



Active Labor Market Programs and Public Employment Services

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World Bank

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Active labor market programs

Training

Entrepreneurship

**Wage
subsidies**

**Public
works**

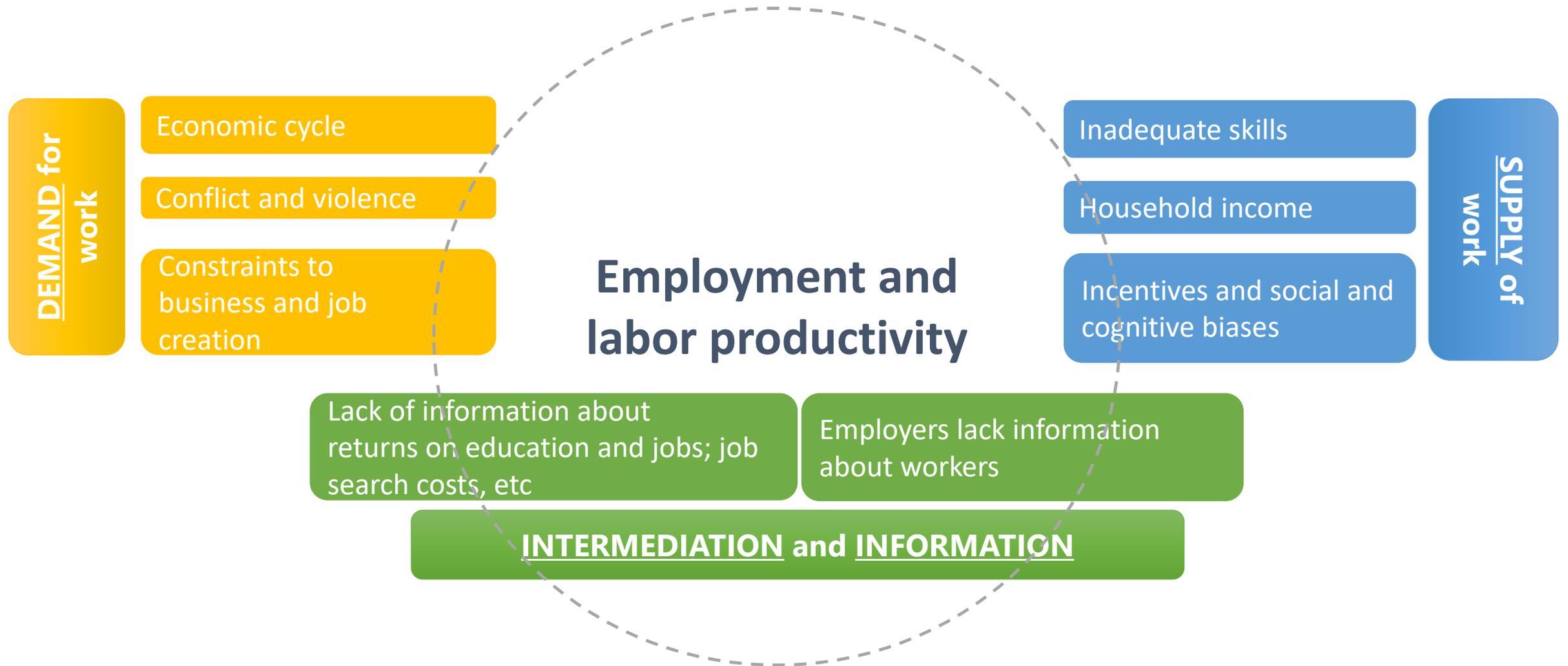
**Counselling and
intermediation**

Agenda: Active Labor Market Programs (ALMPs)

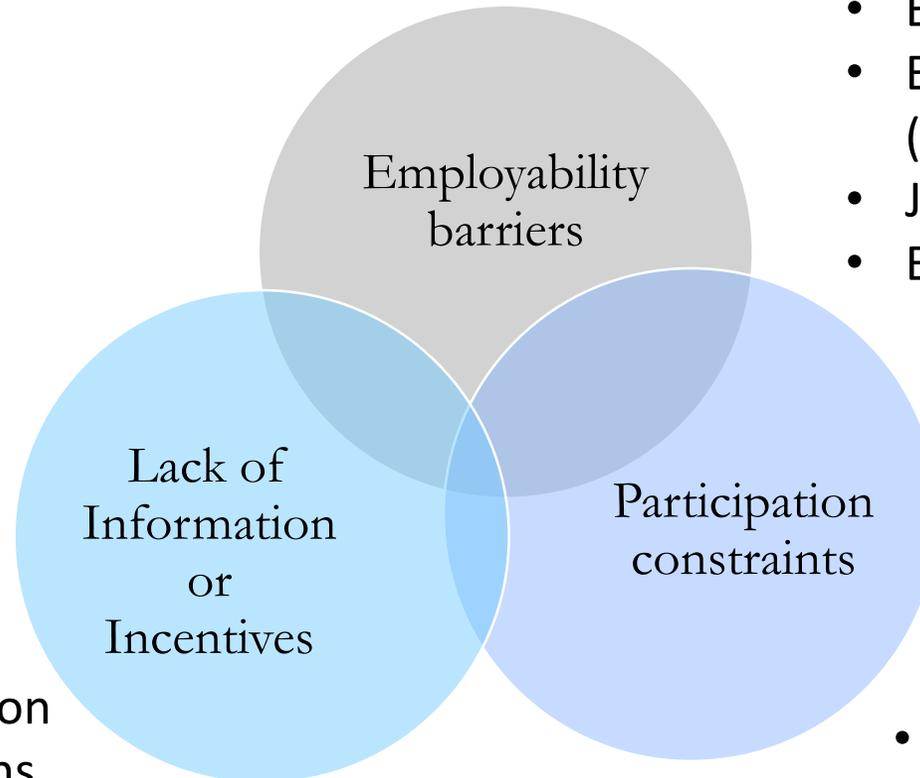
- 1. Concepts and Rationale**
- 2. Impacts**
- 3. Overall Design Considerations**

