and employers considering taking up employment or recruiting across a Nordic border. At the Nordic and European levels, much of the co-operation between Nordic PES focusses on fora and activities for mutual learning and knowledge exchange, with the exception of co-operation through EURES; where Nordic PES co-operate on international recruitment and job-matching efforts.

Overall, these various channels contribute to close co-operation and awareness between Nordic PES, with Nordic neighbours often being the first port-of-call when seeking information or inspiration for reforms or new changes to ALMPs. Beyond this however, co-operation between Nordic PES on specific technical topics and on joint actions or strategies, including those to address common challenges such as labour shortages or the green transition, largely does not take place. Furthermore, beyond information exchanged and gathered through various groups and committees, systematic data exchange of any kind to support this co-ordination between Nordic PES does not exist. In addition, Nordic PES operating within border regions face a number of longstanding obstacles related to the specific context of cross-border mobility.

4.2. To promote the common Nordic labour market, Nordic PES co-operate in specific border regions

The common Nordic labour market facilitates citizens of the Nordic countries to both migrate across Nordic borders and commute across Nordic borders for work (Box 4.1). Nordic PES play an important role in promoting this labour mobility within the Nordic region. In addition to information and job-search support services available through mainstream PES offices, Nordic PES co-operate and deliver specialised services in specific border regions; most commonly through three dedicated cross-border informational services in the Öresund region (Sweden-Denmark), the border region between Sweden and Norway, and the region between Sweden, Norway and Finland.

Box 4.1. The common Nordic labour market facilitates labour mobility through two channels: Migration and cross-border commuting

In 2023, more than 446 000 Nordic people were living in a different Nordic country than the one they were born, approximately 1.6% of the total Nordic population. This is down from over 467 000 in the year 2000; indicating a decline in the number of people taking advantage of the freedom of movement provided by the Nordic common labour market – some of which may be explained by changing working patterns, including the incidence of teleworking in recent years. In addition, these figures do not capture those availing of the common Nordic labour market by commuting across Nordic borders. While the choice to migrate is often dependent on a series of push and pull factors, in the Nordic region proximity, shared language and ease of movement are large determining factors, resulting in the highest migration and commuting levels taking place in border regions.

Assessing the true-extent of cross-border commuting in the Nordic region has long been a complex task due to the lack of available comparable data. Various attempts at trying to capture commuting levels have been undertaken, including for example a project that collected and harmonise commuting data from the period 2015-18. This project estimated that in 2015 51 000 people worked in a different Nordic country than they were resident, equating to 0.2% of the working age population. While the total number of commuters is small compared to national employment figures in Nordic countries, they are crucial for several border regions. For example, in the West and North Middle region in Sweden, commuters account for more than 10% of the resident workforce. Commuters can also be a crucial contribution to addressing labour shortages in certain occupations. While commuting is easiest and thus most prevalent in cross-border regions such as Öresund, Haparanda-Tornio and Innlandet-Värmland, long-distance commuting also takes place although to a much lesser degree.

Note: Öresund (Denmark-Sweden), Haparanda-Tornio (Sweden-Finland) and Innlandet-Värmland (Norway-Sweden).
Source: Lundgren et al. (2024[1]), *The Common Nordic Labour Market 70 Years and Beyond*, http://doi.org/10.6027/R2024:14.1403-2503; Brun et al. (2021[2]), *Nordic Cross-border Statistics: The results of the Nordic Mobility project 2016-20*, https://doi.org/10.6027/nord2021-006.

4.2.1. Co-operation between Nordic PES in border regions is primarily through dedicated border services

In the Nordic border regions, special operations in the form of cross-border information services have been established with the dedicated mission of assisting both individuals and businesses who wish to live, work, study or do business across the border in another Nordic country:

- In the Öresund region, the respective PES of Denmark and Sweden co-operate through a dedicated information service *Øresunddirekt*. The front-facing arm of *Øresunddirekt*, an information centre, is located in Malmö (Sweden), with the web and communications functions carried out in Copenhagen (Denmark). The *Øresunddirekt* aims to operate as a one-stop-shop for all cross-border queries, enabled by its multi-disciplinary staff, including representatives from the Swedish PES (Arbetsförmedlingen), the Swedish Social Insurance Agency and the Swedish Tax Agency. *Øresunddirekt* serves approximately 20 000 people per year, including through the information centre, email and over the phone.

