



# **Policy Appraisal and Evaluation for Vocational Education and Training Policy**

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## **POLICY APPRAISAL AND EVALUATION FOR VOCATIONAL EDUCATION AND TRAINING (VET) POLICY**

1. This document sets out a framework for appraising policies for vocational education and training (VET). Set in the context of the OECD policy review on VET, it aims to provide practical guidance to countries to help them look at the pros and cons of potential VET policy reforms, drawing on international experience and evidence. This document is an initial outline draft only, which will be progressively populated with substance drawn from the wider policy review.

2. Policy appraisal is also sometimes known as economic appraisal, option appraisal or investment appraisal; cost benefit analysis is very similar. It is used both in public policy analysis and in the private sector. Policy appraisal is a systematic way of bringing evidence to bear on alternative policy options, weighing up costs, benefits, their distribution between different parties and over time, uncertainties and risks, as a way of assisting the development of policy. The art of policy appraisal lies in making the most effective use of the evidence that is available, assessing areas of ignorance and uncertainty and devising strategies for handling these uncertainties – for example, when a benefit is uncertain, by assessing its likely minimum and maximum value, or alternatively by launching an initiative as a carefully evaluated pilot so that the uncertainties of a full roll out can be substantially reduced.

3. Policy appraisal involves a sequence of elements:

- Identifying and clarifying policy objectives;
- Identifying alternative methods of realising those objectives – a set of policy options (including doing nothing);
- Systematically assessing costs, benefits and risks of the different policy options, taking account of potential unintended effects;
- Choosing the most promising option or options;
- Devising a proposed implementation and evaluation strategy for the preferred option, taking account of uncertainties.

4. These steps are considered below in the context of VET policy.

### **Identifying and clarifying policy objectives**

5. The policy objective identified by countries for the OECD policy review is that of making VET systems more responsive to labour market needs. This sounds simple but disguises many ambiguities. We might attempt a definition:

*Ensuring that VET students are provided with the skills necessary to work in an 'entry' set of occupations, and the broader and flexible competencies necessary to sustain a career, in the context of volatile and sometimes unpredictable changes in occupational circumstances.*

6. Clear objectives need to be measurable. Some indicators of relevant outcomes are set out below.

Intermediate outcome indicators (leading to desired final outcomes)

- Awareness of labour market requirements by students and training providers and policy makers designing VET programmes;
- Employer satisfaction and profitability;
- Increased use of the specific competencies acquired in VET programmes in work.

Outcome indicators

- Reductions in unemployment among VET graduates;
- Increased earnings and productivity of VET graduates;
- Whole labour market indicators (indicating that VET is well-targeted on the right number and type of VET students).

Indicators of costs and efficiency in delivering these benefits would include:

- Cost of the programme to different parties;
- Incentives to use resources effectively, i. e. efficient cost-sharing;
- Drop out rates.

Equity outcome indicators, including evidence on the distribution net benefits to different parties.

7. In this same context, the economic rationale for public provision and expenditure might be spelt out. Even if something is desirable (such as, obviously, occupation-specific competencies) it does not necessarily follow that it should be funded from public sources. For example, the development of these competencies could be left to the market – either through employers training their own workers or through individuals buying job-specific training for themselves. It might also be argued that leaving such provision to the market will automatically improve labour market responsiveness. As with other forms of publicly funded education, the argument needs to be made that market failures in the private market justify public provision.

**Identifying a set of alternative methods of realising those objectives – a set of policy options (including doing nothing)**

8. Discussions with the group of national experts have identified a set of policy options for improving the responsiveness of VET systems to labour market needs. They are not mutually exclusive – a number of them can be pursued simultaneously. As the OECD work proceeds, these options will be progressively defined, sub-options within each main option identified, and evidence collated on the

effectiveness of these different options against the background of various national contexts. The main policy options include:

- Changing the balance between workplace and school-based practical training;
- Better information for students and providers on the labour market outcomes of VET programmes;
- More effective involvement of the social partners in the planning of VET provision;
- Local autonomy and flexibility in meeting locally determined labour market needs.

