

# EFFICIENCY EVALUATION OF EMPLOYMENT PROMOTION MEASURES FINANCED BY THE ESF AGREEMENT No 14P-47

## SUMMARY OF EVALUATION REPORT

Evaluation is financed by Human Resources Development Operational Programme 2007–2013  
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# SUMMARY

Ministry of Finance of the Republic of Lithuania and JSC „PricewaterhouseCoopers“ signed the service contract No. 14P-47 on June 22, 2010, for implementation of the „Evaluation of Quality and Efficiency of Trainings and Employment Promotion Measures Financed by ESF“. The evaluation contains two parts and, accordingly, two separate reports have been prepared. The evaluation is financed by European Social Fund (hereinafter – ESF). The evaluation is performed by joint group of service providers, namely, JSC „PricewaterhouseCoopers“ and JSC „ProBaltic Consulting“. JSC „ProBaltic Consulting“ prepared evaluation report, containing evaluation of the efficiency of employment promotion measures financed by the ESF.

## **The need, objectives and scope of the evaluation**

Evaluated measures of Human Resources Development Operational Programme (hereinafter – HRDOP) 1st priority were planned during the period 2006–2007. The measures were planned on the basis of their necessity and potential positive effects, considering given economic situation and the experience of implementing 2004–2006 financial perspective. The assumptions on the basis of which the measures to promote employment were designed have changed radically as a consequence of the economic downturn, resulting in the need for reviewing their implementation, however, up to now the relevance, adequateness and efficiency of the measures aiming to reduce unemployment have not been evaluated.

The purpose of carried evaluation is to improve the implementation of HRDOP, to increase the quality and efficiency of the employment promotion measures financed by ESF. The results of evaluation will enable to improve implementation of HRDOP 1<sup>st</sup> priority measures, to improve the quality and efficiency of actions targeting the reduction of unemployment in Lithuania. Provided assessment insights will help national authorities to make more reasoned decisions for the 2014–2020 programming period.

According to Technical specification, the comparison of applied employment promotion initiatives of 2004–2006 and 2007–2013 periods was carried out aiming to assess the continuity, lessons learned and how they were taken into account during the current period. In addition, relevance and utility of HRDOP 1<sup>st</sup> priority measures aiming to increase employment were evaluated. Moreover, the relevance, utility, efficiency and impact of *Integration of Job-seekers into the Labour Market* measure were assessed.

Bearing in mind the assessment tasks, complex data collection and analysis methods were applied. Data analysis methods were combined with each other and principle of triangulation was used. The evaluation is also based on analysis of secondary data sources, a number of interviews with managing authority, Ministry of Social Security and Labour and European Social Fund Agency (hereinafter – ESFA) in Lithuania representatives, interviews with project managers, specialists of Lithuanian Labour Exchange, directly working with target groups, telephone interviews with people involved in projects activities. Evaluation results are also based on the opinion survey of project *Integration of Job-seekers into the Labour Market* participants – jobseekers and employers. Methods of benchmarking and case study (3 foreign countries analysed) analysis were also applied.

## **The efficiency and impact of employment promotion measures applied during the period of 2004-2006**

Activities undertaken to promote employment during the period of 2004–2006 had significant positive impact on both private and public sector employees by increasing productivity, enhancing integration of more skilled workforce into economy sectors, reducing unemployment, especially among vulnerable groups. On the other hand, as illustrated by the experience of the analyzed period, the employment promotion measures lack the potential to ensure continuity of results. In addition, labour market is constantly under pressure of other ever changing of legal, social and economic factors. The impact (context) analysis of Single Programming Document (hereinafter – SPD) Measure 2.1 *Development of Employability* showed that in 2008 the rate of unemployment was below planned indicator (“Reduction of unemployment (change)”), however rapid changes in economy in 2009 backed level of unemployment to the rate of 2003. It can be concluded that the decline of unemployment rate has been achieved, but due to the external and internal economic conditions the continuity of the results was not sustainable enough.