- In the Sweden-Norway border region, the cross-border service (*Grensetjensten*) was established in 1997 and serves the entire 161 km border region: the longest in Europe. This border service also runs as a multi-institutional operation, with representatives from both the Swedish and Norwegian PES and close co-operation with wider stakeholders, including tax and customs authorities. It is located in Morokulien (Sweden), directly on the border with Norway. With Norway being outside the European Union, the service also provides additional advice on this matter to those Swedes interested in working or starting a business in Norway.

- In the Sweden-Norway-Finland border region, the border service (*Gränstjänsten*) operates offices in two locations: in Haparanda-Tornio focusing on Swedish-Finnish cross-border matters and Storfjord working primarily on Finnish-Norway cross-border issues, but also Sweden and Norway-related matters as necessary. The service sees co-operation between several partners, including the PES and social insurance agencies of the three respective countries.

4.2.2. Nordic PES activity in border regions primarily focusses on information provision and aiding the job-matching process

Within the border regions, the core activities provided by Nordic PES within these cross-border information services (as discussed in Section 4.2.1) are information provision and the supporting of the job-matching process. Other activities include tailored recruitment services and the establishment of structures or working groups to enhance co-operation and facilitate problem-solving related to cross-border mobility issues. These services are primarily accessible in person or through phone or email contact, with the webpages of the respective services also an important resource for clients to seek out initial information on their cross-border queries.

For those businesses and residents seeking to take advantage of the opportunities presented by the common Nordic labour market, the process is more complex than simply finding a suitable candidate or job. Therefore, the core function of these cross-border information services is the provision of information. The multi-disciplinary staff profile of these services means that information on key issues related to cross-border mobility can be addressed under one roof or through a single access point, including queries relating to tax, pensions, unemployment benefits, employment legislation, etc. For example, even though the tax authorities are not present among the staff of the Sweden-Norway cross-border service, the PES and other staff members are equipped and mandated to advise on these topics. In addition, information is provided through information packages, guidelines and the organisation of information sessions or seminars on certain topics. In addition, in the Swedish-Finnish border region, the cross-border service takes the office on the road at least twice per year in order to widen the reach of the service and information to people not directly in the vicinity of the physical border office.

Job-matching efforts by PES in these cross-border services are focused on those employers and workers or jobseekers interested in recruiting from or working in the relevant neighbouring Nordic country. Efforts to connect people with a suitable vacancy and employers with the suitable candidate are primarily facilitated through the EURES (EURopean Employment Services, see Section 4.4.1) platform, as well as through the respective PES vacancy portals. In addition, various informal groups exist for the different country groups to enhance co-operation between EURES staff in Nordic PES and to better co-ordinate international recruitment efforts. Other activities by Nordic PES to support job-matching in these border regions include the attendance and organisation of job fairs, including in co-operation with the ordinary (non-border region) PES offices and the provision of tailored recruitment support to employers. In the case of the latter, this can include hosting of interviews by bringing the employer to the jobseekers, particularly important in cases where a jobseeker may not have the financial resources to travel across the border to attend an interview.

Cross-border mobility and recruitment is an evolving situation, with new challenges and obstacles for businesses and citizens seeking to yield the benefits of the common Nordic labour market arising over time. In recent times, the biggest crisis impacting border communities and cross-border information services was the COVID-19 pandemic (Box 4.2). To foster dialogue between relevant parties on border issues, a number of initiatives or structures have been established. This includes several cross-border committees, bringing together the relevant local authorities (most commonly representatives of municipalities) from the various sides of the border (Finnsson, 2020[3]). For example, the Torne Valley Council, is a co-operation body bringing together 15 municipalities from three countries: Finland, Sweden and Norway. These border councils aim to promote enhanced cross-border co-operation and work on issues identified by the border service, seeking solutions either directly through the member authorities or by attempting to initiate political action. Other initiatives include the simplification groups set up by the Swedish-Norway cross-border service to bring together relevant authorities with the aim of simplifying procedures and paperwork for certain applications and services required by the clients of the cross-border service.

Box 4.2. Cross-border information services were crucial linchpins during the COVID-19 pandemic

During the COVID-19 emergency period pandemic, border closures and other related restrictions were imposed in the four mainland Nordic countries. This had major implications on the day-to-day lives of people in border communities, including families split across borders, disrupting access to core public services (e.g. healthcare and education), restricting labour mobility of those workers commuting across a border and impacting businesses operating across borders. In addition, the situation was an evolving one with restrictions and measures changing regularly, contributing to a significant degree of uncertainty for both people and businesses in the Nordic countries more generally, but also particularly acutely by those in these border regions where border crossings for business and employment are more common.