1. Concepts and Rationale

There are different *constraints* to productive employment



Supply side factors, more in detail

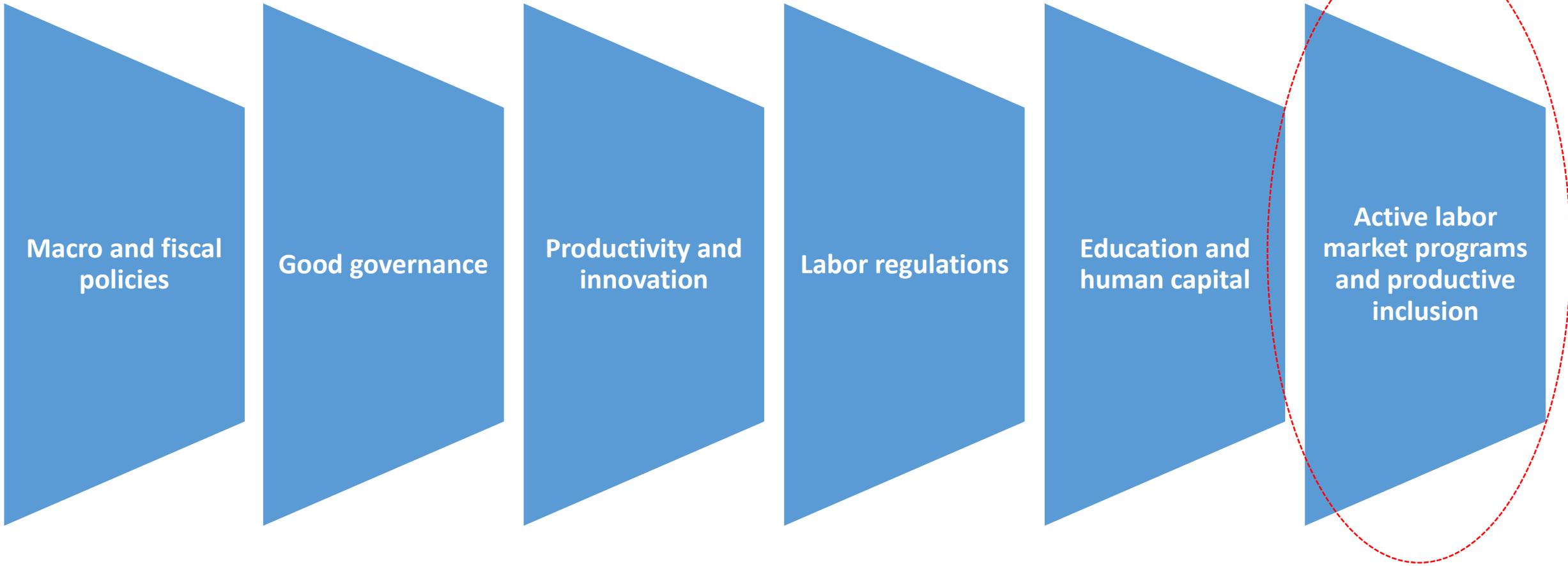


- Information deficits on opportunities, returns,
- Effect of taxes and cash benefit on returns from working

- Education / credentials
- Basic cognitive skills (literacy, etc)
- Job-specific skills
- Behavioral skills

- Care-taking duties
- Lack of empowerment
- Distance from labor markets

There are many *instruments* to promote productive employment

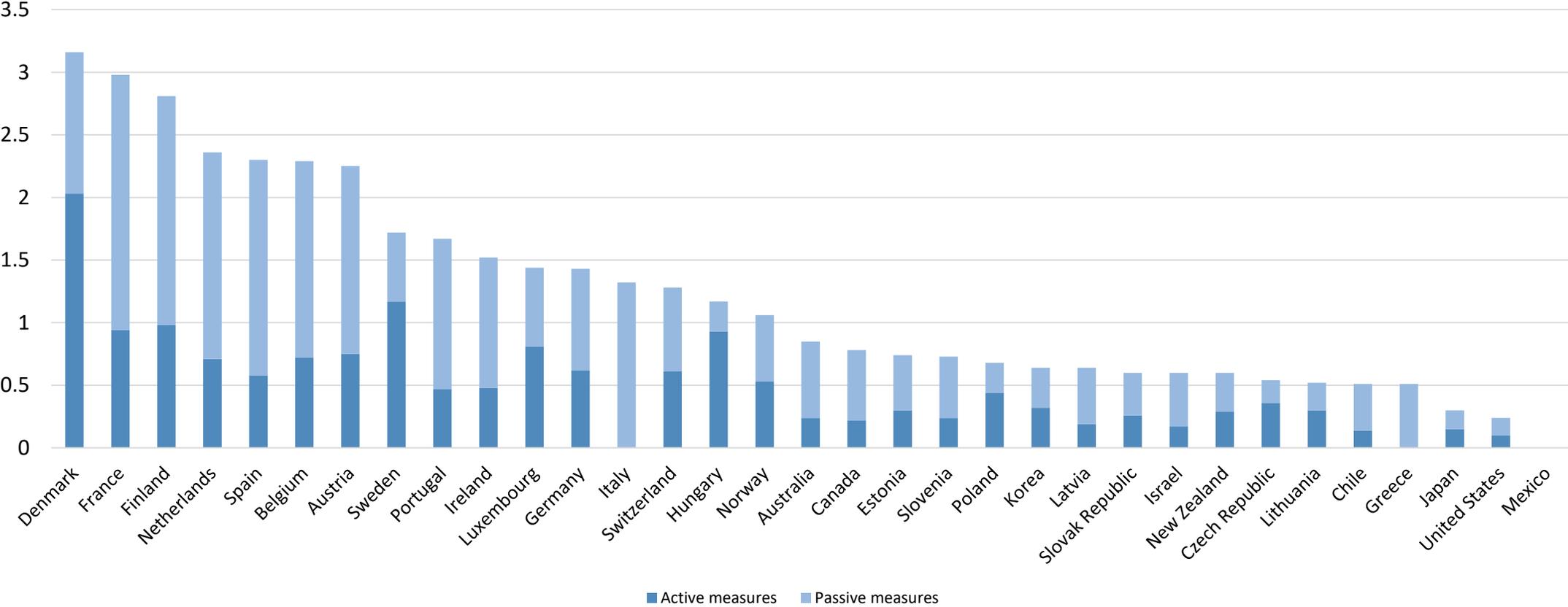


What are active labor market programs (ALMPs)?

- Government programs that intervene in the labor market to help reduce the risk of unemployment and to increase workers' earnings capacity, requiring actions from the beneficiary aimed at increasing job search, employability, actual employment, or productivity.
 - As opposed to passive labor market programs, like unemployment benefits
- Such programs work by enhancing labor supply (e.g. through training); increasing labor demand (e.g. through public works or subsidies); and improving the functioning of the labor market (e.g. through employment services).

