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Year 3 – 2013**

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

Latvia

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
- FEI Financial Engineering Instrument
- FTE Full-time equivalent
- LIDA Latvian Investment and Development Agency
- MA Managing Authority
- OP Operational Programme
- SEDA State Education and Development Agency

Executive summary

The number of jobs created is reported and used in a limited and fragmented way to assess the outcomes of ERDF interventions in Latvia. Thus there are probably activities in which interventions create jobs in addition to the ones for which this indicator is reported e.g. Financial Engineering Instruments (FEIs). Generally, jobs created are reported in the Annual Implementation Reports (AIRs) under the umbrella of the Horizontal Priority Macroeconomic Stability rather than as achievements of individual programmes. Only Operational Programme (OP) 2 "Entrepreneurship and Innovation" has a job creation 'target' – 5,000 new jobs over the programming period, but according to one official this figure was 'taken from the air'. As of end 2011 1,638 jobs had been created within OP2 representing about 33% of the target. The policy areas in which jobs created are reported are: science and research and knowledge based business and expenditures in these areas represent about 40% of total planned OP2 expenditures for 2007-13. Only two activities have data that permit some kind of unit cost of a job to be calculated: in the Business Incubators activity as of end 2011 1,198 jobs had been created at an average cost of EUR 23,956 and in the activity High value-added Investments as of end of 2012 610 jobs had been created at an average cost of EUR 83,114. The Managing Authority (MA) plans to include the number of new jobs created across all activities as part of an overall assessment of funds activities at the end of the programming period.

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

The number of jobs created is used in only a limited way to assess the outcomes of ERDF interventions in Latvia. Only the OP2 “Entrepreneurship and Innovation” has a job creation ‘target’ of 5,000 new jobs over the programming period. This appears as an ‘impact’ indicator for the OP as a whole and also appears as a core indicator. There is no further breakdown in the planning documents except that half of the jobs are meant to be for women and half for men. According to one of the officials interviewed this total figure was simply ‘taken from the air’. The policy areas covered by OP2 are ‘RTDI support, enterprise support including ICT’.

However in the AIR for OP2 the activities for which jobs created are reported correspond to a rather narrower sub-set of these broad policy areas. Table 1 shows the reported jobs created as of end of 2011 by activities where jobs created have been reported.

Table 1 - Planned and reported created jobs in OP2 “Entrepreneurship and Innovation” as of end 2011¹

OP measure	Activity/Sub-activity	Plan	2011
OP2	<i>Entrepreneurship and innovation: total</i>	5,000	1,638
2.1.1.1	Activity "Support to science and research"		262
2.1.1.2	Activity "Support to International cooperation projects"		16
2.1.2.1.1.	Sub-activity "Competence centres"	50	
2.1.2.2.2.	Sub-activity "Development of new products and technologies - aid for implementation of new products and technologies in production"		*
2.1.2.4.	Activity "High value-added investments"		162**
2.3.2.1.	Activity "Business incubators"		1,198

Source: AIR 2011, communication with MA.

Notes:

* No jobs reported up to 2011 but jobs expected in 2012.

** This figure is based on the number of projects completed by end 2011 which was three. Since then another 4 projects have been completed and the cumulative jobs indicator for this activity as of end 2012 is 610.

It can be seen that the activities fall into two groups: one group is science and research and these activities are managed by the Ministry of Education and Science and the other corresponds to activities that loosely speaking support ‘knowledge based’ business and these are managed by the Ministry of Economics. Other activities managed by the Ministry of Economics include some where jobs may have been created but are not reported e.g. Sub-activity 2.1.2.1.2 "Contact Points of Transfer of Technologies".

Job creation is reported in the AIRs mainly within the context of the Horizontal Priority “Macroeconomic Stability” rather than as an achievement of individual activities as such. This is also the case for OP3 “Infrastructure and Services” where a total of 990 newly created or saved jobs were reported as of end 2011.