9. Context matters. An option that will work well in one place or time might be of little use at another. Key contextual factors in VET will include:

- The starting point. The one-off costs, both financial, human and sometimes political, of a major reform need to be set against the potential benefits;
- The human and physical capital already invested in VET provision – employees – trainers and other personnel - buildings and infrastructure;
- The structure of the labour market – level of regulation and mix of occupations in the labour force. Role of big versus small employers. Macroeconomic context – level of youth unemployment.

#### **Systematically assessing costs, benefits and risks of the options, including potential unintended effects**

10. The heart of any appraisal lies in assessment of the costs, benefits and risks of different policy options. Costs and benefits of VET policy options are the subject of a separate literature review.

11. There are three potential stages in the assessment of costs and benefits:

- Identification of a potential cost or benefit and who bears those costs and benefits;
- Quantification – for example in terms of the time of people involved, or the proportion of people who obtain jobs as a result of an initiative; once outcomes are quantified, they can be compared, for example in terms of the capacity of two alternative initiatives to reduce unemployment;
- Monetization – translating numerical estimates into money terms. This allows benefits to be compared with costs, for example in a rate of return calculation.

12. Costs and benefits of particular forms of VET provision are normally estimated relative to some other form of provision – for example another type of VET provision, or general academic education. In effect the comparison is with alternative policy options. Benefits may include:

- Job-relevant competencies (measured by ease of obtaining employment);
- Quality of employment level (partly indicated by level of earnings);
- Long term employability (measured by employment rate after 5-10 years);

- Acquisition of skills in learning how to learn (measured by labour participation in training);
- Productivity and creativity.

13. Costs and benefits need to be identified relative to the following dimensions;

- Distribution over time. Often, investment in education and training, and the costs of doing so, has to be set against a stream of benefits from this investment in the future. We need a way of comparing these different costs and benefits. A benefit today is generally worth more than the same benefit in some years time – this is linked to the principle of ‘discounting’. Discounting involves, say, treating 100 euros today as having the same net present value as 105 euros in one year’s time when the ‘discount rate’ is 5 per cent.
- Distribution to different parties: equity and incentives
  - *Equity* effects occur when the net benefits of the initiative (the benefits minus the costs) do not fall equally on better-off and disadvantaged groups – for example when a new initiative only benefits the strongest performers in a school system or (in an opposite manner), when it is targeted at potential drop-outs.
  - *Incentive* effects occur when the distribution of net benefits are such as to change behavior – for example when a workplace training scheme yields large net benefits to the trainees, but modest costs to the employers providing training. Such perverse incentive effects may make it difficult to deliver a cost-effective programme.
  - The balance of *public and private* costs is relevant given necessary constraints on public expenditure.

14. Typically, many figures for costs and benefits are estimates. These estimates are based on subjective estimates about the size of effects – for example that a new programme of vocational education and training will attract students, and that those students will finish the course and acquire the relevant skills. Other assumptions will also be necessary – for example that economic growth will continue on a steady course, and that the labour market demand for the skills involved will be maintained. Unintended effects are one variety of uncertainty and risk. For example increased employer engagement may enhance job-specific skills and smooth transition to the labour market, but may also reduce transferable skills (since employees may have disincentives to promote skills which will allow their employees to move to other jobs. Such potential effects need to be systematically assessed.

15. *Sensitivity analysis* shows how changes in assumptions made in the appraisal affect costs and benefits, and allows for uncertainties and associated downside risks to be identified and sometimes minimized through modifications in programme design.

16. When an initiative has not been previously implemented, several techniques for estimating costs are possible. Methods of assessment will be highly variable. Often, for a new proposed initiative, costs will be much clearer than benefits - for costs may be represented in an explicit budget (although other costs may be harder to identify).

