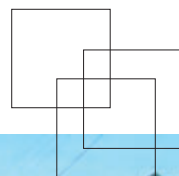




International
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Office

Towards the right to work

**A GUIDEBOOK FOR DESIGNING INNOVATIVE
PUBLIC EMPLOYMENT PROGRAMMES**



Guidance note 4 Cost structures and funding flows in PEPs

Acknowledgements

This Guidebook – *Towards the Right to Work: A guidebook for designing innovative Public Employment Programmes* – was developed by the International Labour Office (ILO)'s Employment Intensive Investment Programme (EIIP). It is supplemented by an international course that has been developed with support from the ILO's International Training Centre in Turin (ITC-Turin) for a mixed audience of policy makers and social actors, planners, and senior / middle-level officials from different national ministries and development agencies and programmes concerned.

The Guidebook and Course Development was managed by Mito Tsukamoto, Senior Specialist of the EIIP. The lead developers of the course were Maikel Lieuw-Kie-Song and Kate Philip, in their capacity as international consultants. Valter Nebuloni, Employment Policies and Skills Development (EPSD) Programme Manager from the ITC-Turin, assisted with the course structure and learning methods. Mito Tsukamoto and Marc van Imschoot, both Senior Specialists of the EIIP, reviewed and provided inputs on all the material. Diana P. Hopkins proofread and edited the material.

The EIIP would also like to acknowledge the main authors of the following Guidance Notes: Steven Miller from *The New School* in New York, USA (Youth employment and Urban Areas), Rania Antonopoulos from the *Levy Economics Institute of Bard College*, New York, USA (Gender), Radhika Lal from the UNDP *International Policy Centre for Inclusive Growth*, Brazil (Payment Systems) and Pinaki Chakraborty from the National Institute on Public Finance and Policy, India for initial input on some selected modules.

The initial Guidance Notes were also peer reviewed by Sukti Dasgupta, Chris Donnges, Geoff Edmonds, Natan Elkin, Christoph Ernst, Mukesh Gupta, Maria Teresa Gutierrez, Carla Henry, Bjorn Johannessen, Sangheon Lee, Marja Kuiper, Philippe Marcadent, Steven Oates, Naoko Otobe, Susana Puerto Gonzalez, Diego Rei, Gianni Rosas, Catherine Saget, Terje Tessem, and Edmundo Werna.

Finally, the EIIP would like to thank all those who participated in the validation workshop which was held in May 2010 for their valuable inputs and feedback which helped to improve the course greatly.

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Guidance note 4

Cost structures and funding flows in PEPs

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First published 2012

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Towards the Right to Work: A guidebook for designing innovative Public Employment Programmes

ISBN: 978-92-2-126771-3 (print)

978-92-2-126772-0 (web pdf)

ILO Cataloguing in Publication Data

Towards the right to work: a guidebook for designing innovative public employment programmes / International Labour Office, Employment Sector. - Geneva: ILO, 2012

ISBN 9789221267713; 9789221267720 (web pdf)

International Labour Office; Employment Sector

public works / employment creation / youth employment / green jobs / project design / labour-based / employment-intensive / employment policy / social protection

04.03.7

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Design and printing by the International Training Centre of the ILO, Turin – Italy

Guidance note 4

Cost structures and funding flows in PEPs



Objective

The objective of this note is to clarify the issues on which a PEP¹ depends, because before you can cost a programme, there are a complex set of policy and design choices to be made.

Key cost parameters and cost drivers

Once the policy case for a public employment programme (PEP) is made and is being seriously considered at Cabinet level, both the Cabinet and the National Treasury will want to know what it will cost.

These policy choices depend on many of the issues already covered in these guidance notes.

