



**Expert evaluation network
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performance of Cohesion policy 2007-2013
Year 3 – 2013**

**Task 1: Job creation as an indicator of
outcomes in ERDF programmes**

Czech Republic

Version: Final

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**A report to the European Commission
Directorate-General Regional and Urban Policy**

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List of abbreviations

- AIR Annual Implementation Report
- EC European Commission
- FTE Full-time Equivalent
- MA Managing Authority
- NCI National Codes of Indicators
- OP Operational Programme
- OPEI Operational Programme Enterprise and Innovation
- OP R&DI Operational Programme Research and Development for Innovation
- ROP Regional Operational Programme

Executive summary

At the time current Operational Programmes (OPs) were prepared (i.e. during the years 2005-2006), the macroeconomic situation was profoundly different than nowadays and the unemployment did not pose a fundamental challenge for the Czech Republic as its rate was steadily decreasing due to a robust economic growth.

Therefore, the number of new jobs created is not a primary aim of any of the current OPs funded by ERDF in the Czech Republic.

However, new jobs created are monitored in three broad policy areas: i) RTDI support, ii) enterprise support including ICT, iii) territorial development.

80.5% of the total newly created jobs for the Objective Convergence has been recorded in the policy area “enterprise support including ICT”, while the number of new jobs in the sphere of “RTDI support” and “territorial development” has been significantly smaller (8.2% and 11.3% respectively).

Given that OPs are not focused on job creation, the calculation of “costs per job created” should be taken purely indicatively.

There are two basic indicators related to new jobs created: i) number of new jobs created and ii) number of new R&D jobs created. Despite some partial problems, a reasonable coherence in definition of both these indicators has been recently (2009-2010) achieved across various Managing Authorities (MAs).

Only gross jobs in Full-time Equivalent (FTE) are being reported, while safeguarded or maintained jobs are not considered.

The jobs created in the construction phase of a supported operation are not being considered, likewise, the existing monitoring system focuses solely on jobs created directly, disregarding potential indirect jobs.

By the end of 2012, the number of new jobs created so far lagged significantly behind the target value, especially in the policy area “enterprise support including ICT” (40,000 jobs planned, about 14,000 created, reflecting current economic crisis).

In most cases, the Annual Implementation Reports (AIRs) do not provide an in-dept assessment of recorded numbers of new jobs created. Likewise, at least according to the knowledge available, the issue of new jobs creation and its efficiency is receiving relatively little attention in evaluation studies.

1. The use of the indicator to assess outcomes in policy areas

The indicator of new job created is being used in the following OPs co-financed by the ERDF: OP Enterprise and Innovation (OPEI), OP Research and Development for Innovation (OP R&DI) and Regional OPs (ROPs) (Objective Convergence) and OP Enterprise for Competitiveness (Objective Competitiveness). However, it should be stressed at the outset that at the time these OPs were prepared (i.e. during the years 2005-2006) the macroeconomic situation was fundamentally different from the current one. At that time, the unemployment was not a fundamental challenge for the Czech Republic as its rate was steadily decreasing due to a robust economic growth prior to the crisis (at the onset of the crisis in 2008, the average unemployment rate was just around 4%). Therefore, when these OPs were designed, the overall strategy has not been focused on job creation. Therefore, job creation was not a goal per se but rather a complementary indicator covering positive side-effects of some supported operations. Consequently, at least in case of ERDF co-funded programmes, the indicator of job creation has not been considered as a key output indicator but rather as one of the traditional indicators to be monitored by the MAs of OPs. These facts should be taken into consideration when interpreting all figures provided throughout the report, but especially in the section devoted to unit costs.

The indicator of job creation has been monitored only in relation to three policy areas: i) RTDI support, ii) enterprise support including ICT, iii) territorial development.

When looking at and interpreting the figures on jobs created (see Annex Table A), the above mentioned caveats must be taken into account.

In addition to the above mentioned reservations, it should be stressed that the amalgamation of numerous interventions (priorities, sub-programmes etc.) across OPs currently existing in the Czech Republic into the above given broad policy areas could be done only approximately. One should be especially cautious when interpreting the data on financial allocation and on progress in absorption. As a rule, the interventions included within the broad policy areas have not defined the number of jobs created as their main indicator of output, but this indicator was used in some of the supported projects as a complementary non-binding indicator. The only exception is the sub-programme "ICT and strategic services" included in policy area "Enterprise support including ICT" where the indicator of new jobs created was binding (for more on this see section 3.).

