

Rheinisch-Westfälisches Institut für Wirtschafts-
forschung, Institut für Sozialökonomische
Strukturanalysen and Gerd Ronning

Evaluation of the European Social Fund Interventions in Germany

Programming Period 2000–2006
SPD Objective 3

Update of the Mid Term Evaluation
Final Report – Executive Summary

Research Project Commissioned by the
Federal Ministry of Labour and Social Affairs
Financed by the European Social Fund



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Published by Rheinisch-Westfälisches Institut für Wirtschaftsforschung,
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Editor: Prof. Dr. Christoph M. Schmidt, Ph.D.

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The members of the project team express their thanks to Hermann Rappen for his expert advice in the context of the analysis of the *Länder* labour market policy, Hans-Karl Starke for his assistance during the participant surveys, and Colin Vance, Ph.D., for his helpful comments in translating this summary. Furthermore, we are much indebted to Karl-Heinz Herlitschke, Anette Hermanowski, Klaus Höhner, Frank Jacob, Lionita Krepstakies, Lutz Morgenroth, Thomas Michael, Silke Ottmann, Birgit Petter, Joachim Schmidt, Gisela Schubert, Marlies Tapaß, Larissa Wagner and Hartmut Westram who supported the realization of this project.

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I. Commission for Research and Basic Concept of the Evaluation

The final report on the update of the mid-term evaluation of the *Single Programming Document Objective 3* (SPD Objective 3) emerges following contentious changes in labour market policy both in Germany and at the European level. At the European Union level, the common employment strategy continued to develop. Persistent high unemployment rates in numerous European Union countries – as well as in Germany – are not only the result

of obstacles in the labour market, but also reflect a long-lasting growth weakness.

Consequently, the new guidelines for growth and employment are based on the recognition that a co-ordination of supply and demand measures is necessary in order to meet the challenges that confront employment policy at the European level. The Lisbon Strategy, which was formulated – among other reasons – in response to the Kok Report, regards job-creation measures as an important complement to the micro-economic and macro-economic policies targeted at economic growth in the European Union.

At the national level, the Hartz reforms revamped the system for coordinating labour market policy. The reorientation had immediate effects on the organization and emphasis of those federal- and state-level projects promoted by the European Social Fund (ESF). This was inevitably the case, since at both levels, ESF support is often linked directly to state (*Länder*) support through the federal government. The question thus arises as to the added value of ESF support and its future role in the context of the new form of national support.

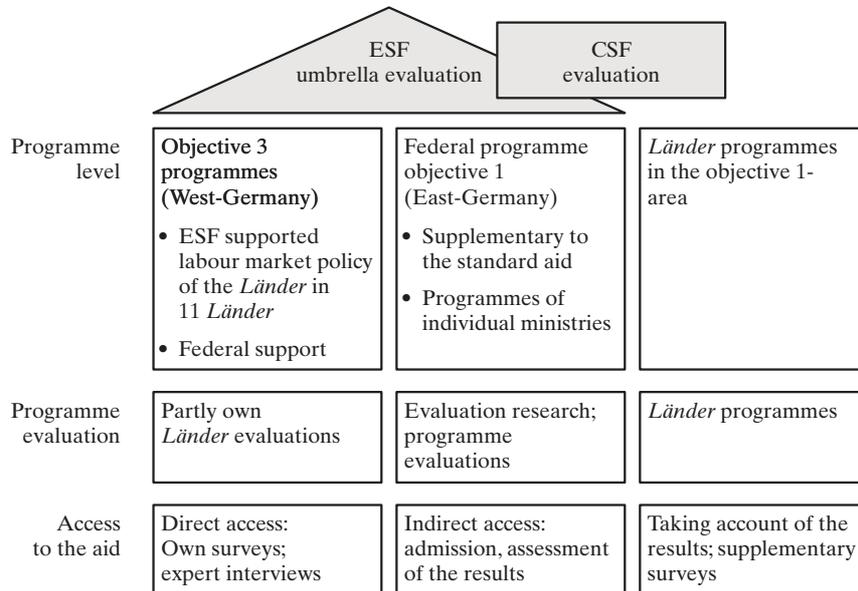
The ‘Guidance Paper on ESF Final Evaluation’ from April 28, 2004 provides the framework for the contents of the present report. Based on these specifications, one emphasis of the revised mid-term evaluation is on the support and impetus that the national labour market policy receives through the ESF. In particular, the two following questions are examined: Does the ESF make an independent and original contribution to labour market support in Germany? How is the main focus of the ESF, both with respect to federal promotion as well as state support, distinguished from the national labour market policy?

An additional emphasis of the analysis is on the effectiveness of the promotion. In this regard, the pertinent question is how many of the recipients can profit from the ESF funds. In particular, it was also determined how many of the recipients could be integrated into the primary labour market as a consequence of the ESF support. From the perspective of modern evaluation research, this question is of central significance, not least because the effectiveness of active labour market policy was recently questioned. The present report addresses specifically which causal effects the labour market promotion has on the recipients, which kind of support is more effective and which measures can be used in order to improve the quality of the support. At the same time, the long-term increase of employability through the promotion of human resources remains another focus of the study.

The inquiry formally covers the promotion administered by the Federal Government and the *Länder* in the context of the SPD Objective 3 as well

as the ESF interventions of the federal government within the framework of the *Operational Programme of the Federal Government Objective 1* (Federal Government OP Objective 1). As the ESF umbrella evaluation for Germany, the evaluation of SPD Objective 3 and OP of Federal Government Objective 1 has to take the entire promotional field into account, which overlaps with the evaluation of the Community Support Framework (CSF evaluation) as the umbrella evaluation for the Objective 1 region (**Graph KF 1**).

Graph KF.1
ESF Umbrella Evaluation: Field of Promotion



The present summary reviews the results of the evaluation for the examined promotional field with emphasis on the SPD Objective 3 in view of questions raised in the ‘Guidance Paper on ESF Final Evaluation’. First, in part II, the questions regarding the entire programme are answered. In part III, the results concerning the effectiveness and the role of the support for the policy fields, which are investigated in the context of the focused approach, are discussed. Part IV contains the conclusions and recommendations.

