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Evaluation of the European Social Fund Interventions in Germany

Programming Period 2000 - 2006

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of Economics and Labour

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Mid Term Evaluation Report, SPD Objective 3

Summary

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Central Results, Conclusions and Recommendations

RWI-Essen, the SÖSTRA Institute Berlin and Prof. Ronning of the University of Tübingen were commissioned by the Federal Ministry of Economics and Labor to evaluate ESF interventions in the period from 2000 to 2006, in accordance with SPD Objective 3 and OP of Federal Government Objective 1. In addition to a detailed analysis of the results of the monitoring, as well as discussions among experts, the focus of the analysis for the mid-term reviews also consists of a postal survey of participants in ESF-promoted projects in the countries and a comparison group of unemployed persons, with a total of around 40,000 surveyed, as well as a survey of a comparison group of about 2,700 jobholders.

The gross effects of the aid were determined on the basis of this survey. In addition to this, comparison group analyses were conducted for two aid instruments (training of unemployed and employed persons). These comparison group analyses facilitate the determination of net effects. For aid at the national level, this evaluation has built on the results of the evaluations and the accompaniment of the different federal programs in SPD Objective 3 and the OP of Federal Government Objective 1.

Material and Financial Process

Seen as a whole at the program level, the **material process** of the ESF interventions appears to be satisfactory. The expected number of participants in aid activities was reached to a large extent (according to our calculations, without consideration of trifle cases and also Policy Field C in SPD Objective 3 at more than ¾). The **financial process** can also be deemed satisfactory on the whole (around 2/3 of the funds planned for the first three years of the aid activities were spent). In the implementation of these programs, there were the usual start-up problems and the delays that accompany them. But the implementation of the program in the aid period is not put at risk by the latter if some adjustments are made.

In the implementation of planning, there are significant differences between the policy areas and the activities:

- In *Policy Field A* (active and preventive labor market policy), a mixed balance of material and financial processes results. The figures for participants, after calculating out insignificant numbers, were well over projections in Measure 1 (thanks not least to JuSoPro), as well as in Measure 2, and especially Measure 3. The financial process presents a balanced picture. The activities in this case – with cutbacks in Measure 3 – ran nearly according to plan.
- In *Policy Field B* (society without exclusion), the number of actual admissions surpassed projections. However, there is a great number of delays in the spending of

ESF funds. So far, only 63 % of the ESF funds planned for 2000–2002 have been spent.

- In *Policy Field C* (vocational and general education, lifelong learning), for which no projection figures on participant admissions are contained in the projection documents, there are somewhat fewer delays in the spending of funds in comparison to Policy Field B.
- There are significant delays in implementation in *Policy Field D* (adaptability and entrepreneurial spirit), both in the material as well as in the financial process. So far, 40 % of the projected ESF funds have been spent.
- In *Policy Field E* (equal opportunities), the material and financial process is satisfactory.
- In *Policy Field F* (local capital for social purposes), projects with a noteworthy extent have only recently started in 2003. Nevertheless, the commitment of funds covers this policy field completely.

Gross Effects of Aid to the States

Statements can be made on the **effects of ESF interventions** (**gross effects**) based on the integration rates (own survey) and/or the retention rates (ESF-BA, own survey) (see **Table KF-1**):

- Just under 30 % of the participants in **vocational preparation activities** either took up career training (22%) after their activity – in accordance with the goal of this type of activity – or were able to find employment (7.7 %). With the **retraining of unemployed persons**, the integration rate was somewhat lower at 25.1 %. Thus, a quite **satisfactory integration rate** was reached in both cases.
- The integration rate is relatively **low** (10.8%) with **supported employment qualification**, which is carried out in combination with job-creation measures and structural adaptation measures and assistance for work. The latter confirms the fact, known from research of the job market, that job-creation measures and structural adaptation measures are relatively inefficient job-market instruments with respect to integrating project participants directly into the primary job market within a short time period. However, this may prove necessary with respect to sociopolitical objectives and, in particular, the difficult situation on the job market (East Germany).
- **Positive results** can be documented in the case of subsidies for **setting up a business**. By August 2003 (at the time of the survey), 88.6% of the recipients of such subsidies had set up their own business and, in doing so, created an average of one additional job.
- **Hiring assistance** is also associated with a **very high integration rate** (78,8 %). Just 8.5% of the recipients of this assistance were unemployed 12 months after the start of the employment aid. Because of the few participants in the SPD Objective 3 area, this instrument could only be included into the survey in the new German states. The successful employment initiation is a precondition for the demand of the

