

Evaluation of results and impact of EU funded investments in the field of employment during the programming period 2004-2006

„DEA Baltika” Ltd.

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SUMMARY

The assessment was carried out as commissioned by the Ministry of Finance of the Republic of Latvia with the aim to evaluate the contribution of the EU structural funds to the measures of employment and social inclusion for the planning period of 2004-2006 and to establish the impact of this contribution. Within the framework of the assessment the contribution of all the EU structural funds included in the Latvian Development Plan (Single Programming Document (SPD)) for 2004-2006, namely, European Regional Development Fund, European Social Fund, Guidance Section of the Agricultural Guidance and Guarantee Fund and Financial Instrument for Fisheries Guidance has been considered and assessment of their direct and indirect impact on employment and social inclusion both within the country in general and also, where possible, on the level of five regions has been carried out for the time period 2004-2009. The assessment was performed by the consulting company „DEA Baltika” from October 2010 – February 2011.

Activities of the SPD influencing the supply of the labour force or human resource development (SPD Priority No 3 „Development of Human Resources and Promotion of Employment” and Activity No 4.7.1 „Support to vocational education by improving the professional skills and competences of agriculturists, foresters and other individuals involved in the work and reorganisation of agriculture and forestry sectors”) are considered as direct impact on employment and social inclusion, in their turn, those activities which influence the labour market demand or create work places (SPD 1, 2, 4 (excluding Activity No 4.7.1) Activities of the Priority No 5) are considered as indirect impact. Activities of indirect impact are further divided in two groups: (1) with quantifiable impact – those, which improve the demand of labour market from the quantitative aspect and whose quantitative impact is directly identifiable, based on the activity impact indicators, foreseeing creation of new work places or retention of existing ones, and (2) with non-quantifiable impact – those, which do not directly create work places, yet provide for them, for example, work in construction, which is financed from the resources of the EU structural funds.

Quantitative and qualitative data characterising indicators of the social and economic development and indicators of social inclusion of the country, planned and actually achieved output, resultative and impact indicators of the EU structural funds activities included in the Programme Complement of the SPD of the programming period 2004-2006, as well as information on changes in the situation of specific final beneficiaries within the considered time period are used in the assessment. These data have been analysed and compared within the course of the assessment, searching for correlations and causations among the realised intervention of the EU structural funds and changes within the social and economic indicators of the country.

National economy from 2004-2009 during the largest period of the analysis - from 2004 until the middle of the year 2008 - was growing and the background for investments and realisation of new projects was favourable. Beginning with the second part of the year 2008, the cooling of the economy started to emerge and in 2009 swift economic recession commenced. This has influenced also the indicators characterising employment and social inclusion. Proportion of those employed in the country in total was rising until 2008 (from 56.1% in 2004 to 62.6% in 2009), but in 2009 diminished (55.2%). The proportion of job seekers among the economically

active inhabitants or unemployment in the country was diminishing from 2004-2007 (from 10.4% till 6.0%); starting from 2008, the rise of unemployment was observed (7.5%), which has been the most rapid in 2009 (17.1%). The macroeconomic growth of the country – increase of GDP, indicators of inflation and growing activity of entrepreneurship was followed by increase of wages. With the remaining inertia of economic growth, the highest net wage was recorded in 2008 (350 lats). Already in 2009, the consequences of economic crisis were observed, which resulted in decrease of average net wages (342 lats).

From 2004-2009 the main part of the EU structural funds resources, approximately 372 million lats in actual prices, was invested into the development of infrastructure, entrepreneurship, technologies, agriculture and fisheries, that is, in activities which indirectly favoured employment. In activities, which directly influenced employment and social inclusion, approximately 91.3 million lats in actual prices were invested. In total, the largest investments were made during 2006-2008. More than two thirds from the total of the benefits of the EU structural funds in promotion of employment and social inclusion occurred from the investments into the improvement of employment and competitiveness of the labour force, and slightly less than one third – from the investments into the creation of work places. Benefits within the national economy from promotion of employment and social inclusion for more than three times exceeds the invested EU structural funds financing and every lat invested in the promotion of employment created more than three lats of return within the national economy (relation of benefits/investments – 3.35), which is considered to be a high indicator of efficiency of investments.