II. Results at Programme Level

A. Review of the Mid-Term Evaluation: Recommendations, Implementation and Obtained Improvements

Schedule KF.1 shows the recommendations from the mid-term evaluation, as well as their implementation and the assessments of whether the desired results were obtained. The recommendations of the evaluation of the *overall strategy* corresponded by and large to the observed developments after the mid-term evaluation. A majority of the developments was ultimately due to the existing performance pressure and the limited manoeuvrability of the stakeholders. The question about the suitable financial basis for the ESF support at the national level could not be satisfyingly answered to date.

Regarding the *promotion instruments* in the mid-term evaluation, different suggestions were submitted, but it was not always possible to examine their implementation to this point. This is because the second wave of the participant interviews concentrates on participation in 2002 and 2003, before the final report of the mid-term evaluation. Therefore, the suggestions on improving the effectiveness of the support are taken up again in this report and developed further against the background of the knowledge of our second interview wave.

With the *implementation-, administrative- and monitoring systems*, partial progress was obtained that was consistent with the recommendations of the evaluation. Nevertheless, there is still a need for further improvement in the indicated directions for the coming programming period.

B. Results of the Investigation of the Federal Government and Federal States Support

In the update of the mid-term evaluation, the financial profile of the ESF in relation to the respective national policies is to be determined. For this purpose, two definitions of labour market policy were used: In the narrower sense, labour market policy at a federal level is understood to be the financial means that are spent at the federal level in the context of the *Eingliederungstitel* (budget for discretionary measures of active labour market policy). At the *Länder* level, labour market policy encompasses financial means that are directly spent in the department in charge. In the broader sense, those federal government and *Länder* programmes were included that are not budgeted in the above fields but, nevertheless, fall in terms of content into the promotional spectrum of the ESF interventions.

Schedule KF.1

Synopsis for the implementation of the recommendations of the mid-term evaluation

Recommendation	Implementation of the recommendation	Desired results obtained?
Recommendations for the overall strategy		
Strengthening of the aims 'Raising the Job Quality and Labour Productivity' and 'Social Cohesion and Social Integration'	Yes	Yes
Maintenance of the foundation, necessary reorientation	Yes	Yes
Strengthening of the measures for Young people	Yes	Yes
Possible co-financing of SG B III-instruments	No	Yes, but differently than proposed: Problem of non-existing promotion gaps was solved by transferring the federal financial means to the states ('Länder')
New financial basis for the ESF-BA Programme (proposal from the ESF-BA evaluation)	No; it should be tackled in the next programming period	No
Strengthening of the policy fields B, C and D; maintenance of the possibility to remain active in A	Yes	Yes, but: The possibilities of federal co-financing in policy field A for the <i>Länder</i> were strongly restricted by the Hartz-reforms.
Instruments of Promotion		
Private co-financing: important strand of the ESF-BA-Programme; but restrictions of co-financing	Yes	Yes
Stronger focus on the cross-section objectives	No reliable knowledge up to now	Not yet
Continuing education of BA-employees supported by the ESF	No	No
Stronger focus on the cross-section objectives (Equal Opportunities, Gender Mainstreaming and Local Development)	The focus should be resumed as a target for the next programming period	With reservations
Strengthening of social development	Yes	Yes
BMBF-Programme should be maintained and developed further	Yes	The implemented focus, was successful.
Implementation, administrative, and monitoring systems		
Strengthening of the cost and quality control	In part, and in the <i>Länder</i> differently	Certainly in part – although impacts of a stronger quality control on project and/or programming level are difficult to prove.
Certification of the project management institutions	No	No
Administrative expenditure for the project management institution is to be reduced	Implementation is primarily in the future possible	The prepared handbook for the master data list procedure (' <i>Stammblattverfahren</i> ') facilitates its application, especially for the new implementation institutions.
<i>Stammblattverfahren</i> : full-coverage implementation and an increase in the quality of data.	Yes	An increase in the quality of data was achieved at the time of the update of the mid-term evaluation.

In the *broader sense*, if one summarizes the expenditure for labour market policy, the *federal government* and *Länder* provide *almost 20 billion € per year for this policy field*. Of this, about *19 billion €* is allotted to the *Federal Government* and *approximately 500 million € to the Federal States* (in the year 2003). If one considers only the *expenditure of the respective departments*, then the total expenditure of the federal government and the *Länder* will of course be reduced considerably. Together, the departments responsible for labour market policy spend about *14.5 billion € on federal and Länder funds for active labour market policy*. On the one hand, the *expenditure of the Federal Government in the context of the 'Eingliederungstitel'* is reflected in this amount. This covers about *14 billion €* per year.¹ On the other hand, if one regards the *Länder support* of the respective *Länder* departments, which the active labour market policy is responsible for, one obtains a complete sum of approximately *300 million €*.

Both levels of analysis identify the Federal Government in Germany as the decisive player within the area of labour market policy. At the same time, it becomes clear in the relation between federal government and federal state that the significance of the ESF in labour market policy in Germany is to be evaluated differently. If one uses the approximate 20 billion € as a standard, which arises as a sum of the federal and the *Länder* support within the range of the promotional spectrum of the ESF, then the *ESF comes to a purely arithmetical share of just 3%*. This share rises only marginally by around 1% if one sets the ESF expenditure in relation to the expenditure of the departments responsible for active labour market policy.

A substantially more differentiated aspect on the role of the ESF results, however, if one regards the two stakeholders - the Federal Government and *Länder* - separately: For the *Federal Government alone*, the result is only a *share of the ESF under 2%*. The *ESF funds of the Länder* comprise approximately 60% of the active labour market policy funds for the respective departments, which are responsible for a total of nearly 300 million €. The relation becomes even clearer if one compares the ESF funds of the *Länder* to the *Länder* funds of the responsible departments. From this point of view, the ESF enables the *Länder* nearly to double their financial possibilities to form a labour market policy of their own.

¹ In the budget for discretionary measures of active labour market policy ('Eingliederungstitel'), bridging money and short-time allowance are not included. In case of the inclusion of these two items, Federal funds would be correspondingly higher.

C. ESF Support in the Policy Fields

Consideration of the *use and implementation of resources at the level of the complete programme* enables one to get a picture of the extent and the structure of the realized ESF support in the first five years of the current programming period in the area of the SPD Objective 3. The indicators, which are characterized as so-called ‘common minimum’, are concerned with physical and financial quantities, which are explained in the ‘Guidelines for the Monitoring and Evaluation Systems of ESF Interventions for 2000-2006’ (number of the projects and ESF participants, target-group specific allocation, and the spent ESF funds).