The unique positioning of the cross-border information services meant that they had first-hand and real-time experience of the impacts of restrictions and associated changes; making them important vessels to facilitate the identification and resolution of border problems and challenges during this period. This information could then be passed upward to the national and Nordic level, including through the Freedom of Movement Council, Info Norden and the Nordic Co-operation Ministers. This provided crucial information to help monitor and assess the impact of restrictions, to inform national and Nordic decision-making and to trigger any necessary action needed by national authorities to address any emerging issues. This extended also to the work of Nordic PES, with the presence of PES staff in the cross-border information services allowing for a better understanding of this unique dynamic of the COVID-19 crisis and informing the delivery of employment services and related measures in these regions.

Note: The Freedom of Movement Council was established to help find solutions to cross-border obstacles faced by Nordic countries and comprised of ten members: eight national members from Denmark, Finland, the Faroe Islands, Norway, Iceland, Greenland, Sweden and Åland and representatives of both the Nordic Council and the Secretary General of the Nordic Council of Ministers. Info Norden is the information service of the Nordic Council of Ministers, aimed at helping those planning to move to, work, study or start a business in the Nordic region.
Source: Finnsson (2020[3]), *Stronger cross-border co-operation after the pandemic*, https://nordregio.org/stronger-cross-border-co-operation-after-the-pandemic/; Nordregio, (2021[4]), *Nordic border communities in the time of COVID-19*, www.norden.org/en/publication/nordic-border-communities-time-COVID-19; Giacometti and Wøien Meijer (2021[5]), *Closed borders and divided communities: status report and lessons from COVID-19 in cross-border areas*, https://pub.nordregio.org/r-2021-6-crossborder-COVID/; Nordic Council of Ministers (n.d.[6]), *The Freedom of Movement Council*, https://pub.norden.org/politiknord2024-706/the-freedom-of-movement-council-.html; The Nordic Council and the Nordic Council of Ministers (n.d.[7]), *About the Info Norden information service*, www.norden.org/en/information/about-info-norden-information-service; Creutz et al. (2021[8]), *Nordic co-operation amid pandemic travel restrictions*, www.fiia.fi/wp-content/uploads/2021/11/report_68_katja-creutz-et-al_nordic-co-operation-amid-pandemic-travel-restrictions.pdf.

4.2.3. Despite longstanding co-operation, challenges remain for Nordic PES in border regions

While co-operation among Nordic PES in border regions plays an important role in contributing to the common Nordic labour market, a number of challenges are reported.

First, Nordic PES involved in the various cross-border information services all report a lack of sufficient statistics and data to help inform and guide their work and services they provide. As noted earlier (Box 4.1), data on cross-border flows within the Nordic region, either migration or commuting, are not available in a harmonised or systematic fashion (Lundgren et al., 2024[1]). A recent project by Nordregio project (Nordic Mobility II), aims to achieve progress in this area. In addition, data protection legislation, such as the General Data Protection Regulation (GPDR), has acted as a hurdle in this domain. Where data is available

for PES in cross-border information services, it is often with a significant time lag (e.g. one year or more). In other cases, Nordic PES in these offices sometimes rely on other information sources as a proxy for changing labour market dynamics. For example, website traffic to the information service webpage is often monitored in order to detect changes in trends in people seeking information relating to cross-border issues. Therefore, the work of PES and policy making more generally in the realm of the common Nordic labour market is significantly hampered by a lack of available and reliable cross-border statistics in the Nordic region. A solution in this regard will require alignment of national legislation with European legislation (including Regulation 223/2009), a Nordic agreement on the production of cross-border statistics, political will and adequate financial resourcing (Brun et al., 2021[2]). Alternatively, in cases where national legislation allows for data exchanges between Nordic countries, cross-border statistics could be produced bilaterally; however, this is yet to yield any major success to date. In addition, Nordic PES themselves do not systematically exchange any data with each other. High-level anonymised data on vacancies for example could greatly help the work of Nordic PES in border regions in their primary task of job-matching.