Table 2 provides a financial breakdown of the activities in which jobs created are reported as an indicator and Table 3 attempts to provide some indication of the ‘importance’ of these activities. Thus, expenditures on measures in which job creation is reported represent about 40% of all

¹ The question has been raised as to why the figures reported here and in the AIR for 2011 are different from what is reported for Latvia in the 2012 Synthesis Report. In fact, for Latvia there is simply not an entry in the Synthesis Report and one can only speculate as to why the MA chose not provide an entry.

OP2 planned expenditures (or about 45% of allocated expenditures). Alternatively, the share of planned expenditure on measures in Priority 1 which have job creation as an indicator is about 60% (or 70% for allocated expenditures). For Priority 3 these shares are 32% (47%). However, bearing in mind that we are generally talking about a rather small number of jobs, it is debatable what meaning can be attached to these figures as an indicator of 'importance'.

Table 2 - ERDF expenditure: planned, allocated and contracted in activities with new jobs as an indicator in OP2 "Entrepreneurship and Innovation" as of end 2011 (EUR million)

		Planned ERDF expenditure	Amount of funding allocated	Contracted
OP2	Entrepreneurship and innovation	736.7	649.3	591.5
2.1	Priority 1	452.5	391.6	335.4
2.3	Priority 3	77.0	51.5	50.9
2.1.1.1	Activity "Support to science and research"	51.0	47.8	47.8
2.1.1.2	Activity "Support to International cooperation projects"	7.0	5.9	5.9
2.1.2.1.1	Sub-activity "Competence centres"	51.7	53.2	53.2
2.1.2.2.2	Sub-activity "Development of new products and technologies - aid for implementation of new products and technologies in production"	62.2	63.6	54.8
2.1.2.4	Activity "High value-added investments"	100.4	100.4	75.3
2.3.2.1	Activity "Business incubators"	24.4	24.4	24.4
	Total	296.7	295.4	261.5

Table 3 - Importance of measures with jobs as an indicator

	Planned ERDF expenditure	Amount of funding allocated
OP2 "Entrepreneurship and innovation" (a) (EUR million)	736.7	649.3
Priority (2.1) "Science and Innovations"(b) (EUR million)	452.5	391.6
Priority (2.3) "Promotion of Entrepreneurship" (c) (EUR million)	77.0	51.5
Total expenditures on measures with jobs created as indicator (d) (EUR million)	296.7	295.4
Share of measures with job creation as indicator (d)/(a) (%)	40	45
Priority 1 share of measures with job creation (%)	60	69
Priority 3 share of measures with job creation (%)	32	47

Source: AIR, own calculations.

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

Definition and methodology

There is no explicit definition of the job creation indicator and the methodology for calculating the number of newly created jobs is not clearly documented anywhere. For business type activities the data is collected by the Latvian Investment and Development Agency (LIDA) which in turn compiles it from the reports made by individual projects, while data on jobs created in Ministry of Education and Science activities is collected by the State Education and Development Agency (SEDA). **Only full-time jobs are counted and reported and only directly created jobs are counted.** A full-time job is one where there is a work agreement with 160 monthly

hours worked for a 12 months period. For Business Incubators LIDA receives and prepares summary reports every quarter and the end of year jobs created are cumulated i.e. the end of 2011 jobs created consists of all of the new jobs created up to and including the last quarter of 2011. For High Value Added Investments the number of jobs created is counted and reported when the project is completed No attempt is made to calculate Full-time equivalent (FTE) jobs and

Content of data

The reported jobs have to satisfy the following criterion: the monthly working hours are 160 for 12 month of the year. In other words only full time jobs are reported. Moreover, the reported jobs (as say in Table 1) are permanent or literally these jobs are described as 'long-term'. Jobs created through ERDF interventions are distinguished from those created by ESF activities. Jobs created during the construction phase of projects are not reported and not included in the data nor are indirectly created job. The way in which the jobs data are collected i.e. from projects suggests that there is not any significant double counting. However, new jobs created and jobs saved are treated as equivalent and reported as a single figure.