With approximately 2.5 billion € of ESF funds and a total amount of 7 billion € including trifle cases, 1.8 million ESF participants were supported. Apart from the individual promotion – e. g. from the ESF-BA-Programme – more than 10,000 new approved projects were funded per year. **With a third of all ESF participants and almost half of the ESF funds spent, Policy Field A had the most significance in the first five promotional years.** Herein, the special preference of the ESF for active and preventive measures of the labour market policy and particularly regarding the fight against youth unemployment is emphasized. With almost a **fifth of the ESF funds within Policy Field B** and a **tenth within Policy Field E** – with somewhat lower quotas for each of the ESF participants – the objectives ‘society without exclusion’ and ‘equal opportunities’ are taken into account.

Regarding *vocational and general education as well as lifelong learning (Policy Field C, Measure 6)*, **more than one fifth of the participants** nevertheless are integrated in the first five promotional years. An increasingly stronger focus was thereby on school and vocational training measures as well as in the field of initial vocational training. However, the financial support of the measures was comparatively weaker, because **Measure 6 received only about 8% of the ESF funds.** With a **proportion of 13% each for both ESF participants and ESF funds, Policy Field D** remained behind expectations.

The *ratio of the different target groups* of the ESF participants deviated clearly from the unemployed. While more than half of the ESF participants were young people, the ratio of unemployed was only somewhat more than one tenth. The long-term unemployed again were underrepresented, since the ratio of unemployed is three times as high as that of ESF participants. The ratio of female admissions corresponded over the programming period

to the ratio of unemployed.² These ratios conform to the ratios of the promotional objectives of the ESF, set by the European Union.

III. Results of the Analysis of Effects in the Selected Fields of Support

A. Selected Fields of Support

For the focused analysis, the evaluation suggested a broad approach orientated towards – in view of the impact analysis – *participant-related support instruments of the ESF*. Nevertheless, a restriction on certain policy fields is not carried out a priori. The instrument types receiving focussed investigation cover 77.4% of the participants, and 82% of the ESF costs of all participant-related support instruments (*Table KF.1*). Furthermore, innovative support projects as well as the cross-sectional objectives of the ESF (here: ‘Gender Mainstreaming’ and ‘Local Development’) are examined as *systemic support measures*.

B. Direct and Indirect Effects of the Support

The effects of the measures are evaluated in view of the pursued objectives. Quantitative targets exist only in view of the planned promotion and the expected participant admissions. The next step is consideration of the effects of the support. First, objectives, direct effects and possible indirect effects on ESF systems are discussed. Furthermore, unintentional effects and the role of implementation of the support instruments for the effects of the promotion are examined.

1. Further Training for Unemployed Persons

The ESF supports further training for unemployed persons with the support instrument ‘Further Training for the Unemployed’ mainly within the **Policy Fields A (Measure 1 and 2) and E (Measure 10)**. Therefore, the emphasis is on promoting measures that enable a reintegration of the unemployed into the primary labour market. To increase the adaptability of the labour force, the *objective* is to *integrate more people into the primary labour market* by providing more opportunities for further training, particularly for young people and women.

² With regard to the interpretation of these results, one has to take into account that entrance of participants are measured as flow variables while the unemployed are measured as stock variables. A comparison of the stock of the unemployed to the participant stocks at a fixed date might lead to different results.

Table KF. 1
Allocation of ESF-costs and participants in the years 2002 and 2003 to instrument types of the Stamblattverfahren

	Shares in %	
	Costs	Participants
Detailed analysis		
Further training of unemployed persons	42.7	25.3
Vocation-orientated measures	7.8	7.2
Training in supported employment	20.9	28.4
Training of employed persons	6.7	12.2
Business start-up support	3.8	4.3
Other instruments of promotion (not included in the survey)	18.0	22.6
Total	100.0	100.0

Authors' own calculations on basis of the project master data ('Projektstamblätter') of the Länder in the eligible area under Objective 3.

In order to estimate the measure's impact and thus the *effectiveness of the ESF measures*, the net effects must be considered. From the analysis of the net effects of the ESF support of further training measures for the unemployed in the context of the Länder promotion, *positive effects result regarding the chances of the recipients finding a job in the primary labour market*. This applies in particular to participants in adaptation and re-education measures. The measures for further training therefore increase the probability of finding a job for the individual participants. The investigations of the effectiveness of the *federal support* in the context of the ESF-BA Programme by the IAB are not final. Nevertheless, preliminary results indicate that the ESF supported participants show exactly the same employment prospects as the participants of the promotion without ESF assistance. A differentiation of the participants according to the kind of support or regions has not yet been carried out. This breakdown could, as with an adjustment of the individual employment histories, reveal further differences.

Unintentional effects in the form of negative side effects of the measures for further training for the unemployed are in principle possible, e. g. in case of a false qualification of the supported persons. Furthermore, it should not be ignored that stating a positive effect of a measure alone does not allow for a

conclusion on the efficiency of the promotional measure, which is in principle connected with costs. The question of whether the measure's effect actually justifies the allocated funds is just as difficult to answer as the question of whether there are different support instruments in which the funds could be more effectively used.

With respect to the *implementation of the promotion*, co-financing difficulties play an important role both at the federal and *Länder* levels due to tight constraints on the public budget. The reorientation of the active labour market policy of the Federal Government and its implementation through the BA (Federal Agency for Employment) resulted in a reduction of the supplementing ESF support at the *federal level*. The outcome was a large decrease in the amount of support and a shift of balance in the promotional structure. In addition, due to the 'Hartz laws' the *Länder* could not fill the existing gaps of the statutory employment promotion. In particular, people receiving social benefits were no longer eligible as possible recipients due to the introduction of the SGB II. This points to the necessity of rearranging the *Länder* support fundamentally in the future.