Nevertheless, out of the predefined broad policy areas, by far the largest number of reported jobs has been recorded under the heading "Enterprise support including ICT" (80.5% of the total for the Convergence Objective), while the number of jobs created in the sphere of RTDI and territorial development (in later case mostly in the sphere of tourism or development of towns and villages) has been significantly smaller (8.2% and 11.3% respectively). When looking at the target values of this monitoring indicator, one can see a significant variation in the rate the targets have been achieved so far. While in case of policy areas RTDI and territorial development around two thirds of the planned jobs have been created (59.2% and 73.4% respectively), in case of "Enterprise support including ICT" only around 1/3 of the target was achieved, reflecting current economic crisis (36.3%).

2. Definition, methodology, data reporting and wider use of the indicator

The purpose of this section is to summarise the main features as regards the definition of the job creation indicator, the guidance provided for collecting and aggregating the data, the content of the data available and their wider use.

Definition and methodology

At the beginning of the current programming period, the definition of new jobs created varied from programme to programme. However, in 2009, due to an effort of National Coordination Authority, the system of monitoring indicators has been revised. Consequently, a common definition has been agreed among MAs of Thematic OPs. Later, MAs of ROPs also applied this definition. Nevertheless, in addition to agreed common indicators, MAs of ROPs have continued using their own specific indicators of new jobs created (e.g. new jobs related to tourism etc).

Nevertheless, according to the document “National Codes of Indicators” (NCI) the current definition of new jobs created reads as follows:

“Number of new jobs created, FTE. New job created is defined as:

- *New job created by an employer supported by grant covering wage costs.*
- *New job created as a self-employed person supported by education or other services such as information, consultancy, analytical.*
- *As new jobs created by an employer in connection with a project, are also considered jobs not supported by wage subsidies under the condition that the project clearly explains how will the project contribute to new job(s) creation.*

The number of new jobs should represent a net increase in the organisation in comparison to the average of the last 12 months. This condition can be lifted in case of provision of wage subsidies to handicapped or other disadvantaged persons fulfilling the criteria set in article 40, paragraph 4 and article 41 paragraph 4 Council Regulation (ES) No. 800/2008¹.

The holder of a new job created can be a final beneficiary, his/her project partner or other employer. New jobs should be created directly with the project in question. Jobs created within the project team are NOT considered as new jobs.”(NCI, version 2012, own translation).

In addition, several OPs use also the indicator “number of new R&D jobs created” (OP R&DI and OPEI). In this case, the indicator is defined in the following way: R&D employees are research employees who are directly carrying out research or development or provide supportive technical and managerial services directly related to R&D. However, according to the Ministry of Education, even a situation when the R&D job created within the new research centre has been taken up by a person who has been previously employed by the same institution (typically - the university) is considered as a new R&D job. Therefore, this approach clearly leads to recording the gross and not net R&D jobs.

¹ This condition can be lifted in case that the net increase of jobs is not achieved exclusively due to the fact that the job position had to be vacated due to voluntary job leave, physical handicap, leave to the elderly pension after reaching the given age limit, voluntary acceptance of a part-time job or a redundancy resulting from breaking of labour duties specified by a law.

Both definitions are stated not only in the NCI but also in methodological guides for final beneficiaries. According to our interviews, the awareness about the definition of new jobs created is already quite good among the final beneficiaries as this is a traditional and relatively easy to understand indicator.

It is worth noting that in the case of the OPEI, the number of new jobs created is not a binding indicator, meaning that the final beneficiaries do not have to commit themselves to achieve a certain number of jobs in the contract but they have just to report the number of jobs they created as a side-effect of the project aiming for example at introducing a new technology to the firm. On the contrary, in relation to the programme “ICT and strategic services”, the indicator is compulsory and binding.

Content of data

The indicator is defined in FTE terms, and generally only permanent jobs are being considered. There is not a specific definition of ‘permanent’ jobs but it is most often related to sustainability of the operation which is defined in contracts with beneficiaries (usually 3-5 years).

