# PUBLIC EXPENDITURE EVALUATION 2018
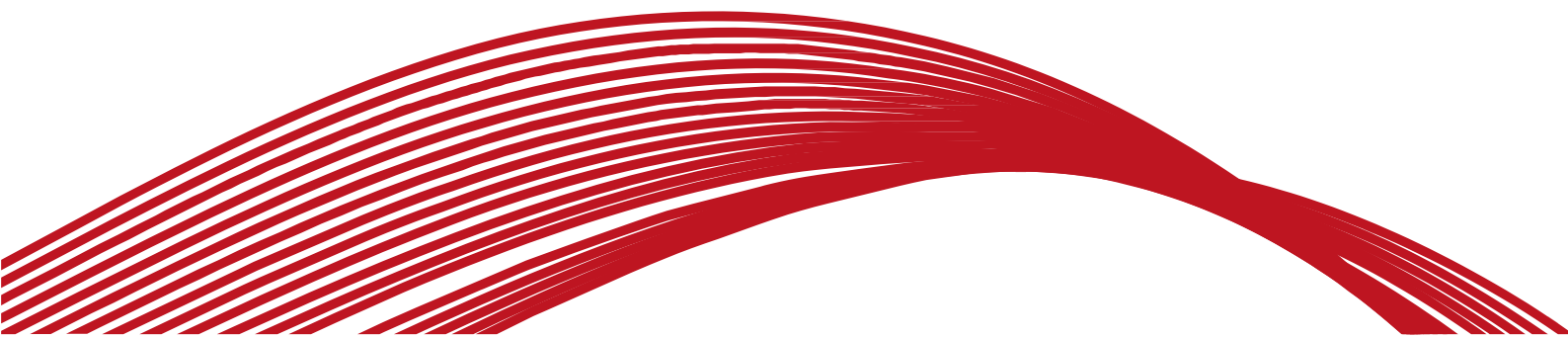
## Project 3 (ALMP)

### STUDY

### ACTIVE LABOUR MARKET POLICIES PROGRAMME

AIReF

Independent Authority
*for* Fiscal Responsibility

# CONCLUSION OF THE EVALUATION

In the context of the Spending Review carried out by AIReF in 2018, among other subsidies, those aimed at active labour market policies (ALMP) have been assessed. The ALMP, such as guidance and training, are those policies aimed at improving the employability of unemployed persons, as well as to promote the maintenance of employment among those employed by increasing professional competencies and developing skills that facilitate a better quality of employment.

Project 3 of the Spending Review analyses the quality of expenditure on these policies that, according to the present study, amounts to approximately 6,500 million euros in 2017. Through the review of its strategic design, the money map, its effectiveness, the cost structure of the *oficinas públicas de empleo* (public employment offices - OPE) and the analysis of the international experience, which has proved to be very relevant in identifying best practices, presents an overview of the functioning of the ALMP in Spain and a series of proposals based on evidence and comparative analysis.

The study has been prepared on the basis of several sources of information, budgetary and detailed information on job seekers and participants in the ALMP, among others, and is the result of applying different assessment methodologies, such as document review, interviews and the causal approach using control groups. In addition, a taxonomy of regional public employment services has been developed based on the last assessment, called EVADES, along with expert judgement, appreciating substantial differences in the quality of service between Regions.

With respect to the data used, access was made to budgetary information of the *Servicio Público de Empleo Estatal* (State Public Employment Service - SEPE) and of the Regions for the year 2017, in addition to relevant information of the costs of the OPE. Moreover, access was made to data on job seekers and participants in ALMP for the 2012-2017 period. For the first time these data supplied by the SEPE

have been supplemented with professional life data by the *Tesorería General de la Seguridad Social* (Treasury General of the Social Security - TGSS).

However, the data provided have been insufficient and of improvable quality. The full evaluation of the effectiveness of the active policies by Region has not been possible, and it was decided to assess the state programme *Programa de Recualificación Profesional* (Professional Requalification Programme - PREPARA) and the service 14A of Aragon (Region with good service quality indicators and whose records have allowed an analysis). Also, in the absence of sufficient data to calculate cost indicators of the OPE, it was instead decided to draft a practical guide for assessing efficiency in the OPE. Its widespread adoption will allow assessment of the costs of operations linked to active labour market policies in the near future. In addition, a pilot study was conducted evaluating the efficiency of the employment offices of Aragon.