During 2004-2009, the state has made successful socio-economic investments into the promotion of employment and social inclusion – in monetary expression in the prices of 2004 investing almost 300 million lats, which in mid-long term until 2018 are foreseen to return almost 1000 million lats. Difference between the benefits of the EU structural funds of the planning period of 2004-2006 and expenses or the net present value (NPV) shows that the monetary gain (socio-economic „profit”) is estimated at approximately 700 million lats in the prices of 2004. If during the time period from 2005-2009 the above mentioned investments of the EU structural funds had not been made, then *ceteris paribus* or with other circumstances unaffected it may be assumed that whilst analysing the benefits of the 15 year period from the moment of commencement of the investments, the gross domestic product in the period of time until 2018 would not have increased by almost 700 million lats, also, significant investments into the human resources and creation of work places would have been missed, which would have reflected into worse employment indicators also during the economic recession.

The financing of the EU structural funds through the direct impact on reaching of the objectives of social cohesion via investments into human resources has supported approximately one fourth of the economically active inhabitants or more than 290 000 people, which is considered to be sufficiently relevant proportion of the reached amount of the population. With respect to the target groups, the largest reach of the EU structural funds financing was among the unemployed – during 2004-2009 more than 54 thousands of general unemployed and beginners of self-employment and nearly 26 thousands of unemployed from the social risk groups received immediate training.

Analysing the poverty risk ratio, Gini coefficient, S80/S20 and relative median at-risk-of-poverty gap, data show that the monetary poverty and income inequality both in the country and regions during the period of analysis have increased and there are no universal trends of correlation between the financing of the EU structural funds and the above mentioned poverty and inequality indicators both in the country in general and in the regions, therefore it is not possible to speak about the EU structural funds as the dominant factor of impact in attaining of the aims of social cohesion. Fact, that the indicators of poverty and inequality show concrete correlation

with the macroeconomic/employment indicators of the country, suggests that attaining of the social cohesion in the country in general depends mainly on the general situation within the national economy and dynamics of economy cycles. Yet, the EU structural funds have positively influenced the objectives of the social cohesion in the country, as it is confirmed by the achieved resultative indicators – created work places, persons trained and involved in the developed training programmes, nevertheless, other factors have influenced the attainment of the aims of social cohesion even more.

Investments from the direct impact activities of the EU structural funds possess larger potential of sustainability, for those are direct investments in the human resources – currently and in future economically active inhabitants - and improvement of their competitiveness, thus raising both the productivity and competitiveness and flexibility of the labour force, therefore also its options of larger income and creation of larger added value in the future. With respect to the assessment of the sustainability of indirect impact it is considered that these activities give immediate contribution to the national economy through creating work places, in their turn, their sustainability depends also on other external factors within the impact of economy cycles. Taking into consideration that the largest proportion of socio-economic benefits (two thirds) is created by the direct impact benefits, it implies that in general the EU structural funds financing for the planning period of 2004-2006 for the support of employment and social inclusion measures have been disposed of in sustainable manner.

Comparing the experience of Latvia and four other EU memberstates on the NUTS II level – Estonia, Lithuania, Slovenia and Northern Ireland in the planning and implementation of the EU structural funds activities for promotion of employment and social inclusion in 2004-2006, according to the achieved resultative indicators, Latvia has successfully absorbed the financing of the European Social Fund foreseen for promotion of employment and social inclusion, yet the swift economic recession and drastic increase of unemployment along with the beginning of financial and economic crisis draws attention to the existing shortcomings within the process of the absorption of the EU structural funds:

