

Crucial Design Features of Effective PUBLIC WORKS PROGRAMMES for EU Countries in Times of Crisis

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In case of severe economic depressions, even the OECD considered public works programmes (PWP) a reasonable option in fighting the rise of unemployment: “... *increased reliance on public sector job creation schemes targeted to the hardest-to-place jobseekers might provide a useful, temporary backstop to activation regimes during the recession. However, past experience with such measures is not very encouraging in terms of their ability to help the most at-risk jobseekers. Therefore, in designing these measures, it will be very important to build in incentives to ensure that participants exit from them into regular jobs and the schemes can be unwound quickly once the recovery gathers pace*” (OECD Employment Outlook 2009, p. 14). So there is a role to play for PWPs and active labour market policies in general. However, it has to be stressed that active labour market programmes can cure the mistakes and failures of economic policies, e.g. in terms of overambitious consolidation targets in downturns, lacking regulatory reforms in the banking and financial sector, etc., only to a very limited extent! This should be kept in mind when assessing the effectiveness of PWPs.

I.) Evaluation results and programmes

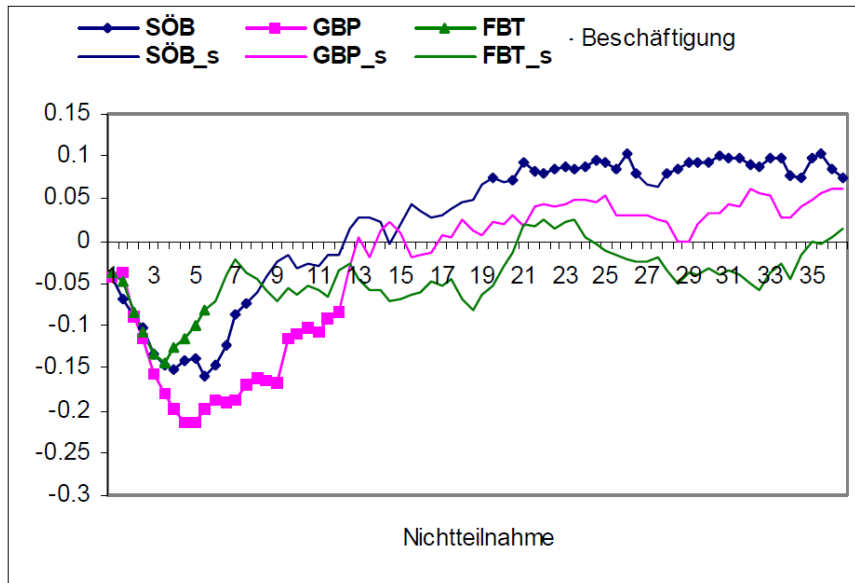
Surveys of evaluation studies referring to active labour market programmes in **OECD countries** usually come to the following conclusions: “*Direct job creation in the public sector ... The vast bulk of these studies converge in terms of a conclusion on outcomes: this measure has been of little success in helping unemployed people get permanent jobs in the open labour market ... Temporary employment programmes in the public sector can be used as a work test for unemployment benefit claimants and as a means of helping the most disadvantaged unemployed maintain contact with the labour market, particularly in a recession when aggregate demand is depressed and vacancies are scarce. ... Where such measures are used, they should be of short duration and targeted to the most disadvantaged*” (Martin/Grubb 2001, p.23f). A well-known meta-analysis of active labour market policy evaluations summarises 97 studies for 26 OECD countries (with the exception of Peru and Dominican Republic) and concludes with reference to PWPs: “*Comparing program types, subsidized public sector employment programs have the least favourable impact estimates*” (Card et. al. 2009, p. 3).