In general the quality of jobs is not assessed. However in the case of the activity "High Value-added Investments" (2.1.2.4) the target group is entrepreneurs who are willing to invest above 'average capital per work place in order to create new high tech work places, improved management and higher value added'. Such jobs are intended as a model for the rest of the economy. However, there is no formal information on the 'quality' of the jobs reported as created in the context of this activity.

Jobs created by the ERDF and those created by the ESF are clearly distinguished and reported separately in the corresponding AIR The ESF also reports the temporary jobs created through ESF activities. Thus as of end 2011 ESF interventions were reported to have created 581 permanent jobs and 34,906 temporary ones.

Wider use of the indicator

The AIR for each OP has a Horizontal Priority section. One of the Horizontal Priorities is Macroeconomic Stability and jobs created are reported and aggregated in this section. Thus as of end 2011, 38,149 jobs had been created across the three OPs of which 3,243 were long term (permanent) jobs and 34,906 were short term (temporary). The short term jobs are almost entirely attributable to the emergency public works programme that ran from September 2009 to end 2011.

No formal plausibility checks are carried out in either the education and research activities or in the business activities where jobs created are reported. However, both the 'Business Incubator' and 'High Value-added Investments' are heavily monitored and the reported number of jobs created is plausible in the context of the overall monitoring data. For example, as of the end of 2011, the business incubator activity had supported 421 entrepreneurs with 375 new products and 1,198 reported new jobs. This represents 3 jobs per new business which is entirely plausible. Moreover, 151 of the supported businesses have finished incubation and are continuing their commercial activity independently, so there is some evidence for sustainability. Incubation is available for up to four years but if a business drops out of the programme, i.e. it

fails to complete the programme, then it is also removed from the statistics. Similarly, for the High Value-added Investment activity as of the end of 2011 3 projects had been funded by the ERDF in amounts ranging from EUR 2 million and EUR 4.3 million and national co-financing on a similar scale. The reported 162 jobs created imply about 54 new jobs per investment which again is more or less credible.

The indicator of jobs created does not appear to be used to monitor or assess the outcomes of national programmes not co-financed by the Funds. In practice there are very few Latvian programmes where job creation might be relevant that are not co-financed by the Funds.

3. Cost per job created

This section is an impossible task in the Latvian context and possibly a totally useless one. As can be seen from Table 1 there are only four activities where as of end 2011 where any created jobs have been reported. None of the interventions involve financial instruments. It is only for 'Business Incubators' and 'High Value Added Investments' that sufficient data are available to make even rudimentary estimates of the cost per job.

The Business Incubator activity provides support for new businesses around the country. There are 10 business incubators around the country including one creative industry incubator in Riga. The services provided by the incubators include: secretarial and accounting services, assistance in producing a prototype product, developing a marketing concept. As already noted as of end 2011, 421 businesses had been supported which had generated 375 new products and 1,198 jobs. By the end of 2012 the total number of jobs created in Business Incubators had increased to 1,251.

The High Value-added Investments is an activity aimed at generating exactly what its name suggests which provides up to LVL3 million (EUR 4.3 million) grant per project. However, it has run into some difficulties with applicants unable to meet the co-financing requirements. As of end 2012 there were 7 completed projects with a claimed total of 610 jobs created.

Table 4 offers estimates of the cost of creating a job within the framework of these two activities.

Table 4 - Cost per job created for two activities

Activity	ERDF Funding (EUR million)	Other* Funding (EUR million)	Total Funding (a) (EUR million)	Jobs created (b)	Cost per Job (a)/(b) (EUR)
Business Incubators (2012)**	10.5	1.8	12.3	1,251	9,835
High Value Added Investments (data are for end 2012)	21.3	29.4	50.7	610	83,114

Source: Data from MA and own calculations.