benefits. From the high integration rate, it is not possible to conclude that the hiring assistance was the cause of the employment success. With this instrument, significant substitution and windfall effects have to be taken into account.

Table KF-1
Integration of Participants in employment by States Programs

(Objective 3-Area)

Type of instrument	Integration rate[a]	After 6 months registered as unemployed	Figures on participant admissions[b]	Number of integrated participants
Vocational preparation	29.6[c]	22.0	31,580	9,350
Retraining of unemployed persons	25.1	38.6	69,500	17,440
Supported employment qualification	10.8	51.5	49,500	5,350
Retraining of employed	--	4.9	49,280	--
Subsidies for setting up a business	88.6[d]	--	14,270	9,500
Hiring assistance[e]	78.8	8.5	13,250	10,440

Source: Authors' own calculations. – [a]Unsupported employment or self-employed 6 months after the end of the measure (in the case of hiring assistance 12 months after the beginning of the supported employment). – [b]Admissions of the years 2001 and 2002 according to monitoring. – [c]Inclusively school, study or training. – [d]Set up of the business has been realised in the meanwhile. – [e]Survey in the objective 1-area, i.e. the calculated integration rates and the number of integrated participant indicate a lower limit.

For the ESF-BA program as the central aid program at the federal level, the IAB has in context of its accompanying research work calculated and compared the integration rates of the ESF participants and the participants promoted regularly. Within the context of vocational retraining aid, the integration rate of the ESF-BA program in unsupported employment subject to social insurance is regarded positively by this evaluation. This rate lies with over 20 % only slightly under the rate of standard aid.

For the vocational training activities – at a little higher share in persons who are unemployed or looking for a job – an integration rate of 15.6 % in unsupported employment subject to social insurance was measured. The overall view with other results leads to the consideration that the effectiveness of the aid activities might be increased further by the combination of re-training measures together with vocational training measures, for example, in the form of module like qualification constituents.

For the subsidies for setting up a business, no net effects were calculated until now. The transition rates in unemployment are hardly different from bridging money, bridging money with coaching, and bridging money with seminars for founders of a new business and, additionally, they seem to be low with a rate of 10 %. However, without more exact information with respect to the mentioned participant groups in the aid activities, no further statements are possible about how far this can be regarded as a success.

Net Effects and Cost Efficiency

The calculation of the net effects of ESF aid for **continued education activities for the unemployed** conducted on an exploratory basis in the context of the mid-term review reveal statistically **significant positive effects from these activities** with respect to the chances that the beneficiaries have to find a job in the primary job market. The continued education activities significantly increase the likelihood that individual participants will find a job. Without ESF sponsored continued education, the probability of an individual being employed 6 months after the activity is about 16%, whereas it is around 29% with continued education.

The second comparison group analysis was conducted with **continued education participants in activities for jobholders**. These activities attempt to increase the adaptability of these jobholders. The comparison group analysis led to the conclusion that participation in continued education activities had a **significantly positive effect** on the **individual assessment of job security** (improvement by around 33%) and on the **chances for advancement** (around 29%).

The question of whether the aid through job market instruments is "worth it" in consideration of the gross and net effects, requires the additional determination of **cost efficiency** of the individual activities. The average direct aid costs per participant and successful aid case shown in **Table KF-2** vary significantly between the various aid instruments. In order to be able to provide statements on the extent of the aid, the average duration of aid is noted in the table.