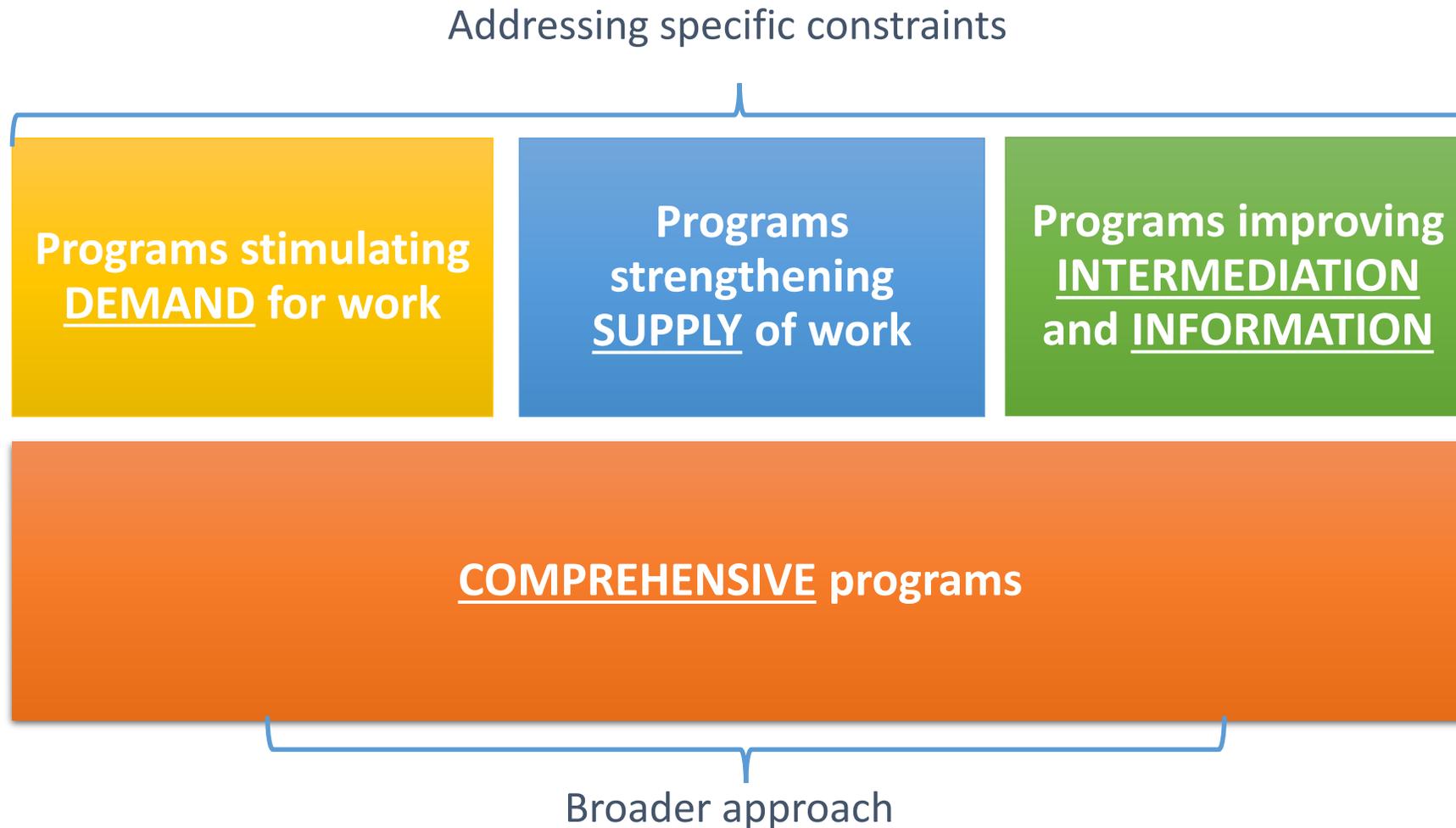
Spending on ALMPs, with some exceptions, is usually well-below 1 percent of GDP

Spending on labor market policies (% of GDP) 2016/2017



Source: Author, based on Eurostat

A variety of active labor market interventions



A policy response framework

- Public works
- Entrepreneurship programs (financing, insurance, knowledge)
- Private sector incentives (wage subsidies, tax deductions, targeted regulatory exemptions..)

- Training (in classroom and on-the-job) programs with technical, cognitive & socio-emotional skills
- Supporting services (mobility, childcare)
- Coaching. Social norms, empowerment

- Improved labor institutions
- Employment services (counseling, profiling, job-search, matching)
- Information to jobseekers
- Skills signalling

A combination of demand, supply and intermediation programs

In principle, ALMPs are aimed at addressing market failures...

- **Asymmetry of information in the hiring and job search process**
 - Internships and wage subsidies
 - Job search assistance
 - As a condition for receiving “passive” benefits (moral hazard)
- **Inadequate skills and credit constraints**
 - Training provision
- **Credit constraints**
 - Financial capital provision for self-employment
 - Wage subsidies in times of crises

Beware... Possible unintended effects of ALMPs

- **Deadweight loss.** It refers to the resources of the policy that go to beneficiaries who would have achieved the objective of the policy even in its absence.
 - For example, it reflects the amount of hiring subsidies that are paid for hiring workers who would be hired even without the subsidy.
 - While not completely avoidable, it can be minimized by concrete targeting of workers, for example those with the lowest exit rates out of unemployment.
- **Cream-skimming effect,** by which only workers with high employment probabilities are selected to ALMPs and need to deliver a good reemployment rate of participants into the program.
 - This can be an issue, for example, with private training providers. Can be (at least partly) accounted for into design of contracts and programs.
- **The displacement effect** in the labor market captures the fact that employment generated by ALMP might displace or crowd out regular employment, which lowers the effectiveness of the instrument.
 - For example, firms hire subsidized workers instead of hiring unsubsidized workers, or unsubsidized employed workers are fired and replaced by subsidized workers.

Different agendas in different contexts

- **OECD/Europe:** Activation into work – reduce or eliminate welfare dependency;
- **Latin America, Middle East, or East Asia:** Graduation and productive inclusion strategies to help people exit social assistance, and support for disadvantaged youth;
- **Sub-Saharan Africa or South Asia:** Productive safety nets – focus on moving out of vulnerability and extreme poverty into resilient livelihoods. Increasingly also a concern with easing youth's transition into employment and increasing their productivity.