- What is the nature and scale of the problem to be addressed?
- How much policy space do you have? Are you looking at a short-term crisis response with donor money, or a universal employment guarantee funded from fiscal revenues as part of a long-term counter-cyclical policy? Where on this spectrum does the social need (and political appetite) lie?
- How much fiscal space do you have? How is such a programme likely to be funded and at what scale?
- What mix of purposes is likely to win the day in policy terms? What does this mean for the type of work to be undertaken and hence for labour intensity? The cost structure of an infrastructure programme is quite different from a programme delivering social services.
- Will the programme be a form of universal entitlement – or will it target particular subgroups? How will it do so?
- What criteria will be used to set the wage rate – and what does this mean for the actual wage likely to be paid?

¹ M. Lieuw-Kie-Song; K. Philip; M. Tsukamoto; M. Van Imschoot: *Towards the right to work: Innovations in public employment programmes (IPEP)*, ILO Employment Working Paper No. 69 (Geneva, International Labour Organization, 2011).

- How will the programme be institutionalized? Who will be held accountable for it? Who will run it? What capacities exist and what will have to be built?

- What monitoring and evaluation (M&E) systems will be put in place?

These are the main factors that determine the core costs of a PEP, and if you can answer all these questions, you are well on the way to costing your programme. If not, answering some of these questions will help inform the answers to others. Within this overall framework, the critical cost drivers of your programme will depend on four major issues:

1. If the labour-intensity ratio is high, then the cost of labour will be the key cost driver.
2. If it is an infrastructure or crisis response programme requiring substantial material and equipment inputs, then materials and equipment costs, such as for cement and compaction equipment, may be critical variables. In this case, it will also be necessary to establish if there are constraints on the supply of materials – and/or balance of payments on procurement.
3. If the programme depends on a significant training input per person, this will affect the cost structure.
4. If the programme relies heavily on international consultants this will affect technical support and programme management costs.

Co-ordination and implementation costs

Conceptually, the costs of public employment programmes can be split into two broad categories: (1) co-ordination costs, which include overall, programme-wide costs such as for programme management, and monitoring and evaluation; and (2) implementation costs.

Co-ordination costs

Some of the co-ordination costs may be treated as a part of core programme management costs. These include:

- the overhead costs of the ministry, department or programme coordination unit in charge of management and coordination;
- costs of an additional level of intermediaries, if applicable;
- the costs of project preparation;
- the costs of training and capacity building;

- monitoring and evaluation.

These costs will be informed by the kinds of institutional arrangements that are put in place, and the capacities that already exist within government. Where existing government structures and budgets are used to provide co-ordination and overall management, these costs tend to be understated and, as a consequence, under-resourced.

Implementation costs

These are the costs of compensation, goods and services at a more direct implementation level – including the supervision of work on site- and are informed by key cost parameters:

- the number of targeted participants;
- the average duration of a work opportunity: expressed in the number of workdays per person;
- the wage rate – and whether you budget to include a layer of semi-skilled workers;
- the labour intensity, which depends on the nature of the work;

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- the supervision requirements, which also depends on the nature of the work.

This information needs to be organized into a set of assumptions that can be produced in a spreadsheet and a budget to allow for different outcomes to be tested as the assumptions change.

This background note includes two simple cost-structure templates for PEP programmes. The first is a ‘needs-driven’ framework, in which the starting point is to define the scale and nature of the programme needed, and to derive the cost of the programme from these parameters. Unfortunately, however, programme design often starts with a pre-determined budget, and the focus of design is on how best to spend it. These templates are intended to illustrate the key cost parameters in PEPs and the ways these interact, to provide a high-level costing framework.

In both cases, a key corollary question is the timeframe over which the programme will run: is it a project-based budget, in which the funding must be spent – and the project completed and closed within a particular timeframe – or is the purpose to build up to a particular scale in an ongoing programme?

Either way, there will be a process of building up to full capacity. How long will this take? This will affect your cash flow, and the actual budget needed on a year on year basis. For a long-term programme, the cost of inflation will also need to be factored in.

In the templates presented below, the cells highlighted in yellow are the parameters that need to be defined. The sample numbers inserted here reflect plausible scenarios, but the intention of the templates is to provide a framework within which different assumptions can be tested.

Both models rely on a calculation of average compensation costs that takes into account the proportion of skills required on site, and the associated wage rates, in order to calculate an average daily compensation cost that takes these into account.