Despite significant investments in non-formal education of adults the indicator of lifelong learning defined in Measure 2.2 *Development of Labour Force Competence and Ability to Adapt to Changes* had risen very slightly and remained almost twice lower than the overall EU average. However, it is very likely that without taken activities financed by ESF the indicator would be even lower. Thus, the relevance of the measure remains during SPD, Financial Perspective 2007–2013 and will be important in the future. On the basis of Measure 2.2, the investment into the qualifications of the public and private sector employees had a strong positive impact for involved organizations and enterprises; however the displacement effect reduced the positive impact of funding.

The indicators of SPD Measure 2.3 *Social Integration and Prevention of Social Exclusion* were slightly lower in 2008 compared to the starting point at 2003.

Based on estimates made in the end of 2008, due to the implementation of SPD Measures 2.1, 2.2 and 2.3, there were created or maintained 3139 temporary or permanent workplaces, which is around 11 percent of all created or maintained workplaces during the period. Most workplaces (around 60 percent) were created or maintained in construction, retail and real estate sectors, which were affected most of all during the economic downturn. According to SPD Measures 2.1, 2.2 and 2.3 activity reports and evaluations, mentioned economic sectors were also the greatest beneficiaries from investment of the EU funds in human capital. Therefore, in forthcoming financial perspective such scenarios should be assessed.

The efficiency and impact assessment of applied measures revealed the following problems. The SPD measures were not sufficiently focused on productivity growth and promotion of entrepreneurship in order to prevent the loss of existing jobs and create new ones. Moreover, not all planned indicators have been achieved. In case of SPD Measure 2.1 not all advantages of active labour market policies (hereinafter – ALMPs) were employed, spending on vocational training was not efficient enough, people lacking motivation were sent to vocational programmes and professional training. It is worth to mention that even during the SPD period there were proposals to enable unemployed person to find educational institution himself.

The quality control of training plans during the implementation of Measure 2.2 was not sufficient, the support accessed only a small part of potential beneficiaries (3 percent of all registered companies in Lithuania), it did not encourage companies to invest more in training staff, and in addition, the displacement effect occurred. On the other hand, under this measure the support accessed leading companies in the area, economic sectors producing higher value-added, allowing to expect increased return of investments. Regarding the

Measure 2.3, the problem of low motivation to find a job or reintegrate into society of some target groups (namely, persons released from prison or dependent on psychotropic substances) should be mentioned. The problem of particularity of the target group remains to this day. Most of these factors have been taken into consideration during the formation of operational programmes for the period of 2007–2013.

Despite a high number of set up and maintained jobs during the SPD period, there have been difficulties to maintain sufficient positive impact on employment continuity due to the systematic causes (global financial crisis, shrinking of Lithuanian export markets, crisis in real estate sector, etc.). Moreover, investments of SPD measures could have had some negative effects on labour market due to volatility of real estate development, unsustainable wage growth and increased demand and supply in mentioned economic sectors. Therefore, more sustainable results can be expected if measures and projects are planned on the basis of long-term labour market needs. More sustainable results and continuity could be ensured by investing in companies with long-term growth potential. Bearing in mind better growth potential of these companies, it is likely that investments in their human capital will provide greater return, if investments are made during the period of economic growth. In long run, the investment risk management plan for planning of EU financial instruments should be prepared, the administrative risk management capacities should be strengthened and the future economic and labour market insights, aiming to assess different scenarios of economic development with involvement of Lithuanian and foreign experts, should be developed.

#### **The relevance and utility of the period 2007–2013 HRDOP 1<sup>st</sup> priority employment promotion measures**

The planning of HRDOP employment enhancement measures for the period of 2007–2013 was dominated by such components as labour supply policies, social inclusion, human capital, increasing labour productivity. Today, relevance of some measures due to the changes in economic situation has decreased. However, in many cases managing authorities are able to adjust the direction of intervention by setting new priorities and reallocating the funds. Most changes made at priority or measure level reflected the situation in Lithuanian economy, increased the relevance of activities and revealed appropriate reaction of managing and administrating authorities to changes in labour market, while dealing with short-term unemployment.