2. Vocational Orientation and Vocational Preparation

Through the preventive orientation of *Policy Field A* of ESF interventions, youth unemployment is to be averted in *Measure 1* by encouraging those young people not mature enough for work to participate in industrial or non-industrial training. Such training serves to supplement the qualifications of apprentices, with the aim of connecting work and learning as well as securing employment after completing a training programme. For this Field, a total of **1,897 million € (18% of the total expenditure) is to be used** in the programming period 2000 – 2006. Of this, **755 million € will come from ESF funds, i. e. 16% of the total ESF promotion.**

The formulated *objectives* of vocational orientation and vocational preparation in the individual *Länder* are not completely homogeneous; however, they place special emphasis on the admission to an initial vocational training scheme as a common primary objective of the measures. In particular, the acquisition of a higher-education degree or qualification, the acquisition of additional training courses, the acquisition of vocational-orientated competences, the creation of training ability and willingness, as well as the development and strengthening of the character of the young people are targeted.

The net impacts regarding the **effectiveness of the training measures** do not indicate that the training significantly raises the probability for young people to find an initial vocational training scheme in the Objective 3 area. Nevertheless, it is conceivable that positive measure effects exist that were

not captured by the matching procedure. The results indicate sizeable differences between the ESF group and the control group, suggesting that the matching procedure may not adequately control for the heterogeneity between the participant and control group. The descriptive analyses for this type of instrument have shown that in the measures under investigation, a subgroup of young people was identified who had great difficulties in finding a job without such a support. Almost one half of the participants (46 %) succeeded in starting a vocational initial training scheme after the measure. Furthermore, almost three quarters of the participants could – provided it was scheduled in the measures – achieve the (formal) training ability that is required for the admission to a training scheme. Generally, the results confirm the difficulties of the training measures to facilitate the access to a vocational training, which can also be observed in other investigations.

In the process of the investigations, no indications could be found for **unintended effects** in measures of the vocational preparation and vocational orientation.

3. Training of Supported Employed Persons

During the programming period 2000-2006, **2,243 million € are planned (21% of the total expenditure), including 998 million € of ESF funds for the training of supported employed persons. Altogether, 175,000 persons should be trained**, 110,000 under federal measures with the remaining 65,000 under *Länder* measures. These measures should provide the participants, the majority of whom were previously unemployed, with the vocational, interdisciplinary, and/or social competences to carry out publicly supported employment assignments that take place simultaneously. The measures are also intended to improve the integration chances into the primary labour market.

Qualification in supported employment as a component of training, information and consultation promotes people employed through job-creation measures (ABM), traditional structural adjustment measures (SAM), as well as promoted employment relationships under the federal public assistance act (BSHG). The **objective** of this intervention is the integration of people with difficulties becoming employed in the primary labour market. A general objective of these interventions is thereby the prevention of adult long-term unemployment.

The **direct as well as the indirect effects** of the measures must be judged against the backdrop of difficulties arising from the pursuit of heterogeneous objectives. Altogether, the target group – people who are unable to find work in the unsupported labour market – was reached through measures for

the training of promoted employed persons. The result of the measures reveals limited gross integration effects. These findings are to be attributed - among other things - to the fact that the integration of people facing hiring problems is often a difficult and long-term process. Also, the publicly supported employment may have only slightly improved through the training because of missing or only partially present linkages to the continuing education programmes.

In addition to this, *indirect effects* could be induced by the measures that are attributed to psycho-social stabilization and the long-term increase of the employability of the participants. The results of the participants' interviews show, in particular, that the measures temporarily increased the motivation to find a job for many participants. Nevertheless, *unintended effects* could also be identified that work against the objective of this type of measure. For example, the findings confirm that the search activities of the participants dropped substantially, both briefly before the measure and during the supported employment. This clearly works against the general objective of recruiting the unemployed into the unsupported labour market.

4. Further Training of Employed Persons

For the programming period 2000 – 2006, a total of **1,161 million €** were planned, with an additional **484 million €, from ESF funds for measures to further train employed persons**. The majority of the funds is allotted to support for the *Länder*. At the federal level, the further training of employed persons is pursued through the Xenos Program. The objectives of the measures for further training in the individual *Länder* are very similar. Usually, the support is concentrated on employees of SMEs, whereby older employees, women and low-skilled workers form one target group for the promotion. A second priority of the support is to promote strategy-related further training courses for qualified and high-level personnel, which should provide key qualifications for the enterprises' competitiveness.

Considering the *effectiveness of the ESF promotion*, the evaluation finds that the measures significantly reduce the probability of being unemployed in the short run. The analysis revealed further the importance of the type and quality of the measures. The treatment of relevant topics and obtaining a high level of quality in the measures has a great deal of influence on job security, but also on strengthening the occupational positions. It cannot be ruled out, however, that the further training scheme exerts a negative effect on the increases in income of the participants if it is used as a motivating and rewarding instrument in a substituting manner. This is, in the framework of the desired improvement of corporate competitiveness, also in accordance with the target of the measure.

Nevertheless, the investigation shows that those target groups of the support who should be reached according to the programme documents, were reached to a lesser extent than with measures for further education, which were not promoted.

The extent of indirect *systemic effects* that were reached through the promotion can only be judged with difficulty from the perspective of the evaluation. In addition to enterprises, the support was also aimed at public and private educational institutions that target the vocational training of adults as well. Systemic effects could exist, for example, in the integration of SMEs and further training institutions into durable further training networks that did not exist previously, which contribute to the further development of a solid structure of further training. According to the impressions from interviews with experts at the *Länder* level, it remains difficult to encourage SMEs to participate in further training courses. *Unintended effects* in the form of negative side effects of the further education measures are not deemed to be a problem in the course of the further training of employed persons. Instead, the possibility of *windfall gains* exists, for which quantification is difficult.

The *implementation* of the support has a central significance for the effectiveness and objective attainment of the further training measures for employed persons. The co-financing source for the further training measures are private funds, either in the form of continued payments of salary during further training or in the form of the enterprise's own financial contribution to the training. Although this construction avoids questions about national co-financing from the ESF in Germany, it leads to a potential and permanent conflict of objectives between those of the ESF promotion and the objectives created through the interests of the enterprises, which are dictated by long-term profit maximization: The larger the enterprises' contribution to the financial support, the more likely it is that the support is targeted to meet the specific needs of the enterprises. At the same time, the danger of windfall gains increases with the enterprises' contribution, as well as the danger that the financial support does not correspond to the objectives of the ESF. This last problem might exist to the extent that the promotion is not primarily concerned with an increase in competitiveness of SMEs through the training of the employees. A higher self-contribution of ESF promotion can mean, on the other hand, a larger control effect in the direction of the objectives. The more the ESF tries to emphasise its objectives, the more the support becomes unattractive from the view of the enterprises (assuming, of course, that the objectives of the enterprise are different from those of ESF).