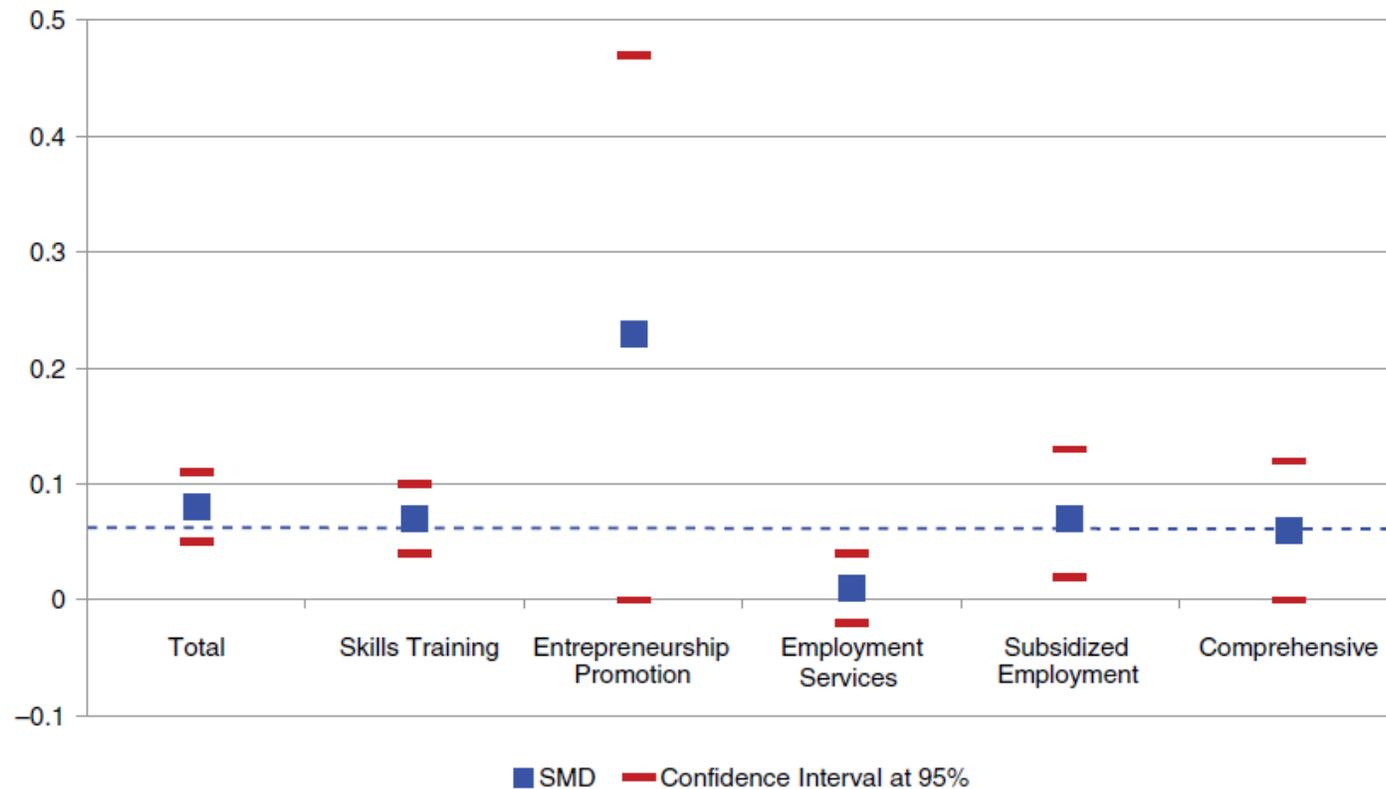
2. Impacts

ALMPs and productive inclusion policies



A healthy dose of skepticism is needed

Impact on Employment Outcomes Across Main Intervention Categories



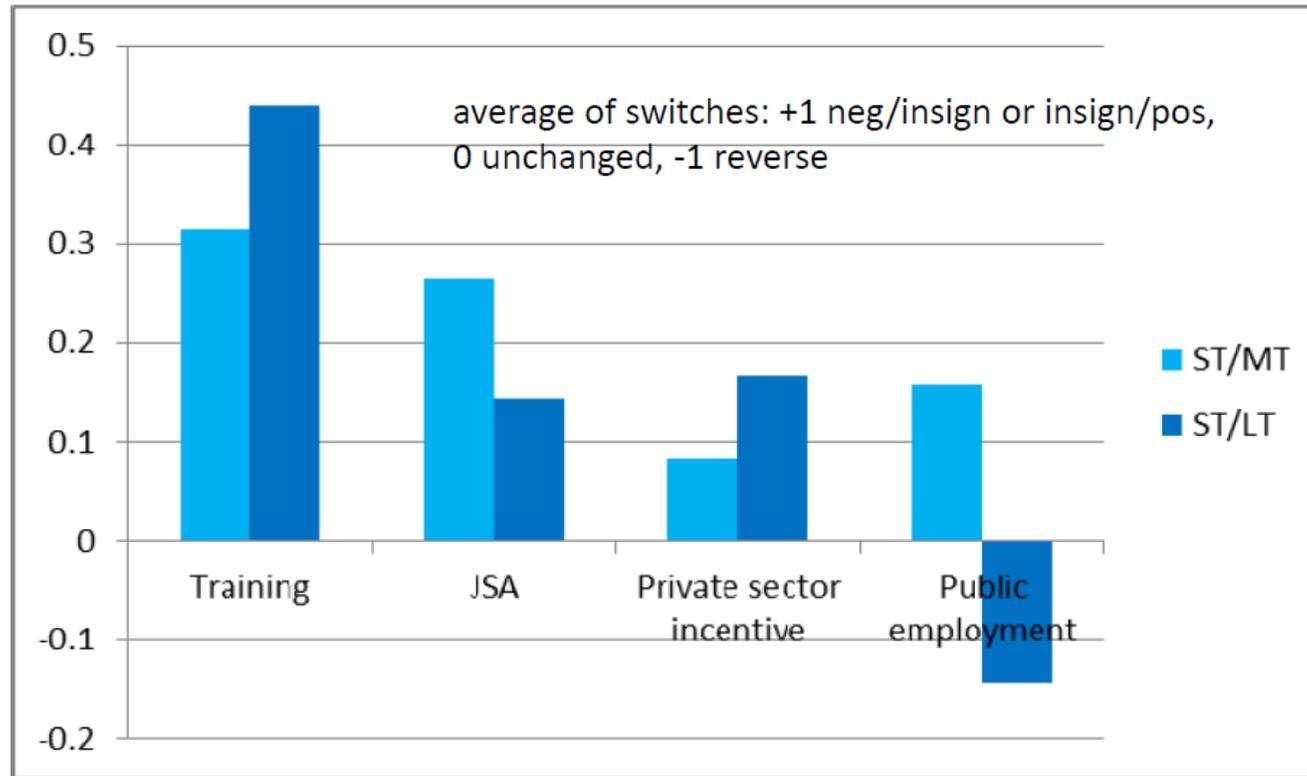
A healthy dose of skepticism is needed

Impact on Earnings Outcomes Across Main Intervention Categories



Cost-benefit considerations change depending on time horizon of interventions

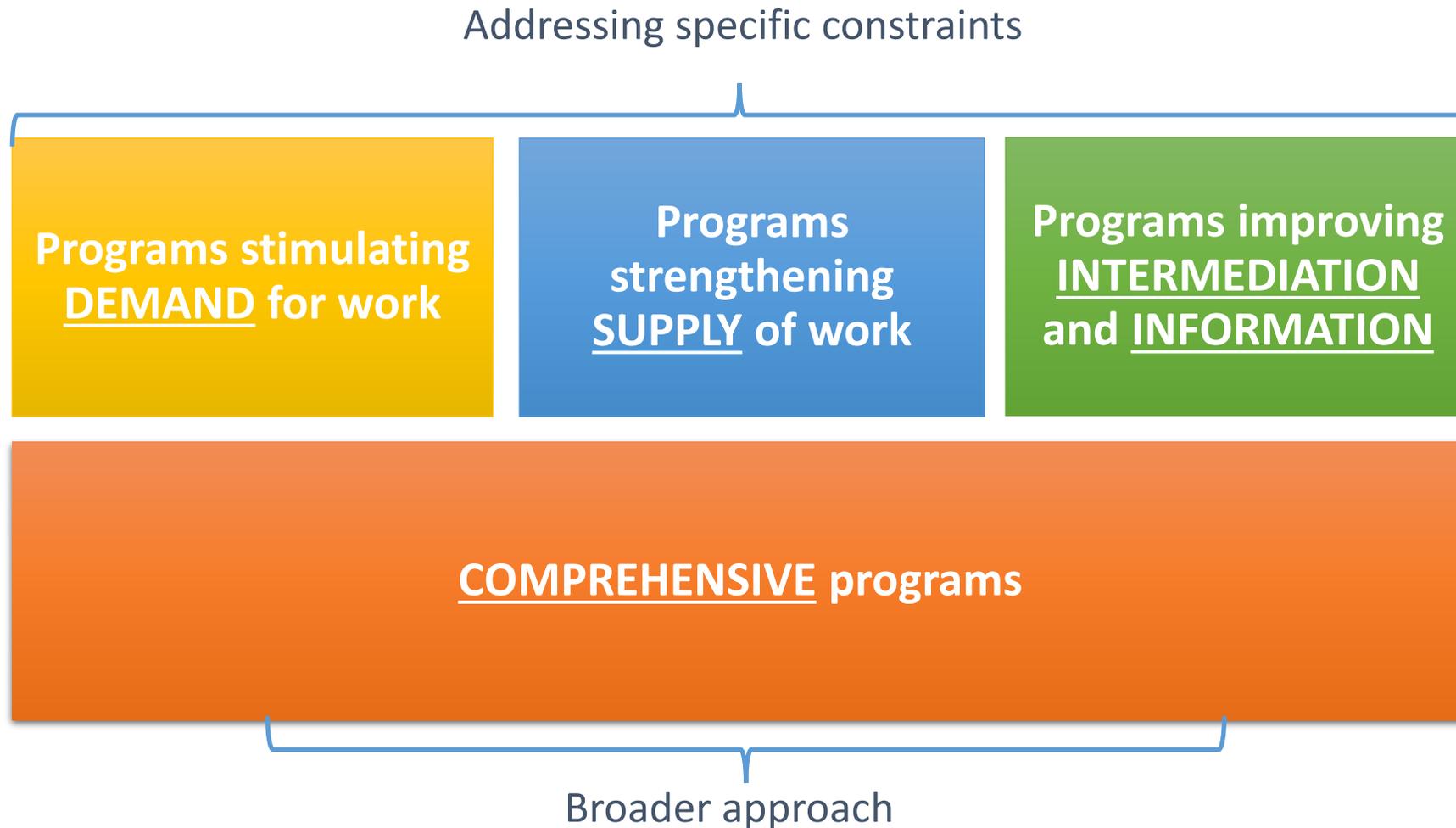
Time profile by program type: sign/significance switches



Some overall results

- No intervention, alone, is superior; integrated packages work better
- Programs that focus on vulnerable workers perform better
- Design matters!
 - Private sector role
- In all cases, impacts are modest, but...
 - Become more positive 2-3 years after completion of the program, with the time profile of impacts varying by type of program, with larger gains for programs that emphasize human capital accumulation
 - There is systematic heterogeneity across participant groups, with larger impacts for women and participants who enter from long term unemployment

A deeper dive into the actual programs...



Demand-side interventions

Rationale

- **Entrepreneurship programs**

- Credit constraints and capital market imperfections
- Information asymmetries (e.g. on market opportunities)
- Skills constraints

- **Wage/Labor cost subsidies**

- In economic downturns, firms shed “too much” labor due to wage rigidities
- Information asymmetries for groups with no prior/recent work experience
- Externalities associated with providing OJT to new staff that may not stay in the firm
- Externalities associated with employment of particular sub-groups
- Credit constraints and imperfect capital markets for young/small firms

The evidence on impact

- **Public works**

- They serve as serve as consumption support/ safety net (*Kluve 2014*)
- Most of the evidence suggest no impact on employability in the long-term (*Kluve 2014, Card et al. 2015*)

- **Entrepreneurship programs**

- Higher impact in terms of employment creation (self-employment) than labor earnings (*Cho and Honorati 2014, Kluve et al. 2016*)
- High variation in target population and outcomes (*Kluve et al. 2016*)

- **Wage subsidies**

- They can be useful to counteract negative business cycles in the short term (*Bernhard et al. 2008, Stephan 2010*)
- Usually do increase employment for the duration of the subsidy but this impact is not sustained (*Kluve 2014*)