Intervention priorities and directions for promotion of employment are highly dependent on the economic context. With the economic upturn and low unemployment rate it is appropriate to focus measures on more long-term employment goals, activities contributing to creation of new jobs, promotion of social inclusion, compatibility of labour demand and supply (by reducing structural and long-term unemployment). During the economic recession, short-term goals are becoming more important – funding of ALMPs, support of groups at social risk and continuous financing of other employment enhancing measures, evaluating that effects and results may be much smaller compared to periods of economic upturn.

The planning of interventions in human capital would be more successful, if there is market demand for such qualifications, e.g. the supply of workplaces should be in line with employment promotion. Otherwise, investments into qualifications of human capital without adequate market conditions for employment and earnings according to qualifications gained would not be relevant and deliver desired effect. It shall be mentioned that huge demand for labour force during the programming period of operational programmes for 2007–2013 facilitated the inclusion of social groups at risk, long-term unemployed, and people with disabilities and others, therefore addressing both unemployment and social

exclusion problems. Meanwhile, during the economic downturn the efficiency of such interventions has been significantly reduced.

Currently, measures of HRDOP (or their individual activities) aiming to increase labour supply only partially meet the needs of labour market, as demand for labour force is often insufficient. In order to increase efficiency of intervention it is crucial that labour supply would meet actual or potential demand of labour market.

Conducted analysis of employment promotion measures in Hungary, Sweden and United Kingdom and their comparison with applied measures in Lithuania revealed that in many cases the portfolio of employment promotion activities is similar. However, Lithuania is less focused on youth, non-governmental sector and higher value-added economic sectors.

Lithuania has a very high rate of youth unemployment, which eventually results in high rates of emigration. However, youth as a target group is involved only in a few ALMP measures (as adjusted in the Employment Promotion Act), partially prioritized in measure *Promotion of Entrepreneurship*. Therefore, one can conclude that the possibilities to involve or prioritize youth in other measures is not used enough.

Non-governmental organisations (hereinafter – NGOs) are included as potential beneficiaries into following HRDOP 1<sup>st</sup> priority measures: *Reconciliation of Family and Work Commitments* and *Integration of Persons at Social Risk and Socially Excluded Persons into the Labour Market*. However, in the future it is useful to extend the participation of NGOs, especially, in areas where they already widely operate, such as social dialogue, corporate social responsibility, promotion of entrepreneurship, prevention of migration initiatives.

Priority measures aiming to promote employment and direction of intervention measures are highly dependent on economic context and situation in labour market. During the periods of economic growth and low unemployment it is appropriate to focus on long-term employment promotion measures, such as activities contributing for the creation of new workplaces, reduction of social exclusion, compatibility of labour demand and supply (reducing the structural and long-term unemployment). Under the conditions of economic recession, the short term goals are becoming more important – funding of ALMPs, support for groups at risk, and ongoing funding of measures strengthening employment possibilities (e.g. trainings), bearing in mind that the effect and results may be much lower than in conditions of growing economy.

The evaluation of changes in HRDOP 1st priority measures funding showed that financing declined most for measures aiming to increase labour supply (as a consequence of 5 times higher unemployment at the moment of evaluation compared to 2007), social inclusion promotion measures (such as *Promotion of the Return of Lithuanian Emigrants*, *Establishment and Implementation of Vocational Rehabilitation Programmes for The Disabled*, *Training of Specialists*, *Establishment and Implementation of Vocational Rehabilitation Programmes for The Disabled*, *Training of Specialists*). The volume of financing for human capital development in private sector decreased, while funding of similar activities in public sector has not changed. Most of the additional funding was directed to the complex measure *Integration of Job-seekers into the Labour Market*, aiming to solve problem of short resources for ALMP measures and targeting short-term labour market objectives.

In short-term employment promotion measures may not produce the effects of desired scale. The experience of other countries shows that the formation of labour market rigidities during economic downturns provides conditions for formation of long-term structural unemployment, which does not reduce even if economy starts growing rapidly.