To learn about the development of the design and implementation of these policies a survey was conducted with all agents involved: SEPE, TGSS, Regions and social agents, such as trade unions and employers.

Once the different assessment methodologies had been applied to the information available, AIReF concluded that: 1) there are clear deficiencies that call into question the quality of expenditure on ALMP and it is necessary to identify which programmes, services, and pathways are more effective in order to efficiently allocate public resources; 2) the objectives for the allocation of funds through the *Conferencia Sectorial* (Sectoral Conference - CS) are not clearly defined and in recent decades have been changing without having assessed their effectiveness; 3) the traceability of expenditure is insufficient for the purposes of identifying the flows from beginning to end and the accounting criteria are not standardised; 4) in this way, they move away from international best practices: in Spain the results of the ALMP are not evaluated and very little is known about their effectiveness, when they are a key element in the design of policy (an evaluation of the PREPARA programme reveals that there has been no improvement in the exit to the labour market of its participants); and 5) the data and information technology systems are very heterogeneous, of improvable quality and impede the analysis with the breadth initially intended.

The following table summarises the major findings:

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|---|---|---|
| **A** | **Diagnosis and treatment of unemployed people** | 1. Profiling tools are not used across the board and there is no standardisation or coordination in the allocation of pathways<br><br>2. The autonomy of management in OPE is insufficient<br><br>3. The EFQM models of excellence and quality have been successful in some Regions, but have not become widespread<br><br>4. Only a few Regions supplement active labour market policies with social policies<br><br>5. A single unemployed person can be served at several offices with no coordination between them |
| **B** | **Procedure** | 1. The computer systems are all over the place and are more oriented towards administrative management than analysis<br><br>2. The integration of information on participants in ALMP remains insufficient<br><br>3. The service catalogue has not been used as had been originally designed<br><br>4. The pathways are not defined *ex ante* and depending on the characteristics of the individuals<br><br>5. The cost information of the OPE and training centres is highly uneven by Region. |
| **C** | **Intermediation** | 1. In Spain the degree of advancement in the digital transformation of *Servicios Públicos de Empleo* (Public Employment Services - SPE) is very heterogeneous and delayed with respect to benchmark countries<br><br>2. The demand-supply adjustment remains marginal. |
| **D** | **Financing** | 1. The allocation of funds in the CS to the Regions has ended up siding with the participants in ALMP of that Region<br><br>2. The intensity in expenditure per unemployed person is highly variable by Region, both in terms of the original budget and in the obligations recognised |
| **E** | **Effectiveness** | 1. There is a positive relationship between the performance of the Regional SPE and employment level of the Region<br><br>2. The PREPARA programme creates disincentives to entering the labour market<br><br>3. People who receive the 14A service in Aragon (individualised diagnosis) have a chance to be employed greater than people who do not receive it |

From the analysis of the international experience, AIReF details 27 proposals, although it is a priority to act on five areas to (i) put the focus on the needs of the unemployed and the effectiveness of the services rendered, and (ii) to improve the systems and quality of information. In the five areas, in more detail, it is proposed to:

1. Implement profiling tools and proposals for suitable pathways, to detect the needs of the applicants depending on their characteristics, with the ultimate goal of providing the most appropriate service: real connection of supply and demand for jobs.

2. Incorporate evaluation as common practice in order to be able to make evidence-based decisions. Put the focus on the effectiveness of the ALMP: so that guidance and training improves the employability of individuals.

3. Incorporate incentives for compliance with objectives: in the allocation of resources in the CS distribution and in the remuneration of those responsible for guiding and training job seekers.

4. Design a bottom-up strategy involving local actors since the local dimension in Spain is limited, while it is a basic component in international best practice.

5. Incorporate improving access to data, improving their quality and adapting the technological architecture into the National Employment System (NES). Obtain a homogeneous database that allows the traceability of services rendered by each office, pathway and ALMP received.

# 1

# EXECUTIVE SUMMARY OF THE EVALUATION

## 1.1. Background

The Budgetary Plan update that the Spanish Government sent to the European Commission on 9 December 2016 included the commitment to perform a Spending Review (SR) on the General Government (GG), in order to improve their efficiency. In the first phase subsidies were evaluated.

The analysis was commissioned to the *Autoridad Independiente de Responsabilidad Fiscal* (Independent Authority for Fiscal Responsibility - AIReF), with outsourcing in the aspects where it was considered necessary. To carry out the evaluation of active labour market policies (ALMP), AIReF received a scientific advisory service from Marcel Jansen and J Ignacio García Perez in the preparation of the initial design and from a first level consultancy for the implementation of the project.