5. Business Start-up Support

For the programming period 2000 – 2006 in Priority D, a total of **366 million € were planned for Measure 9 (adaptability and entrepreneurial spirit)**. With **220 million €**, 60% of the originally planned funds are for the **Federal Government** and **146 million³ €** (40% of the planned funds) for the **Länder**. Apart from financial assistance, which is not part of the ESF promotion, coaching and business start-up seminars are primarily promoted. Furthermore, financial subsidies are granted. In some of the *Länder* support is not granted to business start-ups from people who were previously unemployed. At the federal level, the promotion of business start-ups with ESF funds has existed since 2000 in the ESF-BA Programme. Since then, recipients of interim funds according to SGB III have been able to participate in a seminar for the preparation of a start-up and in coaching following the start-up's founding.

The *targets* of the Federal Government and the *Länder* are similar in this measure. In the long-term, the promotional measures usually aim towards providing information before the founding of the business start-up to prepare the founding decision, but also to deter unsuitable start-up projects. The measures after founding have primarily had the objective of stabilizing the newly-formed enterprise, which can affect further enterprise development.

The *effectiveness of the ESF support* can be related back to the results of the analysis of the net effects of the active labour market policy in the context of the ESF-BA programme for the federal support and to individual investigations regarding *Länder* support. The analysis of the effectiveness of the active labour market policy at hand could not detect positive effects of the *Länder* support on employment and turnover per employee. Likewise, the evaluation of the ESF-BA-Programme by the IAB could not find significant net effects of the supplementary ESF financed start-up support (in combination with bridging money) on the probability of not remaining self-employed within a two-year period.

The *systemic effects* of the business start-up support are likely to be limited due to the broad range of fully established offers for start-up support. However, with the ESF, the use of newer, more modern communication channels, as well as hotlines and Internet portals was promoted. It is not certain whether they would have resulted without the ESF promotion. Thus, the

³ One has to take into account that also in measure 10 funds for the promotion of female nascent entrepreneurs are used.

ESF promotion might have contributed to the fact that start-up networks were increasingly set up and developed, including at the *Länder* level.

Unintended negative side-effects of the business start-up support could principally result from enticing unqualified recipients to start self-employment ventures, particularly if such individuals cannot realistically assess the chances for success of their business model in the respective economic phase. Given the experiences with the projects that were carried out, however, these doubts appear unfounded, since the measures are partly designed to address such issues by discouraging the potential founders of business start-ups if their project appears weak. At the same time, it is possible that the support could lead to a displacement of already existing self-employment. Furthermore, the possibility of **windfall gains or double promotion** exists from the ESF business start-up assistance. The quantification of these unintended effects is not possible given the scope of our analytical approach.

A general difference exists between the business start-up assistance of the *Länder* and the ESF-BA programme with respect to **implementation**, as this supplements the SGB III law and thus combines individual promotion. As the ESF co-financing of the Federal Government is closely connected to the regulations of this law, the possibility of a flexible implementation of the programme depends on the organizing of the law through federal policy. This concerns the financing structures (contribution funds), the range of the funds (in the budget for discretionary measures of active labour market policy) and the decentralized implementation planned in the law. In contrast, the *Länder* are more flexible in their use of the ESF funds, since their labour market and employment policy are not legally regulated. During the budgeting, they are dependent not exclusively on the co-financing from the statutory support. They can fall back on their own tax proceeds, though these proceeds do not have the volume of the SGB III funds. This organizational freedom makes it even more necessary to make certain that there are no overlaps with other promotional offers.

6. Cross-Section Objectives and Innovative Measures

Our investigations suggest **predominantly positive systemic effects of the promotion**. Considering the implementation of the **cross-section objective to secure equal opportunities**, the evaluation of the ESF promotion revealed a mixed set of findings. With regard to the objective of equal opportunities, the ESF at the programme level certainly contributed to firmly anchoring this topic via the direct promotional level in the labour market policy. At the same time, the explicit support of women is for quite some time also a substantial component of ESF promotion. Nevertheless, more

detailed investigations show that the support also contributes to the entrenchment of traditional employment patterns of women and men. Therefore, gender mainstreaming should also be seen as a task that helps not only women, but also men away from employment traps that are stereotypical regarding sex.

Considering the *cross-section objective of local development*, the monitoring indicates a clear expansion of the support, in particular in recent years. At the federal and *Länder* levels, numerous programmes could be identified that are particularly aligned to target groups in disadvantaged areas. In recent years, increasingly local or regional structures were formed, in which problem situations are taken up locally within the possibilities of the labour market policy.

The analysis of the Objective 3 promotion showed that a large-volume programme like the SPD Objective 3 is able to bring out *reforms and innovations* at both the level of support programmes and at the level of project implementation. Thereby, the practice innovations in the Objective 3 promotion have been shown as a clear advantage in relation to other ways to generate innovations.

C. Support of the National Policy and Contribution to the European Employment Strategy

The update of the mid-term evaluation should evaluate the links to the national policy and specifically the extent to which the ESF supplements the national policy within the respective field. The contribution to these policies is to be judged for the examined fields of support. It is concerned with the contribution to the Employment Strategy and to the National Action Plan (in each case, at the time of programming and today).

The National Action Plans, wherein the contribution from the ESF is to be evaluated, reflect the labour market political reforms in recent years. At the *time of the programming of the present programming period*, the *labour market policy in Germany* was especially characterized by the *consensus-oriented policy as articulated by the Alliance for Work, Training and Competitiveness* (Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit, NAP 1999:4). At the same time, a reorientation of the labour market policy was carried out that gave *active measures priority over passive wage compensation payments*. People with specific handicaps (e.g. young people with little education and/or additional social problems or older unemployed persons) should be supported more specifically with regard to an integration into the regular labour market. Also, equal opportunities for women and

men regarding the implementation of the political guidelines for employment received a particular role.