- Using evidence from previous initiatives in other countries;
- Implementing the initiative as a pilot and evaluating outcomes before rolling out the initiative;

- Estimating maximum outcomes – e.g. if 100 young people receive apprenticeships who were previously not in education or work, the maximum outcome might be...

17. The costs and benefits of different options need to be estimated from the same comparative baseline. For example, the option of extending the length of a VET course might be appraised by assessing the additional cost of that option (relative to the status quo) with the additional benefits (relative to the status quo).

### **Choosing the most promising option or options: determining feasibility and acceptability**

18. Sometimes theoretically desirable initiatives are just not practicable – because of legal obstacles, opposition from powerful stakeholders, or because the initiative is not affordable. The choice of option needs to take account of these issues. One very important resource – something sometimes known as ‘political capital’ - costs nothing in pure financial terms. ‘Political capital’ means willingness to bear political risks. No major reform is without determined opponents. Sometimes, the most sorely-needed reforms make the most enemies. Another resource which is difficult to quantify in financial terms, is the limited time and energy of those building the policies – the political leaders responsible, civil servants, policy advisers and analysts.

### **A proposed implementation and evaluation strategy**

19. Appraisal sets the conceptual framework for subsequent evaluation but not the empirical methodology. Thus appraisal will identify a set of potential costs and benefits which may emerge from a new initiative, including a set of possible unintended effects, and how and why these may emerge. Evaluation can then set about measuring these effects in practice, developing measurements and monitoring arrangements to this end.

20. For example an appraisal may suggest that a proposed one year vocational module at the end of upper secondary education may, based on experience of similar schemes in other countries, have positive effects on labour market outcomes which could justify its substantial cost. Evaluation might involve introduction of the module in pilot areas, with random allocation of those completing upper secondary education into a control group and a group who would be offered the option of the one year vocational module. Experience of the two groups would then be compared, looking at intermediate factors like the tendency for certain groups to take up the training, drop out rates, and labour market outcomes. This would then provide a strong basis for assessing the impact of a full roll out.

### **Conclusion**

21. Comments are invited on this first draft guidance on appraisal.

## **ANNEX. AN OUTLINE EXAMPLE: INTRODUCING DATA COLLECTION ON LABOUR MARKET OUTCOMES**

### ***Objectives***

- To improve the responsiveness of VET systems to labour market demand.
- The economic rationale is that information is necessary for markets to work well.

### ***Options***

- With the aim of improving responsiveness to the labour market, it is proposed that data should be collected on the labour market outcomes of all VET programmes, through a questionnaire survey of all graduates one and five years after completing their VET courses, and results published on a website. This option is to be compared with that of doing nothing.

### ***Assessment***

- It is estimated that the costs of collecting data and maintaining the web site will be 3 million euros annually. The opportunity costs of graduates time in completing the questionnaire is treated as zero since they do so voluntarily and therefore gain a consumption benefit from the activity.
- It is estimated that the website will mean that 1 000 persons previously underemployed (not using their vocational skills) will be fully employed – yielding salary and productivity benefits of EUR 5 000 annually per person or 5 million euros in total.
- The main risks are that the benefits may be over-estimated (but probably not the costs). There are also risks that the responses to the survey will be inadequate or distorted by response bias, so that the data will be misleading. There is also a risk that good data may send misleading signals – for example if a sudden but temporary change in the labour market suggests that a good programme with strong long term employment benefits is being unsuccessful.

### ***Choosing the most promising option***

- The assessment is that the data collection option is potentially valuable but is also risky.

### ***Implementation and evaluation strategy***

- Given the assessment, the safest option is to implement the initiative through a pilot. The data collection and website will be piloted in one area, the data placed on a website and the impact on choice of programme carefully evaluated in comparison with control areas. In the light of harder evidence of benefits a decision will then be taken on whether the initiative should be rolled out nationally, and if so in what form.