The assessment of activities, priorities and implementation of HRDOP 1<sup>st</sup> priority measures showed that some of them (*Reconciliation of Family and Work Commitments, Reorientation of Workforce in Rural Areas from Agriculture to other Activities, Integration of Persons at Social Risk and Socially Excluded Persons into the Labour Market*) failed to focus on priorities (in terms of cost-benefit) that are directly relevant to the promotion of employment, workers' adoption to market needs, increasing productivity growth, ensuring business continuity, therefore it is highly probable that their result will be lower than expected.

One of the core HRDOP 1<sup>st</sup> priority measure for jobs creation and increasing demand for labour in long term is *Promotion of Entrepreneurship*. However, it is important to notice, that during economic downturn the measures of financial engineering might not produce the desired effects, as the business creation, maintenance and/or expansion is becoming difficult task, therefore the demand for loans and/or subsidies may be less than expected during the planning of interventions. The attractiveness of financial engineering measures will depend on how favourable (cheaper) they will be compared to conventional financial instruments (loans of commercial banks). Similar financing conditions may lead to low interest due to the additional bureaucratic constraints. However, taking into account general trends of changes in Lithuanian economy, it is appropriate to plan such measures in the forthcoming financial perspective.

The measure *Establishment and Implementation of Vocational Rehabilitation System for the Disabled* remains highly relevant. Compared to the EU-15 countries Lithuania has a low rate of disabled persons' integration into labour market. Currently, vocational rehabilitation programs involve only a few percents of registered in Lithuanian Labour Exchange (hereinafter – LLE) unemployed people with disabilities. The growing absolute and relative numbers of registered unemployed people with disabilities show that there is a good potential for vocational rehabilitation services, therefore, it is reasonable to maintain this measure in next financial perspective. The comparative analysis also revealed that in Lithuania there is considerably lower employment rate of people graduated from vocational rehabilitation programs. It suggests the possibility of future improvement in efficiency of vocational rehabilitation services.

The assessment of trainings and vocational rehabilitation measures carried out in 2008-2010 and funded under HRDOP 1st priority revealed the following results in terms of economic structure. ALMP training measures were targeting relevant economic sectors. Based on the analysis of unemployed sent to vocational training and ratio of registered vacancies by Department of Statistics in 2008–2010, it can be concluded that greater attention was paid to construction, manufacturing, retail, accommodation and catering services. Meanwhile, the contribution to satisfy the needs of transport sector was smaller, although the demand of labour in this area was among the largest. The assessment of unemployed sent to vocational training and ratio of registered vacancies in Lithuanian Labour Exchange (LLE) showed that professional training as part of the ALMP has also been directed to the appropriate individual segments of economy. In turn, the vocational rehabilitation programs, selected by participants, were also targeting appropriate segments of the economy. Vocational rehabilitation programs have only a marginal impact on labour market due to their limited scope.

It should be noted that implementation of ALMP and vocational rehabilitation activities have been oriented to current fast changing labour demand without making any longer-term planning. However, without longer-term labour demand forecasting techniques it is difficult to ensure long-term supply of qualified workers for different economic sectors.

It is also likely that with the recovery of economy a considerable number of skilled but currently unemployed workers will return to their previous job places, therefore, a

smaller number of retrieved or created jobs will be available for labour market newcomers or persons with changed qualifications through vocational training. This tendency is confirmed by the remaining high rate of youth unemployment. For that reason, under the conditions of labour demand decline, the efficiency assessment of ALMP trainings and vocational rehabilitation becomes more difficult.

Thus, the decline of labour demand in all economic areas and surplus growth in labour supply potentially reduced short term effect of vocational training and rehabilitation. On the other hand, there is emerging trend of increasing number of empty job vacancies in different areas of economy, despite high unemployment rate. Moreover, economic downturn led to the growth of structural unemployment.

### **The relevance, utility, efficiency and impact of ALMPs**

Assessing the impact of ESF on employment effects focuses on ALMP measures. ALMP measures, were concentrated in HRDOP under the measure *Integration of Job-seekers into the Labour Market*, are evaluated according to their relevance, utility, efficiency and impact criteria. ESF is a main source of funding for ALMP measures during programming period of 2007–2013.