The present study analyses the quality of expenditure intended for these policies which, according to the present study, in 2017 stands between 6,100 and 6,500 million euros[1]. Through the review of its strategic design, the money map, its effectiveness, the cost structure of the *oficinas públicas de empleo* (public employment offices - OPE) and the analysis of the international experience, which has proved to be very relevant in identifying best practices, presents an overview of the functioning of the ALMP in Spain and a series of proposals based on evidence and comparative analysis.

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[1] Due to the inability to consolidate the monetary flows.

The study has been prepared on the basis of several sources of information and is the result of applying different assessment methodologies, such as document review, interviews and the causal approach using control groups. On the one hand, access was made to budgetary information of the *Servicio Público de Empleo Estatal* (State Public Employment Service - SEPE) and of the Regions for the year 2017, in addition to relevant cost information of the OPE. Moreover, access was made to data on job seekers and participants in ALMP for the 2012-2017 period. For the first time these data provided by the SEPE have been supplemented with data on the professional life by the *Tesorería General de la Seguridad Social* (Treasury General of Social Security - TGSS). Finally, other sources of information were used, such as Eurostat, the World Bank and the *Instituto Nacional de Estadística* (National Statistics Institute - INE).

A review of regulations, public documentation and the most recent academic assessments has been included. With regard to the legal framework the Employment Law, the European Strategy for Employment, the Spanish Strategy for Employment, the Annual Employment Policy Plan (AEPP) and the Regions' strategies have been taken into account, among others, as well as the regulatory aspects of five countries that have been used as a benchmark for identifying best practices: Germany, France, Belgium, Finland and Australia.

In addition, previous evaluations of effectiveness and efficiency of the ALMP, such as EVADES and *PES Capacity Survey*, have been incorporated into the analysis.

## 1.2. Overview

The unemployment rate in Spain has been structurally high. If we consider the 1993-2017 period, which covers a little over two economic cycles, the average data for the years 96-98 and 2015-2017 shows that both Spain and the benchmark countries have improved in terms of reducing unemployment. However, Spain stands out for maintaining a higher level of structural unemployment and for having had less significant reductions in unemployment.
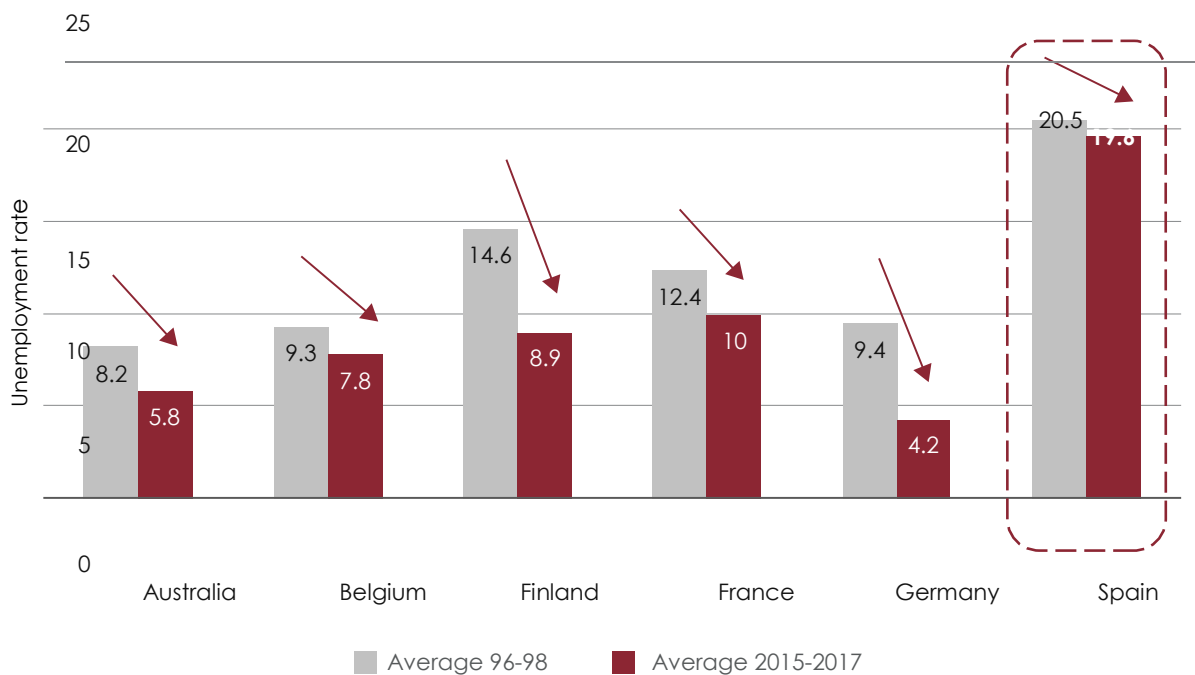