After unification, direct job creation schemes like “*Measures promoting job creation (ABM)*” and “*Structural adjustment measures (SAM)*” played an important role in particular in Eastern **Germany**. In the early 1990s, there were some 600.000 to 800.000 participants in these programmes (currently: well under 100.000), mainly hard-to-place and long-term unemployed. These measures were usually carried out by private firms or non-profit-institutions offering activities that are of value for society and additional in nature, that is to say, without the subsidy the activity would have been delayed or not performed at all. The

programmes typically last for one year (since 2003, duration can last up to three years for older). As a rule, the wages of the participants were subsidized by the German PES at a rate of 50%-100%. However, evaluation studies (Heyer et. al. 2011, Hujer/Thomsen 2006, Kluge et.al. 2005, Caliendo et. al. 2005, Hujer et. al. 2004) revealed rather disappointing results, not at least due to strong “lock-in”-effects, i.e. participants normally reduce their search intensity when they are in the programmes (see graph below: the “lock-in” effect can be seen easily for the first 12 months of programme participation). It has to be stressed that most research papers take into account only short to medium-term effects but disregard what happens with participants after four or more years. There seems to be effect heterogeneity at work in way that PWP help the most needy, i.e. long-term unemployed, older women, other disadvantaged groups. Beyond that, it seem to be obvious that negative signalling and stigma effects have to be taken into account: if the programme is targeted at people with disadvantages, there is always a risk that possible employers take participation in such a scheme as a negative signal concerning the expected productivity or motivation! Therefore, some of the conclusions following German experiences are that participation in PWPs should not last longer than one year, they should have a strong training element included and there should be intensive counselling and coaching after participation, combined even with wage subsidy for private sector jobs supporting the reintegration.

By contrast, the PES in **Austria** runs a particularly successful public work programme, called “*Socio-economic enterprises (SÖB)*” on a small scale: Short-term jobs in the non-profit sector in areas like environmental protection, social care, repair, crafts, recycling, services, transport, art, catering, home service, etc. are provided for long-term unemployed, handicapped, older and other disadvantaged groups in enterprises that produce goods and services close to market needs; i.e. these enterprises have to face the obligation of earning 20% of their costs through sales on the markets. They get paid up to 66% of wage cost for jobs that should be of transitional character regarding the reintegration into the private sector; and 100% of wage cost for key personal, i.e. supervisor, project manager, etc. The maximum programme duration is one year (but the average duration was only 78 days in 2012). The selection into the programme is done by the counselor of PES. The wage rate is of some €1.300 per month which is slightly above the lowest minimum wage in Austria of € 1.000 but below of, e. g., the metal sector. One important aspect is not only the job offer for hard to place people but the additional intensive counselling and training and the socio-pedagogical support and assistance; and that there is a preceding preparatory phase clarifying all relevant problems before entering the programme and a post-operational phase in which particular support (counselling, re-integration wage subsidy, etc.) is provided. In 2012, there was an inflow into the programme of some 26.000 unemployed (i. e. 0.6% of the labour force), which caused expenditures in active labour market budgets of some € 115 Mio. (i.e. 0.05% of GDP). Compared to other evaluations of PWPs in other countries and even in Austria (see “GBP”, which is a similar measure to “SÖB”), the “*Socio-economic enterprises*” are particularly successful in terms of re-integration (Lechner et. al. 2007, Hausegger 2010, Lutz et. al. 2007): 20 to 36 months after programme start, participants spent on average 10% (significant on 5% level, see figure below) more often in non-subsidized employment than

matched control group. This result refers to the period 2000-2003. The effects are particularly large in case of women and older (45-50 years) – the latter effects seems to be due to the fact that the reintegration of older after programme participation was supported in many cases by wage subsidies.