The National Action Plan for 2004 was characterised by the implementation of the Agenda 2010 and the Hartz reforms on the labour market. With the fundamental reorientation of the labour market policy in Germany, the role of the ESF has changed fundamentally. Since the reform process is not yet finished, it is currently not yet possible to make statements regarding the contribution of the ESF in the new promotion-oriented political context.

Apart from the national context, the contribution of the fields of promotion examined here should be seen against the background of the European Employment Strategy, the main objectives of which are ‘full employment’, ‘raising job quality and job productivity’ as well as ‘strengthening social cohesion and social integration.’ Furthermore, the ‘Task-Force Employment Report’ (Kok Report) suggested concrete reform measures for Germany with reference to the further implementation of the European Employment Strategy, which should be thereby considered.

In detail, the following outcomes result for the examined fields from the perspective of national policy promotion:

- In case of the *full-time training of unemployed persons*, the contribution of the ESF in the first half of the programming period consisted in supporting particular groups who did not have a claim to vocational further training under national promotion programmes due to missing or limited contributions to the statutory unemployment insurance. Therefore, the ESF supplemented the national programmes in cases in which these groups would not have been supported by national policy. According to our assessment, the proportion of the ESF promotion to the entire training of unemployed persons amounted to approximately 6% in 2002 (**Table KF-2**). At the same time, women received training on integration into the labour market. According to data of the monitoring, this was more than 40% of the participants of 2003, whereby the quota decreased in 2004 to 23% in the course of the changes in the labour market policy. The annual expenditure and participant admissions decreased clearly, however, due to the changes in the course of the Hartz reforms in the current programming period.
- The ESF supplements the Federal Agency for Employment’s *vocational-oriented and vocational-preparation measures for young people*, with the objective of allowing young people the chance of a vocational training course. The ratio of the ESF expenditure to the total labour market support within this field amounted to approximately 4% in 2002. The ESF has not only made a quantitative contribution by assist-

ing more young people, it has also made qualitative contributions by testing new approaches for the preparation of this group of young people for an initial vocational training.

- With the **training in supported employment**, the *Länder* have supplemented primarily the national labour market policy with the help of the ESF, as the participants in supported employment measures received additional offers of training courses. The objective was to increase the job skill of the unemployed persons. In particular, the integration of long-term unemployed people and groups with hiring problems into the labour market was focused upon (Measures 4 and 5). According to our estimates, the ratio of the ESF expenditure to the total expenditure amounted to 3% in 2002.

TableKF-2

ESF expenditure and the national labour market policy in the eligible areas of the 'focused approach'

Instrument type	ESF-expenditure ^a	BA-expenditure	Share of ESF
	in million €		in %
Further training of unemployed persons	425	7,310	6
Vocational preparation	70	1,960	4
Qualification in supported employment	109	3,508	3
Business start-up support	41	1,130	4

Authors' own calculations according to the data of the BA and ESF-monitoring. – ^aIn the expenditure presented here, the instrument-specific expenditure of the Objective 3-*Länder* as well as the ESF-BA-Programme and JuSoPro in the eligible areas of Objective 3 and Objective 1 were included. For computational reasons, trifle cases (consulting and mentoring measures for unemployed persons) are also included in the ESF expenditure within the type of instrument 'Retraining of Unemployed Persons'.

- The *measures for further training for employed persons*, supported by the ESF, do not have – apart from smaller programmes – a counterpart in the national labour policy in Germany. Thus, this aspect of lifelong learning is covered exclusively by the ESF. Under the aspect 'improvement of job productivity' and 'investments in human capital', this field of promotion corresponds very strongly to the objectives of the European Employment Strategy and is, at the same time, in agreement with the recommendations from the Kok Report. The measures for further training for employed persons as well as their role in the context of the total framework of the labour market policy have not changed in the course of the reforms in recent years.

- The ***business start-up support in the context of the ESF*** at the federal and state levels supplements an abundance of offers of support from the Federal Government, *Länder* and the local authorities. These are to a large extent not directly labour market offers, but rather offers stemming from the economic and SMEs policies. The business start-up assistance was not part of the recommendations of the Kok report. Indeed, a wide range of promotion already exists in which the ESF in some places can offer a meaningful addition. Furthermore, the ESF support sets an emphasis on start-ups from people who were previously unemployed. The approach, however, is broader, in that financial support and consultation offers for different groups of business start-up founders are available. There are no reliable estimates for the total governmental start-up support. Related to the federal start-up support, 4% came from ESF support for 2002. Because of the Hartz reforms, the importance of the start-up support (mainly by the business start-up subsidy) in the Federal Government's labour market policy has at present a higher importance than in the past.
- The ESF likewise made a significant contribution with its ***definition of cross-section objectives*** for implementing the European Employment Strategy. Without a doubt, these objectives conferred all aspects of the equal opportunities between women and men as well as aspects of local development with an important impetus. These – above all qualitative – effects of the ESF interventions can, however, hardly be expressed in quantitative terms. The gained wealth of experience within the field of local-oriented (and municipal-oriented) labour market policy would be completely underestimated if it was linked to the 1% of the funds of the Policy Field F.
- Indeed, with the help of the ESF support, important ***innovative promotion instruments*** could be developed in the past, both at the federal and regional levels, which were included later in one form or another in the standard support. Since the issue is concerned with a qualitative aspect of the 'innovative promotion instruments', a quantitative estimate would show the significance of innovative measures as not meaningful. For example, in the national framework possibilities exist to support new promotion approaches financially. Nevertheless, the ESF support has, as the results of this investigation shows, an important role in a national context as an 'experimental laboratory' for new approaches of the labour market policy.