The ALMP, such as guidance and training, are those policies aimed at improving the employability of unemployed persons, as well as to promote the maintenance of employment among those employed by increasing professional competencies and developing skills that facilitate a better quality of employment.

The National Employment System (NES) in Spain, which is responsible for promoting and developing the ALMP, in a decentralised manner, is composed of the SEPE and the 17 regional public employment services. All of them finance, manage and execute ALMP, but the SEPE is tasked with coordination.

There are two instruments that are particularly relevant in the NES. On the one hand, the Public Employment Services Information System (PESIP), which constitutes the main information, communication and coordination tool and, on the other hand, the Conferencia Sectorial de Empleo y Asuntos Laborales (Sectoral Conference on

Employment and Labour Affairs), the main instrument of collaboration between the Servicios Públicos de Empleo (Public Employment Services - SPE) where the Regions determine the services and programmes to be implemented with the funds distributed by the SEPE in accordance with the agreed criteria.

The actors of the NES allocated between 6,100 and 6,500 million euros to ALMP in 2017, using a financing system based primarily on transfers, both current and capital.

In the 2012-2017 period around 40 million job seekers (unemployed) were attended to - some 12 million people, taking into account that a person can be a job seeker on several occasions- of which one third have received ALMP services, and not in a uniform way by Regions.

In this period the ten most common services were information and guidance and, on average, the number of ALMP services per job seeker has been around 2.5.

Within the hierarchical structure of SPE it is worth highlighting the part linked to the provision of services, such as OPE, of which there are 711 scattered all over the Spanish territory, 22 national reference centres and 164 integrated Vocational Training centres.

AIReF has built a taxonomy of SPE with the aim of analysing the connection between the quality of the SPE with the level of unemployment, from regional data on expenditure, internal expenditure compared to outsourced expenditure and number of employees in offices, among other features. To give consistency to this classification the prior assessment of EVADES on the performance of the SPE has been used. By applying a principal component technique to the values resulting from EVADES it is possible to group the SPE. Finally, it has been found that both classifications have a perfect correlation, which gives consistency to the original classification developed by AIReF. The classification has carried out done from an index that uses values in the range from 1 to 5.5, from worst to best performance.

EFFECTIVENESS OF ALMP, 2016. TAXONOMY



Source: *Ministerio de Trabajo, Migraciones y Seguridad Social* (Ministry of Labour, Migrations and Social Security - MISTRAMISS) (EVADES) and own calculations.

In order to carry out a holistic evaluation of these policies, various aspects have been considered. In the first place and, knowing that unemployment is a common challenge, **a comparative analysis** was carried out that made it possible to identify best practices that have been implemented in the countries of our environment. The countries were selected by taking into account aspects that are comparable to Spain, in addition to being successful countries in achieving results in the field of ALMP, i.e.:

1. Better standards in terms of competitiveness measured through the *Global Competitiveness Index* (GCI).

2. More effective (better rates of job placement) using a synthetic index.

3. Additionally, weight was given to their comparability, requiring a western democratic and decentralised structure, as is the case in Spain[2].

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[2] The countries chosen must also have labour indicators.

From this filter Germany, Finland, Australia, Belgium and France have been selected.

Secondly, **a strategic analysis** that has made it possible to achieve an overview of the reality of the employment system through the responses of public managers and social agents who have contributed their opinions and proposals for improvement through a survey.

Thirdly, **the financial flows** were analysed, identifying who provides and who receives funding and the execution levels reached. The concurrence of three levels of administration prevents the consolidation of monetary flows.

With regard to the expenditure figures, expenditure over GDP in Spain is similar to other member states of the EU (figure a). But if corrected taking into account the high rates of unemployment, the expenditure per unemployed person is lower (b).