Job-matching efforts in the border regions also pose some challenges for Nordic PES. In supporting job-matching and labour mobility within and across the Nordic region, labour shortages common across jurisdictions can add an extra layer of complexity for Nordic PES. Nordic PES in these regions are aware of their role in supporting those who wish to exercise their rights to mobility under the common Nordic labour market but are also cognisant of the potential to further contribute to imbalances. This is particularly a risk in regions where significant differences in salaries exist on either side of the border. For example, in the Öresund region, salaries in Denmark tend to be higher, producing higher flows of Swedish jobseekers seeking employment in Denmark and having the potential to exacerbate shortages on the Swedish side of the border. The effect is particularly pronounced for commuters who take advantage of higher wages in Denmark while maintaining lower costs of living on the Swedish side of the border. In addition, the work of Nordic PES in border regions is largely reactive, helping those jobseekers and employers who seek out their assistance. However, Nordic PES could further their role in cross-border recruitment by taking more proactive steps, including dedicated joint recruitment and talent attraction campaigns.

Labour mobility within the Nordic region often comes with lengthy administrative processes and requiring the navigation of various national and EU legislation, including on issues such as tax, social security and obtaining the required national eID (electronic identification). This can be a burden and in some cases a deterrent to some people considering finding a job or hiring from another Nordic country. Nordic PES in border regions note the usefulness of bilateral agreements between Nordic countries in helping to further integrate Nordic labour markets and tackle these issues. For example, Sweden and Denmark have recently agreed upon a renegotiated Öresund Agreement that will enter into force in 2025 (Regeringskansliet, 2024[9]; Regeringskansliet, 2024[10]; The Nordic Council and the Nordic Council of Ministers, 2024[11]). This new agreement provides, inter alia, greater flexibility for cross-border commuters to work some of their hours from home without impacting their tax situation and no longer requires employers who have employees living across the border to make tax deductions in the other country (so long as the conditions of the Agreement are met). While beneficial to Nordic PES in their work to promote intra-Nordic labour mobility, such agreements are not present in all cross-border regions and require extensive legal and political negotiations. In addition, such agreements can also be helpful in reconciling between national and EU laws and regulation, a major challenge to Nordic PES in advising clients in border regions; both jobseekers and employers.

Access to the mobility opportunities afforded by the common Nordic labour market is not always equal, with particular barriers faced by third country nationals, those from countries outside the EU and European Economic Area (EEA), residing within Nordic countries. In part, this is due to the fact that third country nationals with a residence permit in one EU country do not have the right to settle or work in another EU country (Øresunddirekt, 2023[12]). More widely, but also in Nordic border regions, this contributes to a potential labour force that cannot be tapped into. For example, it is estimated that 50 000 third country

nationals live in Skåne (county in south Sweden where Malmö is located and bordering Denmark), with approximately 30 000 being active in the labour force. Such administrative and legal barriers reduce options for third country nationals in the Nordics, as well as employers with active vacancies. Combined with labour and skills shortages and changing labour market dynamics, including resulting from the twin green and digital transitions, this represents an impediment to further integrated and inclusive Nordic labour markets. Furthermore, for Nordic PES working in border regions, it creates complexities in their work, where they are often caught in the crossfire between national and EU regulation. Therefore, Nordic countries should consider legislative solutions to enhance the access of third country nationals to cross-border mobility within the region, including via commuting. Examples of such solutions include a cross-border endorsement sticker to facilitate commuting of third country nationals in the Meuse-Rhine region of Germany and the Netherlands (OECD, 2025[13]).

Finally, cross-border obstacles should be higher on the political agenda. While the relevant structures and co-operation exist – including cross-border information services, border committees or councils, the Freedom of Movement Council, Info Norden and dedicated Ministers for Nordic co-operation – longstanding obstacles and challenges to intra-Nordic labour mobility exist. For the most part, these challenges are well known by the relevant national authorities, including thanks to the database of cross-border barriers administered by Freedom of Movement Council, but progress in tackling them remains slow and difficult.[1] Furthering the success of the Nordic common labour market through the eradication of these barriers to mobility will require strong political will at both the national and Nordic levels, to enhance the standing and visibility of these issues in the political sphere. In addition, joint initiatives such as the much-needed collection and sharing of mobility statistics, will also require the appropriate financial backing.

4.3. PES co-operation at the Nordic level takes place through formal and informal channels

At the Nordic level, a number of initiatives exist to foster co-operation and knowledge exchange among Nordic PES. This is primarily through high-level Nordic committees and other ad hoc activities, however joint actions and policies enacted together by Nordic PES are largely yet to be seen.