Source: Lechner et. al. 2007

Bulgaria has run a large PWP, called “*From Social Assistance to Employment*”, from 2002 onwards, when unemployment reached 18.1%. Long-term unemployed receiving social benefits should find employment offered by municipality administrations, non-profit organisations and private employers providing activities in public interest or socially useful work. The targets of the programme were: providing temporary jobs, increasing employability of participants, improving the quality of life for disabled and other vulnerable groups, and to improve the living conditions and ecological environment in the municipalities. The programme gave subsidies to employment of the participants for a period of at least 9 months, including the salaries and social security contributions. In 2004, the peak year of take-up, 94.000 persons participated in the programme (yearly average), expenditures amounted to \$ 77 Mio. As an interim evaluation of the programme has shown (de Koning 2005, Dimitrova 2009), there were several positive results: Firstly, the program has provided employment and income for a considerable group of unemployed that would otherwise have remained unemployed much longer. On average, participation in the program has halved the unemployment duration of a person. Secondly, because of having a job, life satisfaction and health situation of participants have been improved. Thirdly, there have been positive results for local communities in terms of output and services produced by the participants. Fourthly, work ethic and labour discipline of long-term unemployed have been increased. On the negative side are to mention: high costs of the programme, participants’ chance to find a regular job could not be improved, stigma effects for participants and, last but not least, some 40% displacement effects, i.e. 40% of the projects would have taken place also without the programme. As a result of the study, the researchers recommended to reduce the size of the

programme by targeting it to the most needy – PWP should be the last resort for those not employable in the labour market; and there should be an increased monitoring of the discipline and quality of the work to improve poor attitudes to work.

During 2008-2010, **Latvia**'s GDP contracted by 21%, poverty rates raised from 10.1% to 18.1%, unemployment surpassed the 20% level, but 40% of the unemployed were not eligible to unemployment benefits, and employed fell by 126.000 jobs (11.2% of total). The "*Workplace with Stipends*" emergency programme in Latvia, also called "*100-Lats-programma*" which means a transfer of € 200 (March 2011), starting in September 2009, created temporary labour-intensive employment for people who lost their jobs but were ineligible for unemployment benefits. This "*crisis response safety net instrument*" caused public expenditures to raise in the period 2009-2011 by \$ 110 Mio, i.e. 0,25% of GDP, provided 110.000 temporary jobs up to six months but with very different duration, in practice. The transfer was set at a particularly low level of 100 LVL, i.e. 80% of minimum wage. The intention for this low level was to restricting the inflow to poor households only. For Latvia, an upper-middle income country, the programme was successful in targeting the poor and vulnerable and in raising the incomes of participants by 37% compared with matched control groups (Azam et. al. 2012). Relative to the depth of the crisis, the scale of the programme was small, which meant long waiting periods for applicants, a fact that also reflected the rather low level of social security protection in the country before the outbreak of the crisis.

In clear contrast to the rather critical results in most studies for OECD countries, the **World Bank** and others debate the effects of PWP in **developing** and **transition countries** in a more positive light (Subbarao et. al. 2013, Ninno et. al. 2009, OECD 2010, Betcherman et. al. 2004) but with a slightly different focus: While impact evaluations in developed countries mainly ask for "*employment effects*", the PWP's intention in poorer countries is, firstly, to provide a safety net to the poor segment of the population through labour intensive public works and, secondly, to contribute to local development and life satisfaction through infrastructure investment, i.e. the production of "assets". These programmes are often of different nature regarding the problem to be tackled: seasonal, shock-absorbing, anti-poverty. They can become by far larger than PWPs in OECD countries: For example, 10% of the labour force or 55 Million households were in 2010-2011 included in the largest programme worldwide, the Indian NREGA (at costs of some 1% of GDP), 3.4% in South Africa's EPWP, but only 1.1%-2.7% in the PWPs in Belgium, France, Ireland and the Slovak Republic. Targeting is an important issue: Do the programmes reach the most needy? Here enters an important question into the debate with relevance also for programmes in developed countries: At which levels is the programme wage set relatively to minimum or market wages (Ninno et. al. 2009, p.21)? If the wage is on a rather low level, as done in the Latvian case, than this level serves as a self-selection mechanism: participation in the PWP is encouraged in particular for those who are most in need! Another variable is the labour intensity of the projects, i. e. wage share in total expenditures of the programme: If labour intensity is high, each Euro or Dollar spent leads to stronger income improvement but maybe at the disadvantage of lower effects on asset production due to low capital intensity.