Currently, three projects under the measure *Integration of Job-seekers into the Labour Market* are already closed and six are still being implemented. Major ALMP measures, considering budget and number of involved participants, are: vocational training, public works, supported employment. Mentioned ALMP activities already involved 123 thousand participants, which is nearly 89 percent of planned indicator.

In the context of low or medium unemployment vocational training can be regarded as the most appropriate ALMP measure. However, when the unemployment rate is high efficiency of vocational training is lower and supported employment is becoming more effective (mostly, employment subsidies and assistance to acquire occupational skills). It is recommended that planning of investment in ALMP measures should be based on anticipated level of unemployment and considering expected situation in labour market. During periods of low unemployment, it is recommended to concentrate around 40 percent of ALMP measures for vocational training, there us high unemployment rate should reduce funding up to around 30 percent. The proposed shares are calculated based on estimation made during the evaluation. Decision-makers should consider the information known at the time of policy formation.

The diversity and complexity of ALMP measures in Lithuania is considered to be sufficient. The measures applied are widely used among other EU member states and are recognised by international practices. The study revealed that the number of unemployed involved in ALMP measures is insufficient. Comparative analysis revealed that in Lithuania the ALMPs are being funded to similar extent as in other Central and Eastern European countries, although significantly less than in Western Europe and Scandinavian countries. The extent of financing could be considered as sufficient only if the consulting and brokerage services are applied more widely.

The utility of applied ALMPs increasing employment possibilities varies. According to conducted survey, 30 percent of persons receive employment subsidy and 36 percent of participants involved in vocational training believes that participation in mentioned activities served for their long-term employment. Accordingly, vocational training helped to get a job for 18 percent of respondents; however, public works encouraged employment of only 14 percent of respondents.

The efficiency of ALMPs is often determined by external factors, such as low motivation for work, lack of interest in legal employment. These factors essentially reduce the efficiency of ALMPs as well as expected impact. Therefore, it is necessary to strengthen

existing and apply new ways of psychological and social support of ALMP participants in order to raise motivation for work.

In the context of economic growth vocational training can be regarded as the most relevant ALMP measure. However, the essential change in organisation of vocational training is crucial aiming to improve quality of services provided as it does not properly respond the needs of labour market. First of all, the employers should be more involved into the formation and implementation of vocational training programmes. Moreover, the market demand for specialists is forecasted only for one year ahead, therefore it is not informative enough about the needs of specialists in the future.

The transition to rate (voucher) system is considered to be the highest priority for vocational training system. The rate system would create preconditions to make labour exchange services more flexible and will provide greater possibilities to meet employers' needs. It is also recommended to carry out medium-term forecasts of labour market demands on a regular basis, which would inform about trends in economy sectors' needs in medium term (approximately five years) and will direct the programs of vocational training accordingly.

Funding of institutions providing vocational training is weakly connected with their performance. Results of employment after vocational training or feedback of participants about the trainings quality do not directly affect the operation and funding of training institutions.

Subsidy schemes, such as subsidised employment and assistance to acquire occupational skills, are widely applied as ALMPs among EU countries. However, due to the distortion of competition, negative effects for the persons who do not receive the subsidy and hazard of abuses the benefit of these measures is limited. Mostly they are more applied during the periods of economic recession, when unemployment is high, with a bold focus on the most needed groups – disabled, long-term unemployed and others facing limitations of self-employment opportunities. The potential of more specified diversification of subsidised employment and assistance to acquire occupational skills according to the duration of unemployment should be considered, i.e. commitment to maintain employee with integration difficulties after participation in the subsidy scheme should not be compulsory. However, the obligation to retain the employee with better integration capabilities for at least several months after the end of subsidy should remain.

In order to reduce the misuse of subsidies, it is also recommended to carry out systemic monitoring of grants use. The possibility of introducing a progressive mechanism for prioritising employers that employ persons under subsidy scheme should be considered, e.i. to prioritize these enterprises (in case of limited resources) that performed better in maintaining employee(s) for a longer period comparing to the time the grant was received.