4.3.1. Formal co-operation between Nordic PES primarily takes place through two high-level committees

At the Nordic level, co-operation between PES takes place primarily through two committees established under the Nordic Council of Ministers. The Nordic Council of Ministers is made up of 12 ministerial councils, each focusing on a particular area and bringing together the relevant Nordic ministers working on the same portfolio (Lindahl, 2020[14]). In the field of labour and employment, the Nordic Council of Ministers of Labour (*MR-A)* meet annually, to discuss latest trends in the labour market, new policy measures and other topics of relevance in Nordic or international contexts (such as the green transition). Underneath these ministerial councils are committees of senior officials, comprised of senior civil servants from the Nordic countries, which pursue the issues and priorities set by the ministerial council.

Nordic co-operation in the field of labour is guided by the priorities set by the Nordic Council of Ministers of Labour. Below this, the Nordic Committee of Senior Officials for Labour (*ÄK-A*), supports the work of the ministerial council on labour and observes and discusses labour market trends and policy measures, including obstacles relating to the common Nordic labour market (Lundgren et al., 2024[1]). The committee has eight representatives, one from each of the Nordic countries and autonomous areas.

The Nordic Labour Market Committee was established as a body to implement the agreement on a common Nordic labour market (The Nordic Council and the Nordic Council of Ministers, 2019[15]; Lundgren

et al., 2024[1]). This committee reports to the Nordic Committee of Senior Officials for Labour and is made up of representatives from each of the Nordic countries and the autonomous areas. Delegates are most commonly representatives of national labour ministries and in some cases representatives of PES. Its core objectives include, among others, to monitor labour market trends, discuss labour market policy measures, submit proposals for measures of common interest to the Nordic labour market and formulate measures for co-operation between the respective national labour authorities. For Nordic PES, this committee acts as an important vessel for knowledge exchange between its counterparts, including for example on changes to ALMPs and ongoing reform agendas.

4.3.2. Although less widespread, further Nordic PES co-operation takes place through staff exchanges and ad hoc mutual learning activities

In addition to formal co-operation through involvement in Nordic level committees, Nordic PES also co-operate through other means, including staff exchanges, ad hoc mutual learning activities and events.

For staff in Nordic PES, opportunities exist to complete a placement in the PES of another Nordic country. Most commonly, this takes place through the Nordic Exchange Scheme (*Nordisk utvekslingsordning*, NORUT) managed by the Nordic Council of Ministers (Nordic Council and Nordic Council of Ministers, n.d.[16]). The scheme facilitates employees of a public administration to work on a temporary basis, usually one to two months but up to six, in another Nordic administration, including an employment service. The objective is to foster Nordic co-operation, but also to give participants an opportunity to gather insights and the opportunity to problem solve in a new Nordic setting; with the aim of bringing the learnings and ideas back to their home administration. While participant numbers are limited, for Nordic PES, this gives staff an opportunity to experience how another Nordic PES operate and how they deliver certain types of supports and services. For example, in recent years the Norwegian PES (NAV) received staff from the Swedish PES through this exchange programme, who wanted to gain insights into the services provided by NAV in Norwegian prisons to help aid with the labour market integration of ex-prisoners.

Nordic PES also engage with each other through informal channels to contribute to mutual learning and information collection. This can take the form of questionnaires and study visits to neighbouring Nordic PES to learn from their experiences on certain topics and practices, as well as to inform reforms being undertaken by the PES. For example, in the context of the ongoing PES reform in Denmark (as discussed in Chapter 2), a visit to Sweden took place to examine experiences and lessons of their recent reforms. Furthermore, ad hoc meetings and conferences are organised to share latest trends and developments in the Nordic labour markets and PES activities.

In the area of labour market training, the governments of Finland, Norway and Sweden have a jointly established education provider Education Nord (*Utbildning Nord*). The PES of these three Nordic countries send jobseekers to this centre to avail of training opportunities. Education Nord trains approximately 500 students each year and offers around 30 courses in areas with growing employment needs (Utbildning Nord, n.d.[17]). Beyond this, Nordic PES co-operation does not extend to joint actions, policies, agreements or strategies. Scope exists to explore such measures in the coming years, in particular in aligning approaches to common challenges, including the green and digital transitions, labour shortages and attracting talent from third countries.