- Lack of appropriate testing on impacts in the long run and potential distortionary effects in the long term (*Kluve 2014*), including deadweight loss (*Betcherman, Daysal, & Pagés 2010*)

Supply-side interventions

The evidence on impact (1/2)

- **Training**

- Little or no impact in the short run, especially when short duration, or if only in-class training is provided (Ibarrarán & Shady 2009, Card et al. 2015)
- Effects appear to grow over time (Card et al 2018)
- Clearer positive effects of on-the-job training on employment, earnings and job quality (Monk et al. 2008, Courseuil et al. 2012, Honorati 2015)
- More effective for specific groups like the long-term unemployed (Card et al. 2015)

- **Adult literacy programs**

- Small impact on basic cognitive skills, but harder to get impacts on more complex tasks (Aker & Sawyer 2016)

The evidence on impact (2/2)

- **Supporting services – Child care**

- Strong positive effect on the mother's working decisions (Peña & Glassman 2004, World Bank 2015), employment and labor earnings (Calderon 2014)
- The effect tends to be larger for low-income families (Peña & Glassman 2004)

- **Supporting services – Mobility**

- Particularly relevant in context of rapid urbanization
- Transport subsidies can be effective in raising employment (Abebe et al. 2016)

- **Social norms and empowerment**

- Direct positive effects on labor market outcomes (Adoho et al. 2014)
- Indirect positive effects on labor by reducing psychological bias both among participants and society as a whole (De Mel et al. 2014, La Ferrara et al. 2012, Arias 2016, Adoho et al. 2014)

Latin America and the Caribbean: Jovenes Program



Training + Internships

- Combines in-classroom and on-the-job training for vulnerable youth
- Focus on both technical and soft skills
- Demand-driven approach

- Competitive bidding process for the selection of training providers
- Incentive payments schemes based on trainee outcomes
- Positive, but small, impact on employment, but higher on quality of employment (formalization and monthly earnings)

Kenya: Youth Empowerment Project



Training + Internships

- Targeting youth 15-29, out-of-school, unemployed, most with some education
- Implemented by public-private partnership
- Formal + Informal private sector firms
- Full program: 3 months of training (life-skills, vocational, business) + 3 months of internships in sectors identified in the national development strategy
- Partial program: 2-week life-skills training

- Full program led to 15% increase in employment, no impact of the partial program