Key to this is also deciding on the ‘basic wage rate’. The basic wage rate is the daily rate for unskilled workers. Once this is decided, the incremental levels that will be applied all the way up the scale to senior supervisors needs to be set also. With this data, it is possible to calculate the ‘average daily compensation cost’ for the programme.

The template for this calculation – with typical examples for different sectors – is provided here, as the first step in the costing exercise. The costing exercise has been carried out for every 100 participants, across all skills levels.

Spreadsheets for costing exercise

Calculation of average compensation costs

Calculation of average compensation costs:				
Composition of skills at site level		Wage rate as % of basic wage rate		Cost per 100 participants/day
Unskilled workers	80%		4	320
Semi-skilled workers	10%	125%	5	50
Skilled work	5%	150%	6	30
Site management 1	3%	250%	10	30
Site management 2	2%	350%	14	28
Must total 100%	100%			458
Average daily compensation cost averaged per 100 participants				4.58
Sectoral examples using the same model				
Infrastructure				
Breakdown of skills needs at site level		Wage rate as % of basic wage rate		Cost per 100 participants/day
Unskilled workers	60%	BWR	5	300
Semi-skilled work as % of DWR	25%	125%	6.25	156.25
Skilled work	10%	150%	7.5	75
Site management 1	3%	250%	12.5	37.5
Site management 2	2%	350%	17.5	35
Must total 100%	100%			603.75
Average daily compensation cost averaged per 100 participants				6.04
Social				
Breakdown of skills needs at site level		Wage rate as % of basic wage rate		Cost per 100 participants/day
Unskilled workers	70%	BWR	3	210
Semi-skilled work as % of DWR	15%	125%	3.75	56.25
Skilled work	10%	150%	4.5	45
Site management 1	3%	250%	7.5	22.5
Site management 2	2%	350%	10.5	21
Must total 100%	100%			354.75
Average daily compensation cost averaged per 100 participants				3.55
Environment				
Breakdown of skills needs at site level		Wage rates as % of BWR		Cost per 100 participants/day
Unskilled workers: Base Wage Rate (BWR)	70%		4.5	315
Semi-skilled work as % of DWR	20%	125%	6.25	125
Skilled work	6%	150%	7.5	45
Site management 1	3%	250%	12.5	37.5
Site management 2	1%	350%	17.5	17.5
Must total 100%	100%			540
Average daily compensation cost per 100 participants				5.4

Different approaches to costing PEP

A needs-based costing model

Two scenarios are shown here to illustrate the impact of costs on different design choices in a needs-based model.

Scenario 1			Scenario 2		
Enter assumptions in the cells highlighted in yellow			Enter assumptions in the cells highlighted in yellow		
Total number of unemployed ('000)		8,000	Total number of unemployed		8,000
Target scale of programme ('000)	50%	4,000	Target scale of programme	25%	2,000
Target length of work opportunities (days)		60	Target length of work opportunities (days)		100
Total workdays ('000)		240,000	Total workdays		200,000
Average daily compensation rate*		4.58	Average daily compensation rate*		3.55
Average labour intensity	%	35	Labour intensity	%	65
Budget			Budget		
Total wage costs		1,099,200	Total wage costs		709,500
Tools, materials overheads at site level		2,041,371	Tools, materials overheads at site level		382,038
Sub-total: site/implementation budget		3,140,571	Sub-total: site/implementation budget		1,091,538
Programme management costs	10%	314,057	Programme management costs	10%	109,154
Intermediary costs	5%	157,029	Intermediary costs	5%	54,577
Training	5%	157,029	Training	5%	54,577
Sub-total: co-ordination costs		628,114	Sub-total: co-ordination costs		218,308
Sub-total: contingency	10%	376,869	Sub-total: contingency	5%	65,492
Total budget		4,145,554	Total budget		1,375,338

* See attached sheet on calculation of average compensation.