<div align="center">ALMP EXPENDITURE, 2016, %GDP</div>



Source: Eurostat

## ALMP EXPENDITURE 2016, %GDP PER UNEMPLOYED



Source: Eurostat

On the other hand, expenditure per unemployed person is heterogeneous among Regions.

## ALMP EXPENDITURE PER REGISTERED JOB SEEKER, 2017



Source: MISTRAMISS, own calculations (*Money Map*).

Fourthly, the **effectiveness evaluation of the ALMPs** was addressed. Above all ALMP should seek effective job placement, using econometric methods and advanced statistics, as is done on a permanent basis in other countries. Although impact evaluations are not frequent in the context of ALMP in Spain, the literature that exists in this regard is inconclusive and it is known that ALMP take some time to show their effects. Job search assistance, followed by training in the classroom or at work is effective in the short term, as well as training in general if the effect is measured in the medium to long term.

There are numerous ALMP to evaluate: programmes and services common to all Regions, programmes and services specific to each one of them, pathways, etc. Assessing the impact of each requires a clear definition of the service/programme/pathway to be evaluated and adequate data to be able to carry out the evaluation. In this sense in this study AIReF presents the effectiveness evaluation of the PREPARA programme and the 14A service (individualised diagnosis) in the Region of Aragon. For the former there are comparable data by Regions and for the latter the service is clearly defined and the data are of reasonable quality to be able to carry out the evaluation. It has not been possible to evaluate other programmes and/or services due to a lack of information, or incomplete and heterogeneous information at the time of carrying out the work.

Finally, in order to be able to carry out an assessment of the cost effectiveness of ALMP, a **cost analysis** of the OPE was carried out. The Regions do not have cost accounting and the baseline data are of very heterogeneous quality. In this situation it was decided to create a practical guide for evaluating efficiency in OPE with the guidelines necessary to carry out a future evaluation of the cost effectiveness of ALMP.

## 1.3. Conclusions on findings and lessons learned

### Diagnosis and treatment of the unemployed:

I.      Profiling tools are not used across the board and there is no standardisation or coordination in the allocation of pathways. For correct diagnosis statistical profiling and the allocation of pathways, alongside the guidance counsellor, are essential tools in any SPE. In this sense, the most advanced model is that of Australia, with a profiling system that identifies the likely level of employability of a job seeker (according to a statistical model) through a questionnaire which assesses 18 factors of the person, in order to be able to offer the employment services that best meet their needs. Additionally it allows the payments/fees of external suppliers to be modulated, according to the results in terms of finding job seekers employment.

II.     The autonomy of management in the OPE is insufficient. In Finland, Germany, and Belgium the autonomy in the management of the OPE to manage ALMP is broad and allows them to respond with more flexibility to the needs of job seekers. Usually the OPE with better achievement of objectives are awarded for their efforts.

III.    The EFQM models of excellence and quality have proved successful in Regions such as Aragon, in which their public employment services have implemented them. They are adaptable to both industrial companies and services (including public).

### Procedure:

It has two parts: data quality and improvements in information systems, especially the technological architecture.

I.      The computer systems are all over the place and are more oriented towards administrative management than analysis There are different applications, operating in silos, with a management and maintenance cost much higher than the desirable standard and with limited capacity for technological evolution.

II.     The integration of information on participants in ALMP through the PESIP has improved over the years, but remains insufficient.

III. The service catalogue has not been used as had been originally designed The result is that each Region determines its particular services and the subsequent harmonisation of their content is unviable.

IV. The pathways are not defined *ex-ante* and according to the characteristics of individuals, which tremendously hinders the provision of an adequate service and makes it impossible to assess its impact.

V. The cost information of the OPE and training centres is highly uneven by Region. The level of information available on cost indicators, with a few exceptions, is poor and there is a culture that measure the costs associated with the activity.

## Intermediation between supply and demand:

I. There are some positive experiences in intermediation, but it is necessary to improve them to attract businesses and help job seekers to trust on SPE as an effective channel to find employment. In the Anglo-Saxon countries intermediation is at the centre of the operations of SPE and in Spain some Regions (such as the Valencia) are already implementing this. In some countries it is mandatory for businesses to hand over their vacancies to the SPE. In exchange they may receive candidates with a good profile, provided that the SPE responds with quality and agility.

II. In Spain the degree of advancement in the digital transformation of SPE is very heterogeneous and delayed with respect to benchmark countries. The use of technology to match supply and demand is insufficient, and both businesses and job seekers end up using alternative channels.