D. The European Added Value of the Support

A central objective of this report is to be able to make sound statements about the European added value of the ESF support in Germany based on focused investigation of selected fields of promotion. The following bullets highlight the salient findings:

- The *full-time training of job seekers and unemployed persons, supported through the ESF*, supplemented the training of unemployed persons *appropriately and effectively*. This positive assessment results from the positive net effects of the support identified at the regional level. The ESF participants in the *Länder* had a substantially higher probability of finding a job after completing the measure.
- With respect to the effects of the ESF *Länder* support on *vocational orientation and vocational preparation of young people*, the analysis of the active labour market policy shows no positive net effects, although the investigations resulted in substantial gross effects. The interviewed young people themselves found these measures to be successful with regard to the criteria of subsequent admission to an initial vocational training scheme and increasing employability.
- For the *training from employment receiving support*, the results of the gross effects have shown *small integration ratios in the unsupported labour market* – as in previous investigations. Due to the small gross effects, no clear net effects are to be expected. Nevertheless, it can be assumed that the promotion has had positive effects on the long-term integration of participants into the primary labour market.
- The findings from the analysis show that the *extra-vocational training measures* have had positive net effects on the unemployment risk of the supported people. At the same time, however, the results indicate that the subjective assessments in considering a secure and interesting job vary strongly with the content and quality of the measure. Furthermore, the analysis from the mid-term evaluation showed that the attainment of the target groups (women, older people and low-skilled persons) was not satisfactory.
- Regarding the effectiveness of the *business start-up support in the context of the ESF, a uniform picture* results from the analysis of the *net effects at the federal and Länder levels*. Thus, just as the examination on hand could not prove significant effects of the *Länder* promotion on employment and turnover, the evaluation research of the IAB on the ESF-BA-programme could also not establish significant net effects of coaching and business seminars on the start-up survival chances.

- With regard to the *systemic effects* and, *in particular, the cross-section objective of Gender Mainstreaming* as well as the *innovative promotion measures*, the ESF support has created important momentum in qualitatively influencing the German labour market policy.

Within *the framework of the European Employment Strategy*, the *ESF* – despite its small budget in relation to national policy – made a notable contribution *to furthering the support of human resources in the labour market policy in Germany*. The results do not allow conclusions to be drawn directly about the future of the promotion. But the basic conditions for the ESF support, which have been changed by the labour market reforms in Germany, must be also taken into account.

IV. Conclusions and Recommendations

A. The Future Role of the ESF in the Context of German Labour Market Policy

From our investigations, *three fields of activity* emerge in which the ESF should play an outstanding role in the future:

- The ESF support is suitable for embodying the necessary *‘social component’* of the labour market policy as disadvantaged groups are introduced to permanent employment.
- The ESF is also suitable, in particular, for functioning as an implementation catalyst of measures for *adaptation* to the *knowledge-based economy*.
- The ESF should support the *entrepreneurial spirit* and the *entrepreneurial initiative* effectively.

Contemporary labour market policy measures are appropriately judged primarily by their economic success in increasing employment and – more generally – in increasing prosperity. In the past, the question was not often asked about concrete provable recruitment successes, let alone about effects in the sense of ‘hard’ evaluation results (‘net effects’). Some years ago, the Federal Agency for Employment changed its course radically following the public discussion about the problematic identity card from ‘employment agencies’. At the same time, the evaluation practice of the Hartz reforms is a sign of a change of views by the policy decision makers.

As much as the questions about effectiveness and efficiency of the preventive and active labour market policy are justified, one should not overlook

that labour market policy also contains a social aspect. In this context, the ESF should set the priority in the future, complementing and supplementing national policy by increasing the employability of disadvantaged groups in the labour market. The short-term integration into the primary labour market is usually not sufficient to secure a permanent job for these problem groups. In addition to promotion within the framework of SGB II and SGB III, it is furthermore meaningful and necessary to support training measures that are related to target groups.

The ESF support is in principle suitable for playing an essential role in the *support for vocational training and further training* and for the *acquiring of human capital*. Here, groups that are disadvantaged in the labour market, e.g. the low-skilled and young people with poor training chances, play an important role. The significance of the ESF training offers, which are co-financed, is by no means limited to these segments of the labour force pool. Thus, offers of vocational further training for people threatened by unemployment are aimed at a potentially large section of the employed. Not least of all, the ESF support can contribute to increasing equal opportunities between women and men.

Finally, a further area is to be emphasized in which the ESF can place future special focus: the support of the *entrepreneurial spirit* and the entrepreneurial initiative. Here, the existing – and partially quite extensive – offers from the Federal Government and the *Länder* regarding start-up support could be supplemented through original measures that currently play a rather peripheral role, such as coaching and the support for nascent entrepreneurs' networks.

All in all, these considerations highlight that the *ESF has considerable significance as an original addition to the national policy in Germany, despite a changed labour market policy environment.*

B. Conclusions and Recommendations

Our investigations lead to the following recommendations for future ESF promotion:

Recommendations for the ESF Strategy

- 1 The ultimate result of the Hartz reforms is a 'fully co-ordinated labour market policy', which has the objective of a fast and effective integration of the unemployed into the primary labour market. However, the associated social objectives, which are indispensable components of

economic and labour market policies, open possibilities for supporting measures that are only partly covered by the SGB II. ***The supported labour market policy should set, both at the federal and at Länder levels, a signal regarding the responsibility of the government for the target groups of labour market policy.***

- 2 The ***ESF promotion should be carried out further in the next programming period at the federal and Länder levels.*** In the past, however, co-financing became more difficult due to the precarious budgetary situation at both levels. At the ***federal level***, the ***financing basis should be reconsidered*** so that the support can make an important contribution to the European Employment Strategy in the future. At the ***Länder level***, there is no alternative but to carry on with the ***increasingly close connection to the federal promotion.***

At the ***federal level***, the following recommendations arise with regard to the strategy of the ESF:

- 3 As the evaluation research of the IAB to the ESF-BA Programme and the ESF umbrella evaluation already recommended for the mid-term evaluation, a ***special programme*** would be desirable that is ***based on a new financial basis from tax proceeds from the Federal Government and ESF funds.*** This programme should focus on a specific promotion for disadvantaged groups in the labour market.
- 4 The ***allocation of the ESF funds at the federal level*** to different departments worked satisfactorily and should be continued in the future. Nevertheless, the main emphasis of the support should continue to lie in the future employment department. If the forming of a programme based on its own financial basis is proven not to be possible due to the financial budgetary situation, the possibility of linking an ***ESF federal programme to the SGB II support should be considered.*** Such a programme should clearly distinguish between the objective of ‘increasing employability’ from the objective of a ‘fast reintegration into the primary labour market’, which the SGB II support forms the basis for.
- 5 From our perspective, an ***ESF programme in the context of the SGB III support*** would be, ***in principle, a possible alternative.*** Nevertheless, as the results of the evaluation research of the IAB to the ESF-BA Programme show, such a programme would have to struggle with controlling problems through the connection with the individual promotion of the BA. However, in view of the tight financial situation of the Federal Government, one should consider whether an ESF programme in the context of the SGB III support for the coming programming period

would be warranted. This would be in accordance with the intentions of the European Employment Strategy.