The jobs created during the construction stage of a project are not included in the data reported. The data reported relate to actual outcomes in the case of all OPs. In addition, most OPs provide also figures for planned outcomes defined as commitments stated in contracts. The type of data is clearly indicated in all AIRs.

However, the data reported do not include jobs created indirectly as a result of the expenditure carried out so they relate solely to jobs created directly.

In order to capture the quality of jobs, in addition to new jobs created, the second indicator “the number (and share) of R&D jobs created” is provided in relevant OPs. Moreover, in case of OPEI, the number of jobs created in the sphere of ICT and strategic services is collected as these jobs require highly qualified personnel even though these jobs are not R&D positions.

Problem of double-counting, i.e. by reporting the same job position created by more than one project is being addressed at the level of MAs. In this respect, each project has to provide a list with all employees. Moreover, this list is being checked with projects supported by other relevant OPs (for example, in case of OP R&DI, these lists of people are being confronted with OP Education for Competitiveness).

Safeguarded or maintained jobs are not being reported in Czech Republic as only new jobs directly created by the project in question are reported.

The existing monitoring system is able to distinguish new jobs created between the jobs created by the OPs co-funded by the ERDF and those created by the ESF, i.e. according to funding resource.

The following problems connected with reporting values of indicator “new jobs created” were identified:

- a) Sometimes, there are problems with eligibility of expenditure related to specific working positions.
- b) Considerable administrative burden connected with the need to provide detailed timesheets (this burden concerns both supported persons and the administrative

staff of the management and implementation system). Some MAs do not require timesheets anymore, but the final beneficiaries still have to dispose by them for the sake of eventual control.

Wider use of indicator

As stated above, the indicator “number of jobs created” is relatively well understood by final beneficiaries.

The central government (Ministry for Regional Development) aggregates the data across programmes to calculate a national figure for jobs created. Plausibility checks on the data reported by programmes are carried out at two levels. Firstly, there are various technical checks performed by the monitoring system MSC 2007 (e.g. the figure can not be negative), secondly, the data are verified logically on a month to month basis in order to eliminate mistakes resulting in sudden “jumps” in figures provided. According to interviews, the number of such mistakes or other imperfections is diminishing.

According to our knowledge, there are no national programmes not co-financed by the Structural Funds which use the indicator of new jobs created.

One of the problems accompanying reporting and aggregation of the indicator “number of new jobs created” is connected with the fact that the number of projects is enormous (approx. 10,000 just in case of OPEI so far). Consequently, given such a huge number of projects, it can never be 100% guaranteed that all final beneficiaries report the number of new jobs exactly in line with the definition. Therefore, in addition to the above mentioned measures, MAs are repeatedly raising awareness about this issue by written notices which are being sent to final beneficiaries before the deadline for submission of their monitoring reports as well as by seminars for final beneficiaries. These notices led to a significant reduction of such mistakes and increased the reliability of the reported data.

The second problem is related to the fact that the business sector is generally quite volatile in a sense that the firms are frequently merging or splitting. In consequence of organisational transformations that often result from these changes, it can be reasonably expected that mergers or splits result also in cuts in a number of employees. Therefore, even though the project supported by the Structural Funds can create a number of new jobs, the organisational changes can result in significant loses of employment within the same company. The number of mergers and other changes has increased over the last three years (probably also due to global economic downturn). Needless to say that final beneficiaries are required to report such changes, and the MAs individually assess whether the public support can be justified even under the new circumstances and the original contract is altered accordingly.

3. Cost per job created

This section concerns the calculation of the unit costs of a job created for the most relevant interventions aimed at supporting SMEs. It should be stressed that among the sub-programmes there is only one called “ICT and strategic services” where the number of jobs created is considered as binding. The reasons for down-playing the relevancy of the indicator new jobs created have been explained in the above section 1 and relate mostly to completely different macroeconomic situation at the time when these OPs were designed.

Within the sub-programme “ICT and strategic services”, the final beneficiary can select the type of grant, either geared towards supporting mainly human capital development or new technologies. This fact affects significantly the unit costs. The second relevant intervention is the sub-programme Development aimed at facilitating the expansion of SMEs with grants supporting a purchase of new technology. In case of this sub-programme, no target value of jobs created has been set.