4.4. Co-operation among Nordic PES is also facilitated by existing international frameworks

Nordic PES participate in a number of initiatives organised at the European level. Primarily this includes EURES, the service to support labour mobility in Europe, and the European Network of Public Employment Services, a network to support mutual learning and to assess the performance of European PES.

4.4.1. Nordic PES co-operate on international recruitment and job-matching efforts using EURES

EURES is a co-operation network among European employment services, covering all EU countries, Iceland, Liechtenstein, Norway and Switzerland (EURES, n.d.[18]). The initiative was set up by the European Commission to facilitate labour mobility and the free movement of workers within EU and EEA countries. Within countries, services are provided to jobseekers and employers through EURES members (offering the full suite of EURES services) and partners (offering a more limited service). In the Nordic countries, as is commonly the case in most European countries, the main EURES provider is the PES.

EURES enables jobseekers and workers to search for jobs and employers recruit candidates in another member country. In practice, this is done through the online EURES portal where jobseekers can upload their CVs and employers can register vacancies and through international job fairs. In addition, PES typically appointed dedicated EURES advisors within their staff to provide information, job-search support and recruitment services to clients. For Nordic PES, this is no different, with EURES being the primary means to facilitate labour mobility, both more widely across Europe and between Nordic countries themselves.

Intra-Nordic PES co-operation through EURES is longstanding and well-developed. Commonly this involves the organisation of job fairs by Nordic EURES advisors (online and in person), both by all Nordic PES or in particular country groupings depending on needs. Informal working groups between EURES advisors from Nordic PES have also been established, allowing for information exchange and co-ordination of efforts. In addition to the national level, strong co-operation between Nordic EURES staff also takes place in Nordic border regions (as discussed in Section 4.2.2).

In general, Nordic PES find EURES to be a useful network and tool, both nationally and in cross-border regions. However, among challenges reported by Nordic PES, include resourcing issues (primarily in allocating a sufficient number of staff) and demanding reporting requirements, particularly a challenge for smaller PES such as Iceland. In addition, in supporting job-matching, several Nordic PES have advanced digital matching tools available through their own PES vacancy platforms (see Chapter 3), including some aided by AI algorithms, which produce recommendations based on synergies between the profile of a jobseeker and the vacancy description. For these PES, this highlights the limitations presented by the EURES portal, which relies on basic manual matching approaches, which can be less efficient for both PES clients and staff.

4.4.2. Other networks also provide opportunity for knowledge exchange and co-operation between Nordic and European PES

The European Network of Public Employment Services (henceforth PES Network) was founded on foot of a decision of the European Parliament and the Council of the European Union in 2014 on enhanced co-operation between PES, which was subsequently updated in 2020 (European Parliament and Council of the European Union, 2014[19]; European Commission, n.d.[20]). The network brings together representatives of all EU member countries, Norway, Iceland, Liechtenstein and the European Commission.

A core activity of the PES Network is the "benchlearning" process, which reviews PES performance (benchmarking) and encourages improvements through exchanges with and identification of good practices in other PES (mutual learning). In addition, it is an important forum for knowledge exchange among PES, allowing for sharing latest developments, including policy changes and reforms. A number of working groups also exist under the PES Network. This includes for example the Working Group on Taxonomies, currently chaired by the Swedish PES, which is working on a methodological approach to

develop a taxonomy for green jobs and skills using the ESCO (European Skills, Competences, and Occupations) classification system (see Chapter 3 for more details on ESCO).

This wider forum for co-operation and exchange among European PES, has spin-off effects for Nordic co-operation. Nordic members of the PES Network have an informal Nordic sub-group, which meets prior to co-ordinate inputs and preparation for the upcoming meetings of the main network.

Note

1 The Freedom of Movement Database compiles information received on border-related barriers from Info Norden, regional information services and cross-border committees and is accessible here: www.norden.org/en/border-database

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Connecting People with Jobs

The Role of Public Employment Services in Promoting an Inclusive Nordic Common Labour Market

This report explores how reforms of Public Employment Services (PES) and active labour market policy (ALMP) systems in the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) contribute to the common Nordic labour market. The report examines recent, ongoing and planned PES reforms and modernisation processes, the increased deployment of digital and Artificial Intelligence (AI) solutions, and co-operation practices between Nordic PES. In addition, the report provides a comprehensive overview of reforms and improvement processes in ALMP systems across OECD countries, highlighting common trends, showcasing best practices and making recommendations for the way forward for Nordic and OECD countries.

Nordic Council of Ministers