- 6 An *intensified commitment from the ESF* in fields that are close to the labour market like *vocational training and social policy* is definitely *reasonable and desirable* from our view. One would have to examine in each case whether appropriate policy programmes correspond to the objectives of the ESF and the European Employment Strategy. The difficulties of co-financing from tax proceeds under a tight budgetary situation would, however, continue to exist.

At the *Länder level*, the following recommendations result from the changed overall constellation:

- 7 Our investigations show that the *Länder* used the ESF funds to place their own emphases in the labour market support under the given socio-economic general conditions. Consequently, different strategic approaches in the promotion could be implemented. This *diversity of the Länder support in the context of the ESF* proved to be a reasonable addition to the labour market support at the federal level. It reflects the vitality of the German federalism and *should be preserved*.
- 8 An *expansion of the use of Länder funds* in the context of the ESF *cannot be expected* in the near future given tight state budgets and the fact that labour market support from the *Länder* does not have, as with the Federal Government, its own legal basis. Therefore, the issue of co-financing for the future support will play an important role.
- 9 A *co-financing with SGB III funds became more difficult* through the Hartz reforms. Nevertheless, there are positive examples which show that the co-financing of national policy is possible through SGB III funds with a decentralized approach of the labour market policy. Therefore, it should be examined whether all possibilities that were reasonable and in accordance with the European Employment Strategy of linking the ESF support to the SGB III promotion were already exhausted.
- 10 First experiences following the Hartz IV reform have shown that the ESF *Länder* support can be linked to the promotion in the context of SGB II. Here, further possibilities should be explored in order to supplement the support meaningfully in a qualitative manner.
- 11 As with the Federal Government, it should also be considered whether there are reasonable *possibilities beyond the labour market policy in the stricter sense* for the *Länder* support. On the other hand, the contri-

bution from promotion alternatives to the European Employment Strategy should be analyzed critically.

Recommendations for Policy Instruments and Systems

The present investigation complements other investigations in the field of promotion (e.g. the evaluation research of the IAB to the ESF-BA Programme) by analyzing the net effects of the active labour market policy. ***Taken together, this pool of work offers the central basis for the recommendations on the further development of the financial policy instruments.*** In detail, the following recommendations are noteworthy:

- 12 The ***ESF supported full-time training of job seekers and the unemployed*** was proven to be a ***reasonable and effective addition to the training in the context of the standard support***. Therefore, the support should be continued. In connection to the Hartz reforms, the training was adapted to the new general conditions. It is yet to be examined which effects of the training supplementary to the SGB III promotion arise, which should be a subject of the evaluations in the next programming period.
- 13 The measures for ***vocational orientation and vocational preparation of young people*** under the ESF state support are in accordance with the objectives of the European Employment Strategy for the support of the low-skilled and should therefore be continued.
- 14 For the ***training in the context of supported employment***, conclusions can be derived from the investigations that are also of relevance for the training in the publicly supported employment under the SGB II: This support should concentrate very strongly on target groups in the labour market with multiple hiring problems. Furthermore, a linkage of these measures with training and support elements is important. The increase of employability of the participants in this type of instrument depends not least on establishing meaningful practical relevance.
- 15 ***Extra vocational training measures*** represent, as already stated in the mid-term evaluation, an important priority of the ESF support. For the future, a ***more specific focusing of the promotion should be carried out on projects that corresponds to the objectives of the ESF***, i.e. either the training of women, increasing the qualification of unskilled and semi-skilled persons or of projects that strengthen directly (through the conveyance of management or organizational knowledge) the competitiveness of SMEs.

- 16 Regarding *business start-up support*, we recommend a *concentration of the ESF on fields in which there are no strong overlaps with other offers of promotion*. Among other things, start-up seminars and coaching could help to stabilize business start-ups.
- 17 In order to make possible and advance an *innovative labour market policy in the context of the ESF support* in the future, two options are conceivable: *Firstly*, an individual priority could be planned for innovations within the complete programme. This policy field would be planned originally in order to test new approaches to solving problems within the fields of employment policy, labour market policy and vocational training policy, and to make the results suitable for the mainstream. *Secondly*, in the other priorities, there is a need for an objective specifying that innovations in the practical execution of active labour market policy – so-called ‘practice innovations’ within the ESF standard promotion – are to be stimulated further. Instruments should also be planned to make progress with the *mainstreaming of innovations* in the standard promotion (implementation of appropriate thematic networks or also the specific implementation of mainstreaming forums).

Conclusions for Implementation, Administrative and Monitoring Systems

Regarding the executive, administrative and monitoring systems of the ESF, *only some aspects were examined in detail*. In addition to the results of the mid-term evaluation, the following conclusions arose:

- 18 The *co-financing of the vocational further training with private funds* – whether targeted at the enterprises or employees – helps to guarantee an efficient utilization of funds. At the same time, it guarantees in times of tight public budgets that extra vocational training is supported to a large extent in the context of the ESF. The Commission’s Report from 25.04.2003 (‘Simplification Guidelines’, item 1.1) indicates the possibility of private ESF co-financing for the current programming period. The evaluation recommends continuing *to accept private funds as national co-financing* given the central significance of the extra vocational training under the ESF.
- 19 The *monitoring system* of the ESF reached a *clearly higher quality* in the current programming period. Above all, the introduction of the typology of instruments and the comparability of the interventions reached is to be emphasized from the viewpoint of the heterogeneity of the labour market policy both at the federal and *Länder* levels. The ESF monitoring provides current, valid information, not only regarding the financial, but also the material development of the interventions. In view of an efficient programme implementation and programme con-

trolling, the importance of the monitoring will extend in the coming programming period. Nevertheless, the experiences show particularly in handling with the master data list procedure ('Stammbblattverfahren') that **the monitoring should be downsized** to process the **information necessary for an effective programme controlling**. In doing so, it is important that the **uniformity in the data collection procedure** (e.g. time of data collection, data collection characteristics and feature characteristics) is guaranteed, so that its data and information can be aggregated to reliable information at any time at the overall programme level. Furthermore, those processes that were previously separated should be united for the collection of the financial and the material developments in order to increase the quality and validity of the data.