Argentina's Plan *Jefes y Jefas de Hogar Desocupados* ("Programme for unemployed male and female heads of households"), starting in 2002 after the country has entered a period of dramatic economic disruption, is an outstanding example of a very large and effective (?) PWP: In the period from 1998-2002, Argentina lost some 20% of GDP (GDP per capita even declined by 21.9%), unemployment skyrocketed at 21.5% (three million unemployed in May 2003), and the share of households under the poverty line increased from 17.7% to 42.6%. Eligible persons for the Plan *Jefes* were unemployed households with dependents (children aged less than 18 or handicapped persons). The programme was particularly large in 2003: Almost 2 Million beneficiaries, i. e. some 10% of total official labour force (over half of employment in Argentina takes place in the informal sector), got 150 pesos per month, representing about one half of mean household income per capita per month in Argentina in 2002. This programme came at a cost of 0.92% of GDP. It was implemented at a centralized and a decentralized level. There was a work commitment of 20 hours per week per beneficiary to be fulfilled in projects like educational, health, sanitary and social infrastructure, productive and development infrastructure, and improvement of neighbourhood conditions. According to an evaluation (Galasso/Ravallion 2003) using matched comparison groups of participants, the programme, firstly, reduced aggregate unemployment by 2.5 percentage points; secondly, did partly compensate many losers from the crisis and reduced extreme poverty, i. e. 10% of participants would have fallen below food poverty line without the programme; thirdly, as the eligibility criteria were not rigorously enforced, there was substantial leakage to formally ineligible families and incomplete coverage of those eligible; and last but not least, there was a rather large Keynesian multiplier of 2,53 in the medium run, i. e. the programme triggered an impulse of some 2,53% of GDP growth (Kostzer 2008, p. 16).

Beyond case studies of PWPs at work all over the world, the **World Bank** provides a wide range of very helpful information on how to design, implement, monitor and evaluate effective public work programmes (Ninno et. al. 2009, p. 44ff, Subbarao et. al. 2010, Subbarao et. al. 2013). A "*Toolkit for Practitioners*" gives detailed hints on how to make public works programmes work in practice!

II.) Crucial design features

*"For PWPs to be successful, it is important firstly to: a) have **clear objectives**; b) **select projects** that can **create valuable public goods**; and c) ensure predictable **funding**. Secondly, the success of the program depends critically on **careful design** and incorporation of all the key design features. Finally, a credible **monitoring and evaluation** system designed right up front, prior to launching of the program can allow for mid-course corrections and to respond to sudden changes which can inhibit effective implementation"* (Ninno et. al. 2009, abstract). *"Ensuring transparency and accountability is a particular concern for public works programs; these programs need strong checks and balances against possible **error, fraud, and corruption**"* (Subbarao et. al. 2013, p.7).

"...cost of transferring one dollar of income to a poor household under a public works program is much larger than a simple transfer" (Ninno et. al. 2009, p.56)

Preliminary Questions

Is the country in a short term cyclical downturn or in a long-lasting severe depression?

Did the growth rates of GDP and employment drop in one year to a slightly negative rate or were there negative rates for 5 years or more? In the latter case, one has to soften the condition for a success of the programme, namely the reintegration into the labour market, temporally because it is just unrealistic to aim for strong outflows into the labour market. And vice versa!

What is the main aim of the programme?

Is it the reintegration of the unemployed into the labour market; the up-skilling and training of the unemployed; keeping them in contact with the labour market; stabilize the socially disadvantaged? Is the main aim of the programme to prevent falling more people below the poverty line? Or is the main target to be seen in “*asset production*” i. e. improving the social and physical infrastructure of regional and local communities?

Who is the target population and how is the selection process into the programme organized?

Short-term and long-term unemployed have to face very different challenges, in most cases. This is true also for unskilled persons and graduates from upper-secondary schools and universities; for youngster and older workers; for women and men; for unemployed totally detached from labour market and “*more-or-less-job-ready*” people; or unemployed with care responsibilities. Is it intended to work with a self-selection process via the level of programme wages relative to minimum and market wages or is it the counselor from the agency that runs the programme (e.g. the local PES) or an officer of the municipality administration that takes the decision who may enter the programme? What are the exact eligibility criteria – this is a particular crucial design feature. You can steer the inflow into the programme in particular with these criteria. In this respect, it is important to leave room for manoeuvre and for fine tuning, particularly in two extremely worrisome cases: disappointing low take-up or very high but very costly inflows into the programme leading to strong pressures on available funds.