A budget-driven costing model

Budget-driven costing model							
This model starts with a given total budget, within which the scale and scope of programme outputs has to be planned.							
Change assumptions in the cells highlighted in yellow							
Total budget	100%	50,000					
Currency	USD						
Allocation to overall programme management: %	10%	5,000					
Cost of intermediaries	5%	2,500					
Costs of training	3%	1,500					
Contingency	5%	2,500					
Balance of funds available for Implementation		38,500					
Allocation of implementation budget							
Type of works	% of total budget	Implement-ation budget	Labour intensity	Average days per work opportunity	Average daily wage cost*	Number of work days '000	Number of work opportunities
Infrastructure	25%	9,625	35%	60	4.58	736	12,259
Social	25%	9,625	65%	150	3.5475	1,764	11,757
Environment	50%	19,250	55%	45	5.4	1,961	43,570
This must total 100%	100%						
Total work days and work opportunities created						4,460	67,586
* Derived from worksheet entitled 'Calculation of compensation': this is the average <u>total</u> cost of compensation per unskilled worker, including the costs of skilled workers and site supervision.							

* Derived from worksheet entitled 'Calculation of compensation': this is the average total cost of compensation per unskilled worker, including the costs of skilled workers and site supervision.

Allocation of budgets over time

The profile of costs will differ depending on whether the programme has a fixed budget and a finite time period within which to implement – or is ongoing and planning to build up to full capacity – and then to sustain participation at that level.

Needs-driven, ongoing programme					
Total budget at full capacity	6 172 823				
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Per cent of total target reached	25	50	75	100	100
	1 543 206	3 086 411	4 629 617	6 172 823	6 172 823

Budget-based, finite programme					
Total budget	50 000				
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Per cent of total target reached (total 100%)	25	35	25	15	100
	50 000	12 500	17 500	12 500	7 500

Budget processes and funding flows

Securing policy support, and then designing and costing the programme are all important hurdles, but there are often long delays between the completion of these processes and the actual inception of a PEP programme. The budget process, procurement processes, and the establishment of systems for effective financial flows are all potential causes of such delays:

- funding from fiscal revenues has to be approved through normal budgetary processes, and the delay from policy approval to budget approval, and the flow from national treasury/ministry of finance to the relevant departmental and/or district budget line, could take months or even years;
- donor funding through budgetary support follows the same channels, but can take even longer;
- donor funding through more direct mechanisms has a different set of constraints, such as the establishment of trust funds and the associated disbursement mechanisms;

- the procurement processes required for this scale of funds are intended to protect public funds from patronage and abuse, but such processes are typically slow.

Unless they can be accelerated, these factors can severely limit the potential for PEPs to provide a 'crisis' response. In relation to the recent global economic crisis, for example, many PEPs were approved at a policy level and were, in fact, key to popular support for the bail-out packages tabled. However, the question is how many of these PEP's will be ready for implementation, at the time of need.

One effect of lengthy delays in funding this is that consultations undertaken in the design process are outdated by the time the programme is actually ready to start. Local consultation processes often raises local expectations. A long time lag between such consultation and the inception of the programme erodes goodwill and can damage the reputation of the agencies responsible for implementation, even though the delays are likely to be out of their direct control. Mechanisms to hold donors or government departments accountable for such delays are generally non-existent.

Once these hurdles are overcome, however, the next critical issue is the design and implementation of systems that ensure an efficient flow of funds. Getting the programme started may be hard enough, but keeping it going when funding flows are erratic can prove even harder. These issues are amongst the most common causes of the failure of PEPs, because they manifest in the non-payment or late payment of wages to beneficiaries. This undermines the entire rationale for the programme and its credibility. Yet this has too often been a feature of PEPs.

The single most important performance measure in the design of systems to manage the flow of funds is, therefore, that payments to workers and implementing agents are timely, that they are for the correct amounts, and that this can be easily verified and audited.

For this to happen, a range of key administrative and reporting elements have to be in place. Although reporting is covered in a separate note, the reporting system provides the basis on which payments are made, and if it is weak and its requirements ambiguous, payments are likely to be delayed. In particular, this involves a number of key elements.