Intermediation and information

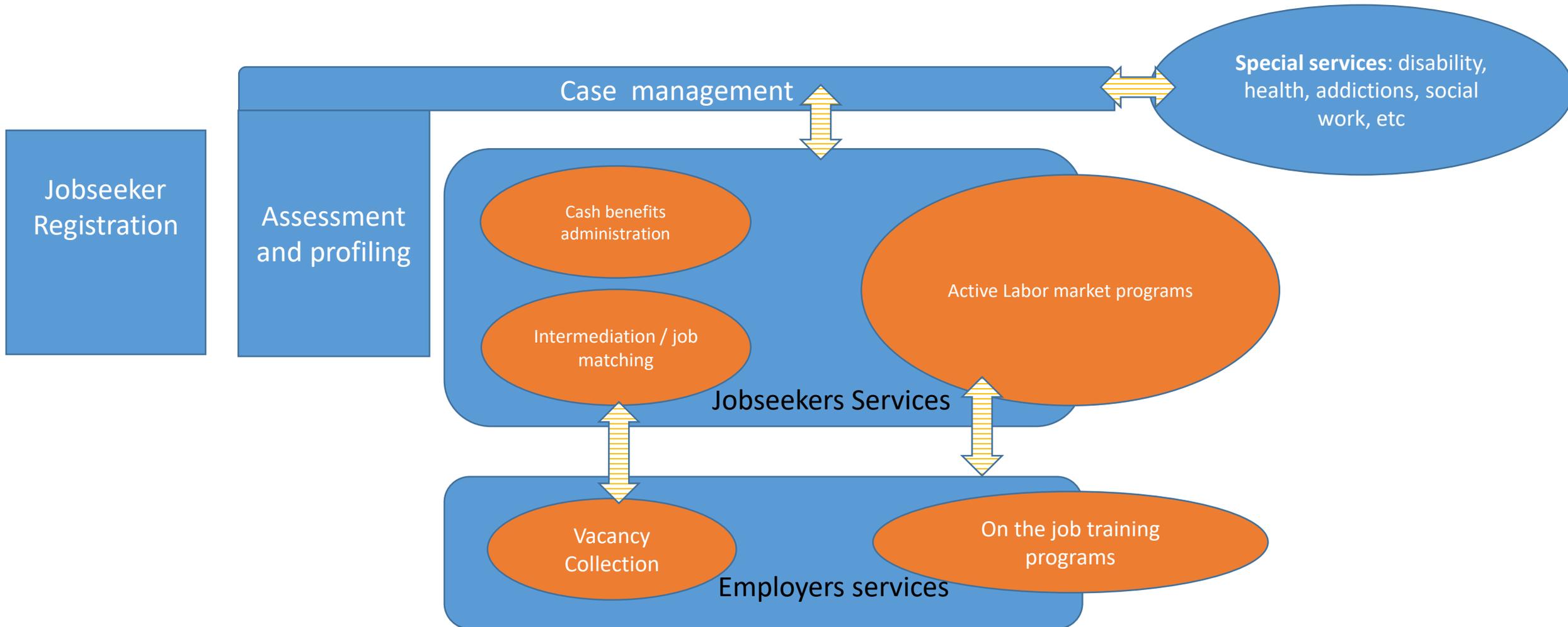
South Africa: Low cost intermediation and information interventions

- Low-cost interventions
 - Signaling devices: reference letter template
 - Behaviorally-informed assistance in job search: goal setting plus action plan
- Through labor centers
 - Stipend of US\$2 for travel costs
- Results cover letters intervention
 - 59% increase in response (from 4.2 to 6.5%) and in interview rates (from 2.2% to 3.6%)
 - Employment likelihood doubles for women (from 11.7% to 23.4%)
- Results action plan intervention
 - No effect on the number of hours spent searching for work, but increases in the number of applications sent per month (from 4 to 5)
 - Positive effect on employment likelihood (from 11.5% to 16.1%)

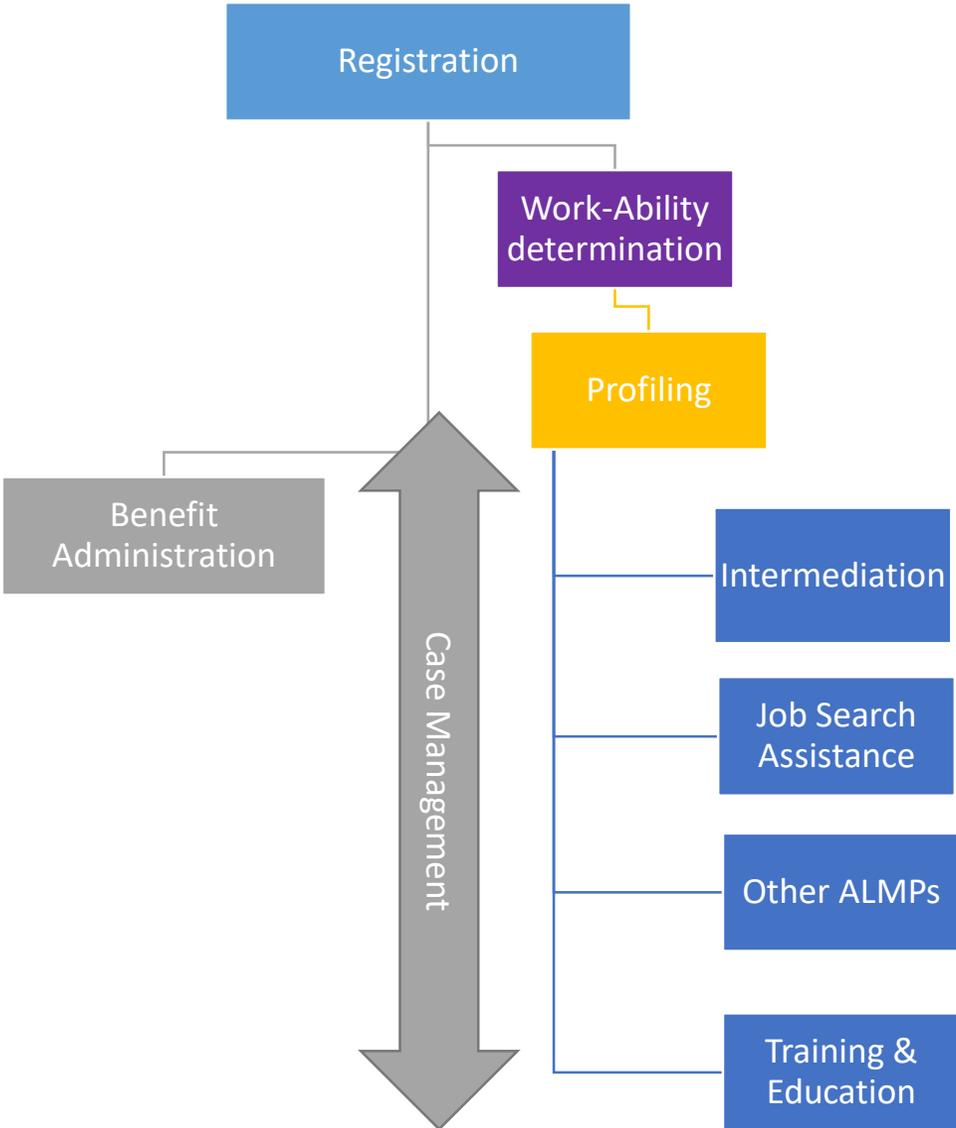
More complex labor intermediation interventions: employment services

- Virtually all countries in the world have SSN programs
- Around 110 countries in the world have **Public Employment Services**
- Around **80 countries** have unemployment benefit schemes.
- But most countries face a huge *imbalance* between SSN systems, and development of PES
 - activation of SSN or UB beneficiaries has been a driving force of PES development