Do you want to run the programme on a small, medium or large scale?

Do you expect a yearly inflow of some 0.1%, 1% or 10% of the work force? Do you have to handle 10.000 participants, 100.000 or 1.000.000?

Do you have the administrative capacity to run a medium or large programme?

Large scale public works programmes require significant managerial and technical inputs. These tasks can be done within existing institutions like the PES or through private agencies with clear mandates, responsibilities and objectives.

What about Funding?

Is funding the programme on a particular scale ensured on a stable basis? What is the role of foreign donors or structural funds money with respect to the PWP? What is their specific intention to finance a PWP?

Do you have a clear a-priori understanding of possible behavioral responses of potential participants and other groups, e. g. from outside of the labour force or from the informal sector?

This is an important question for identifying possible negative side effects of the programme in advance.

Are there substitution and displacement effects to be taken into account?

If the PWP offers goods and services to the communities which are of value for society they should be, in principal, additional in nature, i. e. the supply of these products by private enterprises should not be displaced by public provision. There should be no distortion in existing markets.

Are you aware of signalling and stigma effects?

For example, to put an unemployed person with a university degree into a programme which is known by the wider public as being made for the very disadvantaged groups of unemployed would be a disaster for the future career of that person. Programme participation must not serve to the disadvantage for future employment prospects.

Put in place monitoring, evaluation, anti-fraud and anti-corruption measures

It is of particular importance to have a clear picture of the necessary data requirement of running the programme in advance. There should be an effective independent management information system which is able to deliver all relevant up-to-date information like characteristics of beneficiaries, duration of participation, working time, detailed project descriptions, follow-up labour market careers 6 months, one year, three years after finishing the programme. There should be a group of independent researcher working alongside the implementation of the programme making sure that all relevant information are at hand when a matched comparison group is needed.

How to avoid political capture?

Exercise complete clarity and transparency in selecting areas and districts, beneficiaries and projects. Strictly adhere to procurement guidelines in the bidding process for acquiring materials. Put a complaints-handling process in place.