- When assessing according to the administrative approach within the Objective 1 regions (excluding Northern Ireland), comparing to the other countries considered within the assessment, Latvia during the planning period of 2004-2006 has been the most formal, bureaucratic and slowly reacting country to the necessary changes in the process of the development and implementation of projects, due to the decision making on the level of parliament and government, as well as large number of institutions involved in the system of administration. The most beneficiary-friendly model of the EU structural funds administration was observed in the more developed countries (Northern Ireland, Slovenia), where decision making largely was delegated to the leading and responsible institutions, and higher national legislative and executive body was allocated only the decision making regarding special and important legislation which determined the establishment of the system and framework of operation of the EU structural funds. Also, these countries scarcely use documentary regulations, instead choosing the explanatory approach.
- The division of measures used in Latvia is linked with the division of institutional responsibility, focusing only on the fields and problems of their own competence. Thus in practice it is difficult to implement complex measures, which require close cross-institutional cooperation. Also, insufficient attention is paid to the support of projects within the sectors of national priority, focusing on the quantity rather than the quality of projects.
- In Latvia, like in other countries in some cases such resultative indicators are set which are indicative of formal execution of an activity, rather than its potential to influence the increase of employment or solution of the problems of social inclusion.

In order to more efficiently measure the contribution of the financing of the EU funds to the promotion of employment and social inclusion for the planning period of 2007-2013, it is advisable to monitor the achieved results and indicators of impact within the period of 5-10 years, listing the data both per years and per regions of Latvia. Also, the calculation should be carried out on the level of concrete individuals rather than on the level of number of beneficiaries or times of receiving this benefit, so that one and the same beneficiary is not counted several times and thus values of the indicators do not inadequately reflect the actual situation.

Regarding the next planning period of 2014-2020, it is advisable:

- To elaborate unified, specific and quantifiable system of the EU structural funds impact indicators in Latvia, based on the analysis of statistics and in line with the national policy and its results. It is necessary to set the real basis and attainable values of indicators, as well as set the impact indicators so that they resemble impact on employment or development of economy;
- To include the *Laeken* indicators characterising monetary poverty and inequality as attainable indicators of impact in the planning document for 2014-2020;
- As long as gender equality within the planning document is included only as a horizontal priority, the contribution of the EU structural funds in its promotion will mainly be indirect and will produce results only in long-term. Nevertheless, taking into consideration that objectively women earn less than men, such issues should have to be solved also in short-term and with the help of concrete activities and measures;
- To consider the increase of proportion of the the financing for the activities of employment and social inclusion on the level of national or regional effect, ensuring the absorption of the financing through more targeted measures in order to decrease the social inequality, instead of fragmenting it in activities of a lower level (for example, local municipalities). Besides the results of this assessment, also other factors influencing employment and social inclusion, for example, economic and financial, which have not been considered within this assessment, should be taken into account;
- Under the guidance of the Ministry of Justice, further changes in the Law on State Administration Order and other legislative acts stipulating this restriction, with the aim to delegate the rights of adoption of the external normative acts in special cases to the ministries, binding to third parties, including other ministries, should be advanced. As a result the work of the Saeima and the Cabinet of Ministers within adoption of laws and the most important normative acts structuring the management and monitoring system of the Structural Funds would be lightened. In its turn, adoption of the external normative acts for ensurance of EU Structural Funds system operations (for example, on financial control system, payment terms, implementation of activities, monitoring and evaluation conditions) would be delegated to the managing and responsible institutions, facilitating faster decision making when concerting those with other institutions involved in the administration of the EU Structural Funds (mandatory with the Ministry of Finance as Managing authority) and ensuring the passing of external normative acts within approximately three weeks. Thus also the principle of subsidiarity would be established ensuring that the issue is evaluated on its merit and the legislative act is passed on the level which possesses the greatest competence in solving of the issue;
- When planning the EU Structural Funds measures of promoting the employment of the unemployed and setting goals of the activities, to ensure the possibility to adjust the activities included in the programming document for changes and up-to-date needs of the labour market, which occur unexpectedly during implemmentation of the programming period, for example allowing elasticity in solving employment problems during various cycles of economy. Similar approach should be continued as in 2007-2013 programming period when in the single activity of the programming document are integrated actions for educating unemployed and job seekers. Various active employment measures for

facilitation of employment, as well for social inclusion need to be integrated in the unified activity of the EU Structural funds programming document. It is also necessary to ensure the needs of the short-term, mid-term and long-term employment are met. Also, it is necessary to promote the involvement of the unemployed from social risk groups in the employment activities and improve the situation of these groups in respect to the overall unemployment situation.