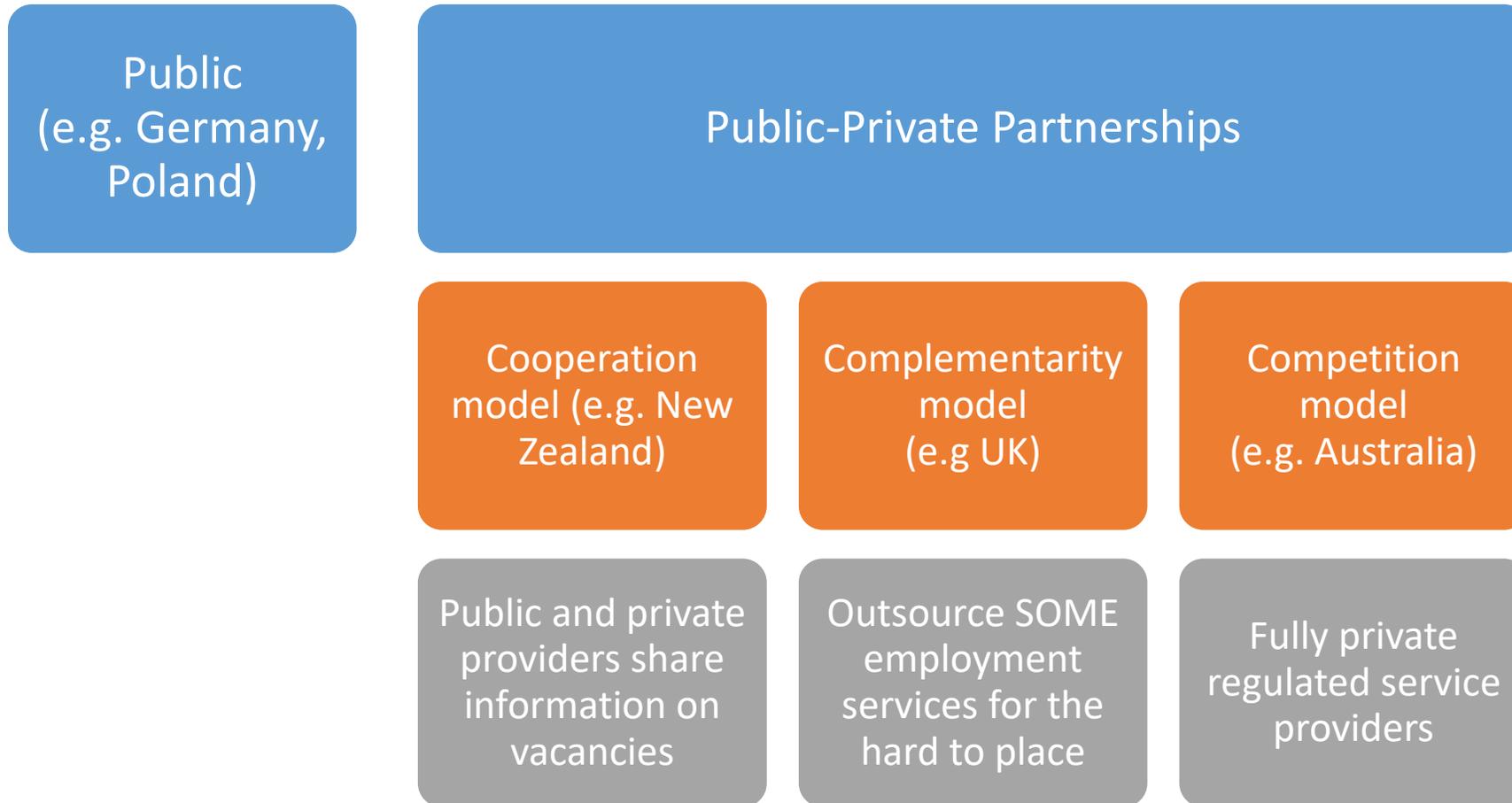
PES: Core elements of service delivery



Stylized example of activation process in employment services

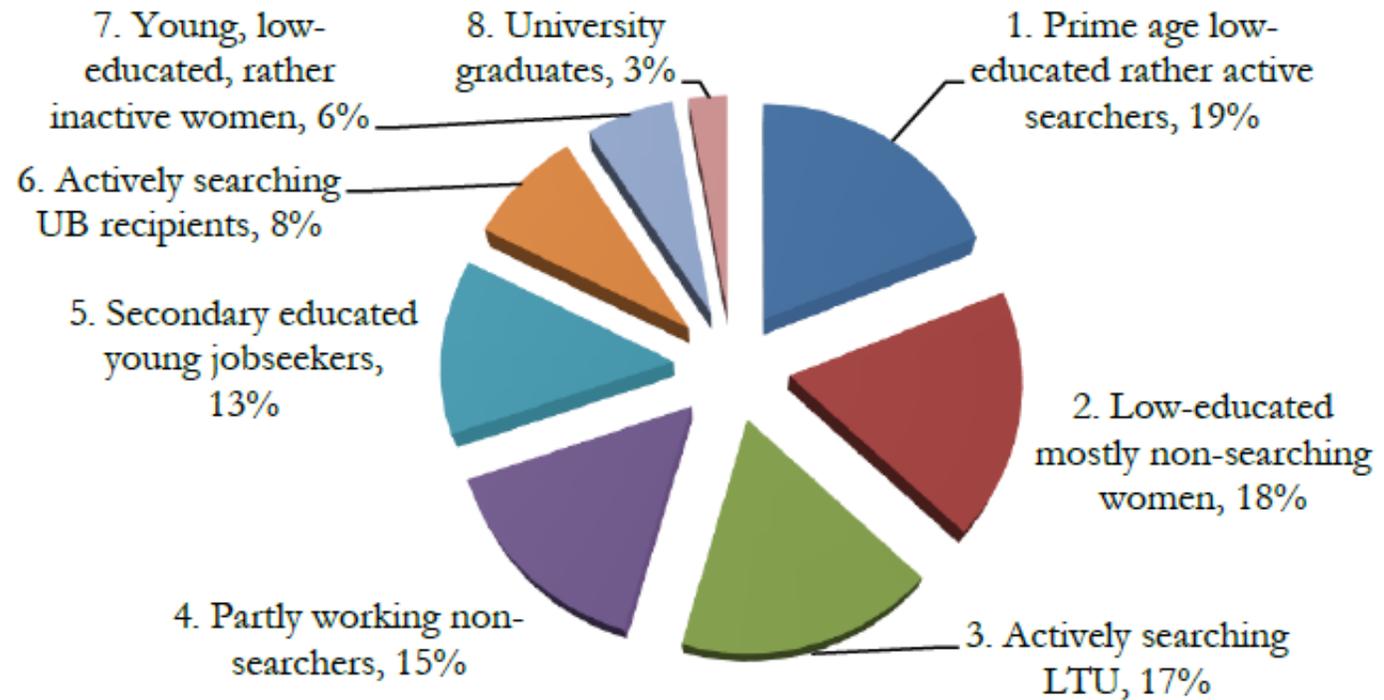


Delivery models for PES



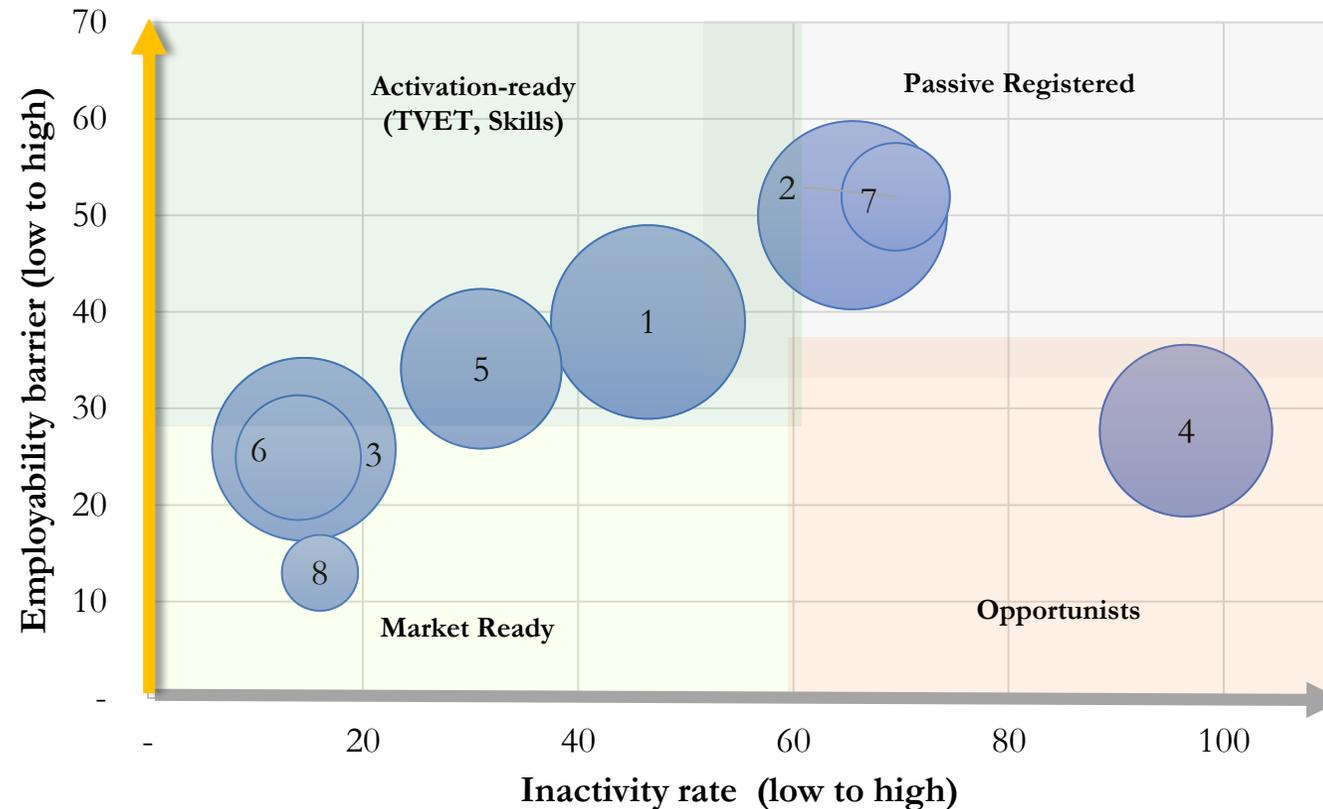