Public works are useful to address the needs of most disadvantaged unemployed persons during economic recession. Public spending on unemployment insurance benefits or social benefits is replaced by the state subsidy for the cost of public works in exchange for getting a public good (maintaining or building infrastructure and so on). During low unemployment periods, this measure does not sufficiently increase the supply of labour force, it only generates temporary employment. However, under high unemployment conditions this measure is relevant.

Conducted impact assessment showed that implementation of ALMPs will potentially provide with jobs 41 thousand of job-seekers (including 6 thousand maintained job places). By the time of assessment (November 2, 2010), the analysed HRDOP measure provided or maintained workplaces for 22 thousand individuals. Considering the specific

methodology of accounting, the result of activities can be estimated in 6 months after activity implementation is finished.

The employment of participants in analyzed measures does not reflect the net effect of ALMPs on employment in Lithuania since various effects, such as additionality, substitution and displacement, indirect multiplier effect occur. Approximately, the implementation of HRDOP measures will cause net increase of employed people up to 12,5 thousands.

The average cost of one ALMP measure participant is 3 594 litas. Costs of ALMP measures vary significantly. The cheapest are activities of inclusion of job-seeker into territorial mobility programme (1 134 Lt) and public works (1 638 Lt). The most expensive are support for social enterprises (10 876 Lt) and vocational training (6 899 Lt). Almost half of training costs consist of training grants. Average cost of training program is 3 146 litas. The average cost of vocational training for unemployed (the average cost of one day training for one unemployed person is 32 litas) under the measure *Integration of Job-seekers into the Labour Market* is similar to the cost of vocational schools for students (the average cost of one day training for one student is 31 litas). The cost of conducted trainings for unemployed is several times lower than regular price of employees' trainings financed by ESF in enterprises (average cost of one day training for one person in enterprises is 188 litas).

Comparison of applied ALMPs in Lithuania shows that subsidised employment activities are 2-3 times more efficient (in terms of cost-benefit) than vocational training. The cost of subsidised employment is lower and the rate of recruitment is higher compared to participation in vocational training. Taking part in public works does not significantly improve the recruitment possibilities however, due to the low cost (in terms of cost-benefit) the efficiency of this measure is similar to subsidised employment and assistance to acquire occupational skills. It is important to stress that these conclusions were drawn under conditions of high unemployment. According to foreign country analysis, in terms of economic growth vocational training is most effective measure, whereas effect of subsidised employment is smaller and short-term.

Considering the existing planning and implementation system of ALMPs and the overall economic situation the implementation in terms of objectives and costs balance of HRDOP measure *Integration of Job-seekers into the Labour Market* is regarded as normal. However, the potential for achieving better results would be strengthened if systemic changes are implemented. The Study analyses the possibilities of achieving the same objectives at lower cost. These options include two groups: the cost-saving measures of ALMPs and increasing the impact of ALMPs.

### **Recommendations:**

- The planning of employment promotion measures and identifying funding priorities in Financial Perspective 2014–2020 should be based on more diverse future planning tools (e.g. foresights), that will more accurately determine scenarios of economic development and future employment priorities.
- Employment promotion measures in Financial Perspective 2014–2020 should prioritize youth as a target group providing conditions to find a job and be well established in Lithuanian labour market.
- When planning investments in ALMP measures the forecasted unemployment level and situation in labour market should be considered. Under normal economic conditions 40 percent of ALMP funding should be devoted for vocational training. However, during high unemployment periods the share should be smaller - around 30 percent.

- More time should be given to analyse the situation of each unemployed, assessing his motivation, selecting appropriate ALMP measures. Psychological and social support measures should be strengthened and new methods of motivation applied.
- The medium-term forecasting (approximately five years period) of labour market needs should be implemented on regular basis, aiming to have information about the required professionals and accordingly directing vocational training programmes.
- The better link between financing of training institutions and their operating results should be created.
- Aiming to reduce the misuse of subsidies, it is also recommended to carry out systemic monitoring (monitor if after the subsidy ends employed person remains to work, duration of employment, reasons for dismissal), differentiate measures of subsidised employment and assistance to acquire occupational skills.