Basically, in the case of information on the effectiveness and the costs of aid in terms of the instruments used, it should be considered that, in part, very different projects are combined because of the different aid approaches in the German states with individual instrument types. Furthermore, in the comparison, the orientation of the instruments towards the different target groups of the aid is also taken into account. The less favorable the individual requirements of the participants are, the lower are the calculated gross effects, if the quality of the activities remains the same.

Overall Evaluation

On the whole, the ESF interventions make a **positive contribution to increasing employability** and **promoting the setup of businesses** in Germany, with regard to gross effects, and with regard to the net effects examined in two aid instruments, as well as cost efficiency.

Six months after the end of the activities, an estimated number of 52,080 participants (without federal program), among the participants from 2001-2002 in the Objective-3 Region, were employed and/or had set up a business. In these businesses, additional jobs were created. In particular, 2,430 participants in vocational preparation activities were employed. Another 6,920 participants went on to vocational training after the activity or continued with their schooling. Of the participants in continued education ac-

tivities for the unemployed and employed, 17,440 unemployed and 5,350 employed persons were employed in the primary job market. Regarding hiring assistance, for which very few ESF supported projects still existed in 2000 and 2001, 9,500 participants found supported employment.

Table KF-2
Cost per Participant in the States Programms
(Objective 3-Area)

Type of instruments	Average participant cost	Cost per successful aid case (gross)	Average duration of measure[a]
	€		Months
Vocational preparation	9,260	31,280	8.5
Retraining of unemployed persons	10,000	39,840	7.6
Supported employment qualification	6,280	58,150	9.0
Retraining of employed persons	4,450	--	7.1
Subsidies for setting up a business	4,530	6,800	6.2
Hiring assistance[b]	5,700[c]	7,230	11.5

Source: Own survey. – [a]Average duration in the parent population of the survey on the basis of counterfoils. – [b]Survey in the objective 1-area. – [c]Average participant cost according to the mid-term evaluation of Saxony.

European Added Value

The added value of the ESF aid in Germany results from the role that the ESF plays in the context of the active job-market policy overall. With a share of about 5% of the total aid volume in the context of the active job-market policy, ESF aid plays more of a subordinate role in Germany from a quantitative point of view. The aid has clearly left its mark qualitatively:

- Continued education participants financially supported by ESF aid would not otherwise have been able to take advantage of continued education.
- Generally, these continued education activities covered existing needs and, in this way, provided an important additional contribution to job-market policy.
- In the area of in-service studies and in-service continued education, areas in which Germany is behind compared to other countries, progress was made.
- The German states took advantage of the planned flexibility in the employment strategy in order to adapt the interventions to the peculiarities of the respective region.

- In the implementation of gender mainstreaming, awareness education was launched at all levels of participation in ESF aid. At the same time, ESF aid in Germany made an important contribution to the regionalization of job-market policy.

- The partnership principle, with respect to both federal as well as state aid, given a boost by ESF aid, received a stronger reception in the active job-market policy.

- Through consistent implementation of the evaluation of job-market policy measures and the discussion of methodical principles, ESF made an important contribution and provided an important impetus for the development of the evaluation structure in Germany.

The Contribution of Aid to the European Employment Strategy in Accordance with ESF Activities

ESF was employed over almost the entire spectrum of the European employment strategy. The quantitative contribution of ESF aid between 2000 and 2002 is strongly focused on the areas that deal with overcoming unemployment, acquiring qualifications, and adaptability (**Table KF-3**). By contrast, there is less emphasis on aid to the underprivileged and gender equality on the job market.