## The labour market context

I. The most notable problem among those registered unemployed in our country (excluding pre-retirees) is the high average duration of their time in unemployment. Based on unemployed job seekers registered in the 2012-2017 period and analysing their work history from 2005, it can be seen that almost half the time was spent in unemployment. This chronic unemployment, although worrying in general, is more pronounced in some Regions.

AVERAGE MONTHS IN UNEMPLOYMENT BENEFICIARIES 2005-2016



Source: MISTRAMISS.

In more economically dynamic Regions, such as Navarre or Madrid, the cumulative duration in unemployment is lower. However, in the south of Spain it is close to six years, out of a total of twelve years analysed.

**Financing:**

I.      The distribution that has been carried out through the Sectoral Conference indicates that the allocation to the Regions has ended up being aligned with the volume of participants in ALMP of each Region:

II.     The intensity in expenditure per unemployed person is highly variable by Region, both in terms of the original budget and in the obligations recognised (real expenditure).
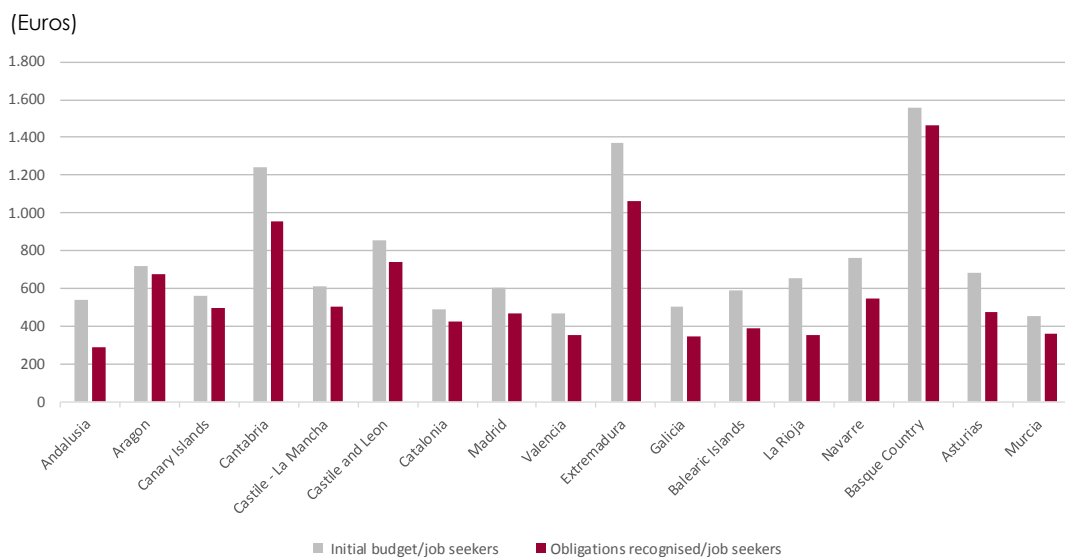
**Effectiveness**

I.    Using the classification of the Regions that emerges from the taxonomy and their unemployment rates, it can be said that there is a negative correlation (not causality) between the level of unemployment and the performance of the SPE.

## ALMP CLASSIFICATION VS UNEMPLOYMENT RATE
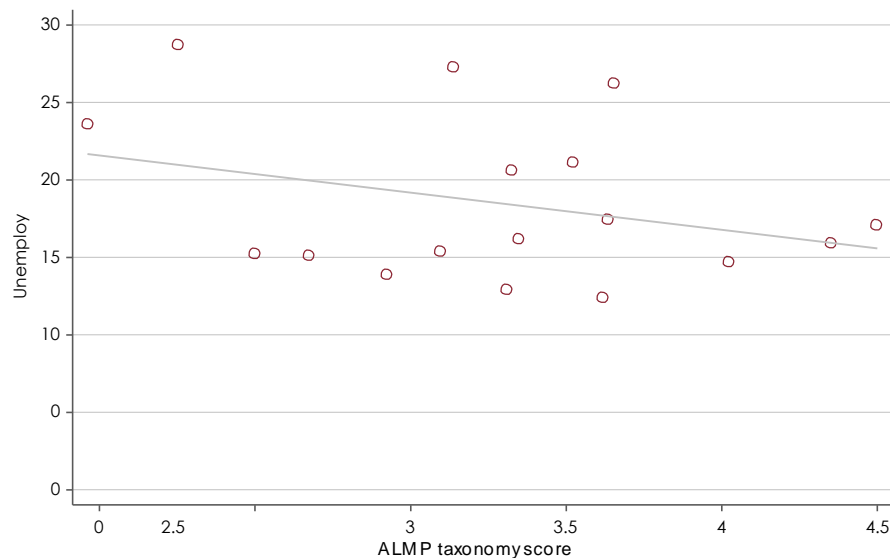


Source: MISTRAMISS, own calculations. Average 2014-2018.