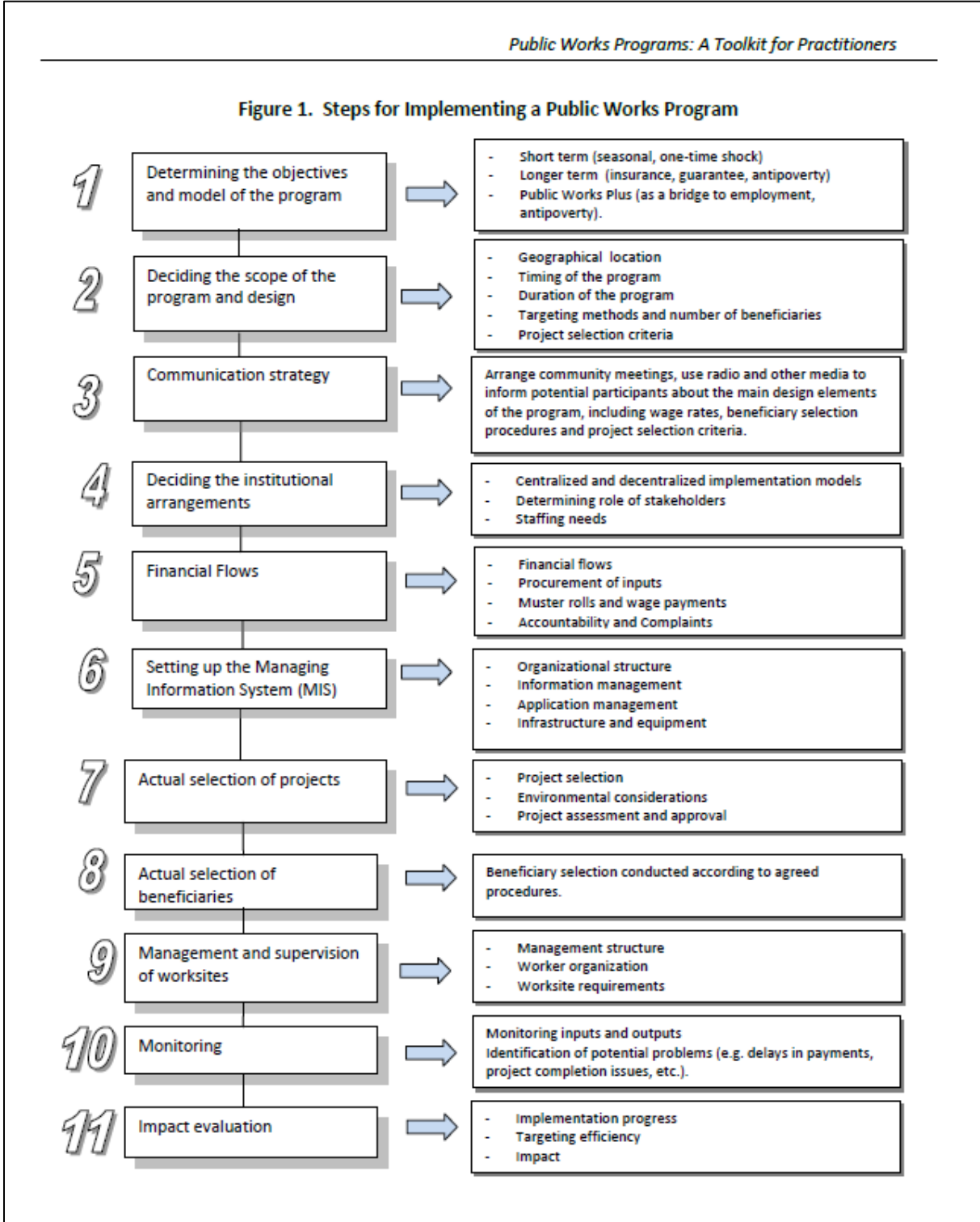
Further design features

At which programme wage rates should the participants work? This is a particular important variable not only with respect to the official minimum wages and market wages but also with respect to the level of unemployment benefits. If participants do get benefits (unemployment or other benefits like family), this benefit level serves as a kind of “*reservation wage*”. On the other hand, if they do not qualify for benefits there might be incomes from unofficial sources like informal employment. Potential participants will base their decision to enter the programme relative to der foregone incomes – in case of voluntary participation, which seems to be the preferable option. In addition to that, and looking at the labour demand side, the wage rate is relevant with reference to total labour costs of the project: There should be an incentive for the provider of the project to carry part of the cost on own account in order to make sure that the project is in the interest of e. g. the municipality. Therefore – do subsidies labour cost of projects by less than 100%.

And further questions arise: Is there a work requirement of, e. g., 20 or 40 hours a week? Is a training element foreseen and who is providing the training? How to select to projects that should be done?

Political-economy considerations

Who is interested in implementing a PWP in a particular country and who will be acting against? The employers’ representations, the trade unions? Some political parties but not others? Some ministries but not others? Some regions but not others? Some NGOs, maybe the PES? These are important aspects of the design and implementation of PWP.



Source: Subbarao et. al. 2010

To sum up

Running a public works programme should start with clarifying the following question as precisely as possible: What is the problem that is to be solved by the use of PWPs? Answering this question should go hand in hand with an in-depth analysis of the particular economic and labour market situation in the country or region concerned. Then you can start thinking of the “11 Steps for Implementing a Public Works Programme” which is provided by the World Bank (see above). But the most important point is the adaptation of the experiences of other countries with respect to the crucial design features of public works programmes to the needs of the particular situation in a country. This is the really crucial point.

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