Notes:

* For Business incubators the other funding is national public funding and for High Value-added Investments it is private funding.

** The figures represent funds paid out to business incubator operators and reported jobs created as of end 2012.

It is very hard to assess either the meaning or the reliability of the unit costs estimated and reported in Table 4. One thing is quite clear, namely, both here and in any activity where jobs are created the cost of a created job will vary directly with the capital intensity of the activity.

4. The indicator of job creation in evaluations and AIRs

An estimate of net (rather than gross) job creation has been made in the macroeconomic modelling exercise undertaken in SSE Riga (2011). The modelled (estimated) employment effect from EU funds spending over the 2007-13 programming period is relatively modest, peaking at about 2.5% higher employment in 2012 and tapering off to 0.2% in 2018 and thereafter. This is against the counterfactual of no EU funds. A rather small employment effect of structural funds spending in aggregate is entirely plausible since the overall aim of the structural funds is to increase productivity rather than employment. Of course, in times of recession the employment effects are more relevant and important. The modelling exercise also reports on impact according to priorities but results of this kind of exercise at such a level of disaggregation are perhaps not fully reliable. The findings of this evaluation are partially reported in the macroeconomic stability section of the Horizontal Priorities in the AIRs.

The main problem with number of jobs created as reported in the AIRs is that the information is fragmented. There are some activities that surely do create jobs, for example the FEIs, but they are not reported because reporting of jobs created is not required. According to Gatis Silovs from the Economics Ministry, regular monitoring of jobs created requires administrative capacity, which has not been allocated. However, the MA plans to assess the performance of the OP, including the number of new jobs created, at the end of the programming period using data collected from project databases.

Accordingly, in current circumstances, the reported number of (gross) jobs created up to the end of 2011 as a result of ERDF interventions is likely to be a lower bound rather than an overstatement.

5. Looking forward to the 2014-2020 programming period

The MAs are familiar with the new definition of the common indicator for 2014-2020 as listed in Annex 2 of the March 2013 version of the “Guidance document on monitoring and evaluation – European Regional Development Fund and Cohesion Fund – Programming Period 2004-2010, Concepts and recommendations” and intend to base their reporting of indicators 8 “Employment increase in supported enterprises” and indicator 24 “Number of new researchers in supported entities” on these definitions. In particular jobs will be reported in terms of FTEs. The MA does not foresee problems in applying the definition in practice and collecting the relevant data. However, the full articulation and application of the indicator will be undertaken in the process of programming the new period.

6. Further remarks

Hitherto, the Latvian authorities have not given much thought to job creation as an indicator of programme outcomes. As already noted the only place where jobs created are consistently reported in the AIRs is in the Macroeconomic Stability sections of the reporting of

implementation of Horizontal Priorities. It is likely that more attention will be paid in the future given the direction the Commission is leaning on this. However it is debatable whether this will improve the quality of future decision making. If all activities have to report jobs created then it is rather clear that these cannot simply be added up.

Moreover, is 'more jobs created' better than 'less jobs created'? Might it not be that many highly desirable interventions would reduce the number of jobs in a particular area thereby freeing workforce for other activities. In addition, exercises such as calculating the cost per job created are particularly futile. Should one go for jobs with a lower unit cost? If so, then give people a broom or a spade and put them to work on the roads. Job creation as an indicator of achievement is of dubious value even for similar projects. Labour input to a project is a *cost* and not a *benefit*. In general one wants to optimise the mix of inputs depending on their productivity and cost and a larger or smaller labour input has no particular normative significance. Clearly, if there is significant unemployment then providing work is socially desirable, but the best way of dealing with this is to apply a shadow wage that reflects the abundance of idle labour to social cost benefit calculations. If the economy is somewhere close to full employment, then in aggregate it is not possible fill more jobs i.e. systemic net job creation would be close to zero.

References

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Interviews

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