II.   The PREPARA programme, which relates active and passive policies and is geared to long-term unemployed persons (DLD), generates disincentives to insertion in the labour market, primarily during the six months that the programme lasts. Once that period is over, the difference between participants and non-participants is reduced, but only in some Regions beneficiaries and non-beneficiaries end up behaving in the same way (in terms of access to the labour market) after the initial 12 and 24 months. It is in the regions of the north, Aragon, Navarre, Basque Country and La Rioja, in which the effect seems positive after the first year.

III.  People who receive the 14A service in Aragon (individualised diagnosis) have a higher probability of being employed than people who do not receive it, at all times of the analysis, with greater effectiveness within a

period of 12 months after the receiving the service. It can be considered an example of an effective ALMP and at a relatively low cost, in line with other works that identify guidance as a highly cost effective measure.

## 1.4. Summary of the analysis and AIReF's proposed measures

**According to the scope and results observed, AIReF proposes that the Government and the Regions rethink the functioning of the NES.**

**Clear shortcomings have been detected which calls into question the quality of expenditure on ALMP. It is necessary to identify which programmes, services and pathways work best in order to efficiently allocate public resources.**

The following are the alternatives proposed by AIReF:

### ALTERNATIVES TO THE DISTRIBUTION OF FUNDS IN SECTORAL CONFERENCE AND INCENTIVES

- Assess the effects of the various distribution schemes in the Sectorial Conference that have been used in recent decades.

- Simplify the system of indicators and strengthen those linked to job placement. Also include the level of budgetary execution (such as, for example, in Germany).

### ALTERNATIVES TO INFORMATION SYSTEMS

- Speed up the process for uploading and filtering data until a homogeneous, high quality and complete database is achieved.

- The SPE should have control and be able to trace the services received by each job seeker by office, pathway and ALMP, as well as their performance in the labour market and the cost of internal and outsourced operations. As a reference, of the benchmark countries Australia stands out for its on-line information system and its intermediation and training services both for the unemployed and for companies.

- Adopt AIReF's efficiency guide to enable comparability in about two-three years.

## ALTERNATIVES TO DIAGNOSIS AND TREATMENT OF THE UNEMPLOYED

- MISTRAMISS should drive, by funding and coordination, a diagnostic tool (both profiling models and the definition of pathways) in all of the Regions. This will allow a standardised and modern system to be in place that enables adequate diagnoses.

- Proportion and stabilise the workforce of guidance counsellors, increasing their professional specialisation.

## ALTERNATIVES TO EFFECTIVENESS

- Establish a clear framework of participants in all the ALMP: services, programmes and pathways, with special attention to the area of training, for which it is practically impossible to know its true effectiveness. All of these data will have to merge with information of the TGSS in order to identify the effects of these policies. In addition, in order to identify the net effect of the policy it will be necessary to have access to data that allows the construction of a control group.

- The SEPE should develop a plan to evaluate the effectiveness of the ALMP and establish common impact assessment methodologies.

- Create a unit for evaluating the ALMP that recurrently analyses the effectiveness of all state funded ALMP.

- Set targets at the local level, with more autonomous management in the OPE. Take the German or Finnish model for setting targets, monitoring and incentives as reference.

- Standardisation for quality management by processes. It is recommended to adopt a common standard in the Sectoral Conference and to generalise this for all SPE.

**ALTERNATIVES TO INTERMEDIATION BETWEEN JOB SUPPLY AND DEMAND**

- Create areas in all SPE with specialists dedicated to attracting offers from businesses.

- Define job profiles more adjusted to the demand of businesses and ensure that these are in permanent contact with the local OPE. France and Germany are references of best practices.

- Training catalogues have to respond to the needs of businesses and be more flexible and open to the new needs of businesses. Achieve more flexibility for running on-demand training adapted to the needs of local businesses, both existing and foreseeable.

- Regulate the collaboration of social agents (trade unions and employers) especially at the local level, and not only as receivers of information.