Table KF-3
ESF-Measures and Thematic Focal Points

	Participant stock		ESF-Expenditure	
	Federation	States	Federation	States
Prevention and activation	89,177	51,430	476	265
Reform of the fiscal and social systems, taxation of labor	-	-	-	-
Lifelong learning	70,169	116,209	288	209
A job market that incorporates all	16,118	27,587	48	146
Entrepreneurial spirit	5,973	5,459	17	13
Modernization of labor organisation	309	36,879	3	64
Equal opportunities	14,459	14,666	65	66
Territorial dimension	0	259	0	0

Authors' own calculations.

Overall, according to the results of the evaluation, the ESF makes a positive contribution to the employment strategy. There are some areas that would be good places to initiate improvements. In particular, the following results can be emphasized:

- In **Policy Field A**, which falls under the **subject field of prevention and activation** in the European employment strategy, one of the focal points of the aid in the first half of the aid period lay both in the Objective 3 and Objective 1 region. At the federal level, the JuSoPro and the ESF-BA program covered the aid field

(with 60% of the total expenditures in Measure 2), while the states were strongly represented in a variable way, depending on the individual situation. The aid was effective overall, whereas there was still some leeway with respect to increasing the effectiveness of the activity. The extensive aid in this area fitted seamlessly – in harmony with planning with respect to the overall ESF strategy – into the employment strategy.

- In **Policy Field B**, the focal point of the aid in the first half of the aid periods was in the states, whereas the federal government was represented in the ESF-BA program in particular, and with CAST to a lesser extent. In spite of the negative results with respect to integration rates in the primary job market upon first glance, the ESF plays an important role in this area, under the **subject field "One Job Market for All**," in implementing the employment strategy. Regarding the fulfillment of these sociopolitical objectives – despite the lack of specific "hard" indicators so far – there is evidence of the aid's positive effects.

- **Policy Field C** is characterized by activities that are used for further developing the system and improving the quality of professional education. In the European employment strategy, these activities play an important role in the **subject field "Lifelong Learning**." With respect to evaluation, indications of the positive effects of the aid are revealed in the qualitative opinions in the expert discussions. Overall, a generally positive, if still incomplete, picture emerges from the evaluation regarding the contribution of aid in Policy Field C to the employment strategy.

- Aid for the **further training of employed persons in Policy Field D**, contributed to the **subject field of "Lifelong Learning"** as well as to modernization of labor organization in companies in the first half of the aid period. Overall, with respect to aid in this area, there was success in raising the employability of workers in concordance with the goals of the employment strategy.

- **Aid for setting up businesses in the context of Policy Field D** made a positive contribution in the first half of the aid period for the **development of the entrepreneurial spirit as a subject field**. With respect to the effects of the aid with this instrument and the employment effects associated with it, the evaluation was positive overall. The effect of ESF aid on traditional target groups was of a more indirect nature, however.

- The **major topic of equal opportunity** in ESF aid is positioned **both as a cross-section objective and as part of Policy Field E**, such that its goals, among others, is improving the access for women and promoting their opportunities for advancement. As an independent political approach, this objective receives the most notice and acceptance and is currently the most clearly shaped goal. Thus a basically positive picture emerges with respect to the contribution

of ESF aid to employment strategy in this particular area. In practical application, there were still some problems that should be addressed further on.

- Small projects supported in **Policy Field F** to aid local job development make a contribution regarding employment strategy in the subject field of **entrepreneurial spirit**, as well as to the **territorial dimension of the job market**. Aid in this political area began late and is still in the starting phase in some states. From an evaluation perspective, this area of aid is very promising, whereby problems regarding the necessary administrative effort and the incorporation of public bodies in the aid program have become clear.

Recommendations

Strategic considerations for the future role of the ESF in the second half of the aid period are oriented on the **new, tightened employment policy guidelines and the new pillars of the year 2003.** If the strategy is kept, the main emphasis would continue to be on activities to raise the employment rate with a view to reaching the goal of full employment. It is precisely this goal that is at the core of the activities in the context of the current reform of job market policy.