- The mechanisms to register participants and validate their identities.
- The processes through which their access to banking facilities are facilitated, and account details captured.
- The accuracy of attendance registers and the processes through which such attendance can trigger payments.

The clearer the framework of expectations in terms of reporting, the easier it will be for reports to trigger payments.

Important as qualitative outcomes are, the payment system needs to rely as far as possible on quantitative measures and associated invoices, with qualitative outcomes assessed through complementary monitoring and evaluation systems.

While the funding mechanisms need to ensure that those responsible for implementation can be held accountable and that budgets for specific authorities can be withheld, reduced or re-allocated should programme implementation be unsatisfactory, processes for assessing this should be complementary to the core payment systems for work performed.


The basis for approval or rejection of payments needs to be clear and consistent, with clear mechanisms for the timely reference of queries back to implementing agents.

Monitoring and evaluation systems need to monitor the turnaround time on payments in order to hold the relevant 'paymaster' accountable, and the political principals of the programme, whether this is a minister, a trust or a donor, need to be given a regular schedule reflecting key benchmarks.

Unless the implementing agent is a government department or other agent with access to the required resources to pre-finance the programme and to



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claim expenditure in arrears, advance payments will be required. Such advances will need to cover a full cycle of implementation, claims and payment. At the most efficient, this is probably a two-month advance: allowing for a month of implementation, the submission of reports and claims within two weeks, and payments against these claims within two weeks also. If the reporting and payment cycle is longer than this, then the advance needs to be for longer, or implementation will happen on a stop-start basis.


Any contributions expected from other levels of government should be clearly specified and identified. These contributions can be cash, but can also be in-kind, and, even if they are relatively small, they can severely disrupt projects if they are not available on time. A typical example is where training is essential for implementation but is delivered by a different line ministry.

Complementary systems to audit and verify financial information are needed.

While the problems of delayed payment systems are clear, efficient and effective funding flows and payment systems can have the following positive outcomes:

- strengthening budgetary decentralization and supporting district or local government to establish effective payment systems;
- strengthening local enterprises as a result of reliable payment for services rendered;
- creating the positive social and economic impacts of regular and predictable incomes for workers in the programme;
- strengthening financial inclusion through expanding access to financial services such as the banking system – with the clout to negotiate fair deals for poor users of such systems.

Further reading

-  Lieuw-Kie-Song, M.; Philip, K.; Tsukamoto, M.; Van Imschoot, M. 2011. *Towards the right to work: Innovations in public employment programmes (IPEP)*, ILO Employment Working Paper No. 69 (Geneva, International Labour Organization).



Checklist

COST STRUCTURES AND FUNDING FLOWS IN PEPs

Respond to the following questions



What is the nature and scale of the problem to be addressed?

How much policy space do you have? Are you looking at a short-term crisis response with donor money, or a universal employment guarantee funded from fiscal revenues as part of a long-term counter-cyclical policy? Where on this spectrum does the social need (and political appetite) lie?

How much fiscal space do you have? How is such a programme likely to be funded and at what scale?

What mix of purposes is likely to win the day in policy terms? What does this mean for the type of work to be undertaken and hence for labour intensity? The cost structure of an infrastructure programme is quite different from a programme delivering social services.

Will the programme be a form of universal entitlement – or will it target particular subgroups? How will it do so?

What criteria will be used to set the wage rate – and what does this mean for the actual wage likely to be paid?

How will the programme be institutionalized? Who will be held accountable for it? Who will run it? What capacities exist and what will have to be built?

What monitoring and evaluation (M&E) systems will be put in place?

Have you considered the co-ordination costs (overhead costs, costs of additional level of intermediaries, project preparation, training and capacity development, M&E)?

Have you considered the implementation costs (number of targeted participants, work days per person, wage rate, labour intensity, supervision requirements)?

Have you considered the possible bottlenecks that can be created in the budget process, procurement process, and establishment of systems for effective financial flows (especially payment for workers)?

Notes