While the financial instrument used by both these sub-programmes is a grant, the main instrument used for the third sub-programme “Progress” is a soft loan. Also in the case of the sub-programme Progress, the number of jobs created is not binding. It is important to note that, since the primary aim of these projects was not to create new jobs but, for example, to introduce new technologies, the calculated unit costs of new jobs created have limited value.

Table 1 - Costs of projects and the number of jobs created in SMEs (based on payments made by the end of 2012, completed projects only, in EUR)

Sub-programme	Financial instrument	Total costs	Support from ERDF	Support from national public resources	Total public support	Commitments in contracts	Actual value	Cost per job
ICT and strategic services	grant	89,593,178	30,434,119	5,370,727	35,804,845	1,340	1,503	23,822
Development	grant	524,921,232	192,127,341	33,904,825	226,032,166	N/A	3,018	74,895
Progress	Soft loan	343,144,404	126,310	22,290	148,600	N/A	1,447	102,695

Source: MA of OPEL.

Note: On original figures provided in the Czech crowns an exchange rate 25 CZK = 1 EUR has been applied despite some fluctuation over the relevant period 2007-2012.

To sum up, the “unit cost per job created” provided in Table 1 cannot be interpreted as real “cost per job” as the policy rationale for supporting these projects was different than new jobs creation. In other words, new jobs created have been in most cases considered as a sort of positive side-effect of the projects and the related indicator has been used just for monitoring purposes. Nevertheless, despite the above given reservations, the figure which is likely to be nearest to reality concerns the first sub-programme “ICT and strategic services” where the indicator is binding.

4. The indicator of job creation in evaluations and AIRs

So far, at least according to the available knowledge, there has been no effort to estimate net job creation in evaluations of programmes or projects or in other studies. This is mostly due to methodological complexities connected with such an exercise and to the inevitably speculative nature of results obtained. For example, there are no data available to identify a displacement effect, i.e. to assess the situation when supported project creates new jobs but as a result of this project other jobs are lost in competing firm(s). Likewise, also the potential multiplier effect of supported interventions has not been targeted by evaluation studies. Given the current state of affairs with management and efficiency of use of Structural Funds, this is not considered as a pressing problem and MAs concentrate on dealing with “hard data” provided by the final beneficiaries.

Consequently, it is neither possible to use evaluations and studies to estimate the reliability of the information on the number of jobs created included in the AIRs, nor to adjust - even approximately - the data reported, except obvious statement that the net number of jobs created is lower than number of jobs reported.

More generally, it should be stated that the indicator of number of new jobs created is usually given a relatively low attention in both AIRs and evaluation studies. As already highlighted, this is not surprising given the profoundly different context within which the strategy encoded into current OPs has been prepared.

5. Looking forward to the 2014-2020 programming period

According to the interviews performed with the staff of several MAs, the MAs foresee neither problems with the newly proposed definition nor with its application in practice as it is quite close to the existing one.

Only one person expressed his concern that the new definition does not provide a clear guidance for distinguishing new jobs from those existing prior the intervention.

6. Further remarks

Clearly, the indicator “new jobs created” presented in the AIRs is not an important indicator of programme outcomes, due to the more favourable economic context under which the current OPs have been prepared. Not surprisingly, even such a basic indicator such as cost per job created has not been, at least according to our knowledge, calculated (or even evaluated) so far. Generally, AIRs have rather technical character without much ambition to look more deeply into the data provided. However, such reluctance is not surprising given two main issues: on the one hand, the huge number of monitoring indicators; and on the other hand, the necessity to deal with other problems and issues that are being considered as more pressing by MAs (esp. transparency and administrative red tape). Therefore, this indicator seems to be included in AIRs mostly due to European Commission (EC) requirements.

References

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Interviews

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Annex

Tables

Annex Table A - Jobs created by broad policy areas by the end of 2012

Policy area	Target value	Actual value (end of 2012).	Planned allocation (EUR million)	Commitments (EUR million)	Certified expenditure submitted to the EC (EUR million)
<i>Convergence Objective</i>					
Enterprise support including ICT	40,000	14,525	964.9	915.5	486.1
RTDI support	2,500	1,481	2,111.3	2,021.7	231.2
Territorial development	2,769	2,032	3,139.4	2,741.8	1,426.4
<i>Competitiveness Objective</i>					
Prague: RTDI support	85	27	72.9	65.6	17.6

Source: Ministry for Regional Development and Monthly Monitoring Report for December 2012.