In the context of an overall strategy that seeks to achieve all objectives of the employment strategy, it seems necessary and sensible, from the standpoint of the evaluation, **that, for the second half of the aid period, the ESF should move away from a preventative approach and closer to a strategy at the core of which stand the pillars of "Raising Job Quality and Job Productivity" and "Strengthening Social Cohesion and Social Integration."** Indeed, this should occur without completely giving up the, in part, successful and effective approaches in the preventative job market policy.

The following recommendations are based on the evaluation, and at the same time consider the socioeconomic and job market policy environment in Germany modified in comparison to the planning of the ESF interventions for 2000-2006. The weak growth of the German economy, intensified by negative economic influences, has been accentuated. The federal government has introduced a series of measures to **modernize the welfare state and to reform job market policy**. These reforms have significant influence on the carrying out of ESF interventions in Germany. The precise influences can only be determined, however, after the definitive structure of the intended reforms is known. The planning works for the second half of the aid period as well as the recommendations of experts are moving along a terrain that could be changed extensively by political decisions.

Recommendations for the Overall Strategy

1. Against this backdrop of changes in the job market policy at the federal level and the problem of co-financing, a **compromise** between **retaining the basis of the current program** and a **necessary reorientation** should be reached. We do not advocate any fundamental change in the program.

2. A central concern of ESF aid consists in the permanent improvement of the chances of the young generation for an integration into the labor market without serious frictions. From the point of view of the evaluation, both the states and the federal government should offer **broader activities for young people**, especially in the field of education (Policy Field A, Measure 1). On the one hand, this implies the improvement of schooling in respect to a better preparation for working life. On the other hand, it involves the qualitative improvement of initial vocational training (especially in vocational schools).

3. If changes in the national aid policy, accompanied by the implementation of the Hartz concept and Agenda 2010, lead to gaps in aid being closed that ESF aid currently fills, it may prove necessary to fundamentally rethink the current ESF strategy. For the second half of the aid period, the question arises then of whether the current interpretation of **ESF aid and national aid as complementary** will continue to be sensible and target-oriented. Alternatively, **instruments** stipulated by **SGB III** could be used, in contrast to the current practice with ESF funds, if this involves instruments proven to be effective.

4. An alternative definition of the financial basis at the national level was developed through the accompanying research for the ESF-BA program. Here, the aim is a **new financial basis for the program from the tax resources of the federal government and ESF funds**, which avoids the disadvantage of the present mixed financing.

5. The necessary reorientation with respect to the aid will automatically lead to the **states being increasingly more active in Policy Fields B, C and D**. In terms of the ESF, it is also considered sensible not to hinder the opportunity for the states to be active in Policy Field A. They should have the **opportunity** to continue offering **preventative measures for non-long-term unemployed persons**.

Recommendations on Individual Instruments

6. From experience, rising long-term unemployment – above all in the new states – also requires the use of **instruments** that provide a **social cushion** for these developments (Policy Field B). If these measures are evaluated with the effectiveness and efficiency indicators concerning a rapid integration into the first labor market, then they can hardly be justified. A **political decision** is required here on how great the participation of ESF should be in implementing primary sociopolitical objectives.

7. Policy Field C (Lifelong Learning) and D (Entrepreneurial Spirit), especially in the long run, offer interesting starting points for the substantive **profiling of ESF aid** that could be reduced to the formula "**promotion of social cohesion in a business-oriented society**."

8. The commission's memorandum of 25 April 2003 ("Simplification Directive," section 1.1.) opens the door for **private ESF co-financing.** We see certain areas of contact of business interests and genuine areas for ESF aid, but we are skeptical with respect to the potential of developing this (co-) financing source (especially for Measure 7).

9. With aid for **in-service qualification activities (Policy Field D)**, a **stronger focus should be given on certain target groups**. This is in accordance with the "Recommendations of the Council on Implementation of Employment Policy Directives in the Member States" under the concept of lifelong learning. In addition, stronger measures should be promoted to boost the competitiveness of **small and medium-sized businesses**.