Why profiling? The customer population within the PES can very heterogeneous.

The example of Poland.



Eight clusters of client groups, with varying level of labor market preparedness and job search intensity

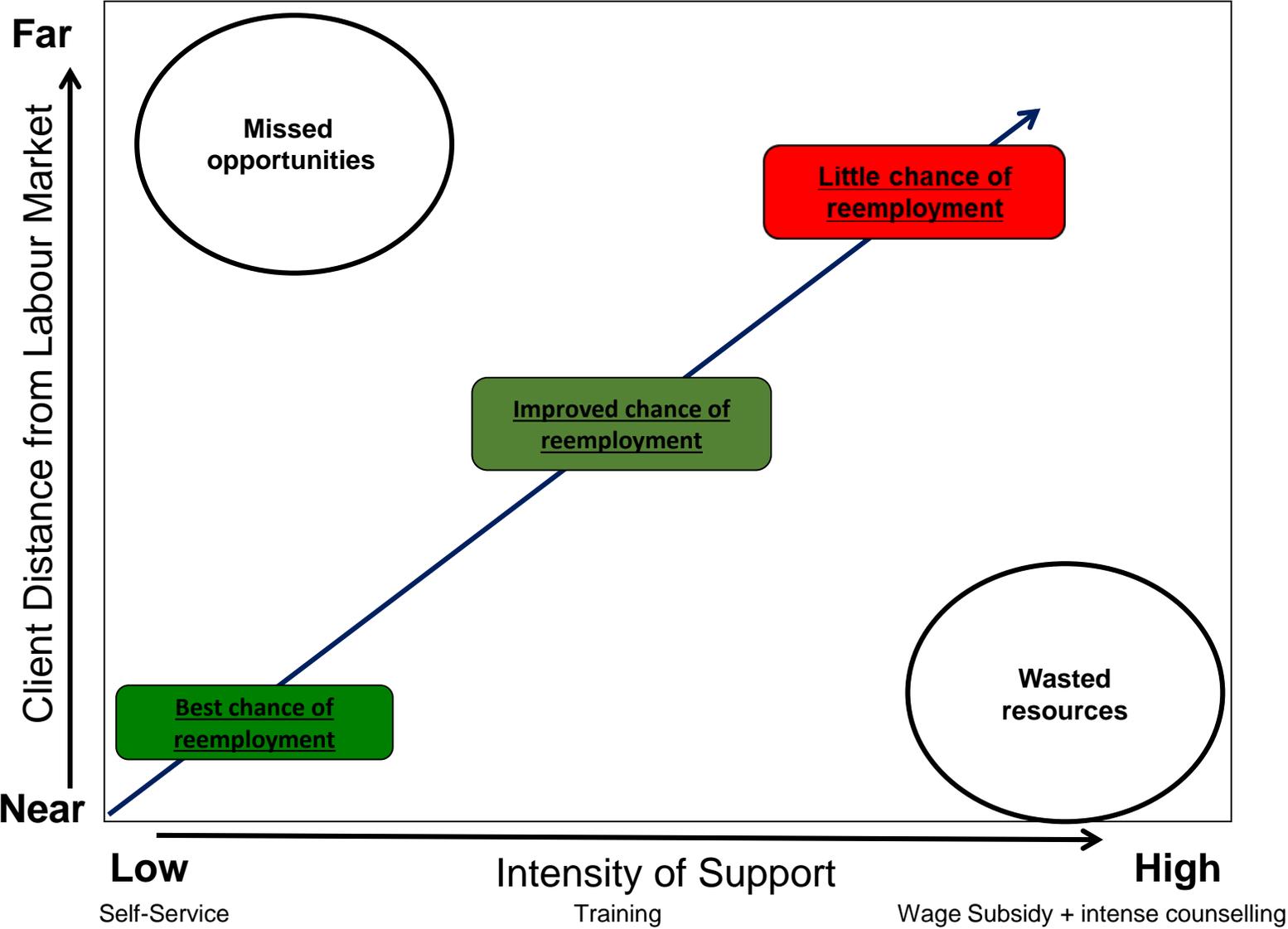
Most clients are far from labor market, but some also misplaced in the PES



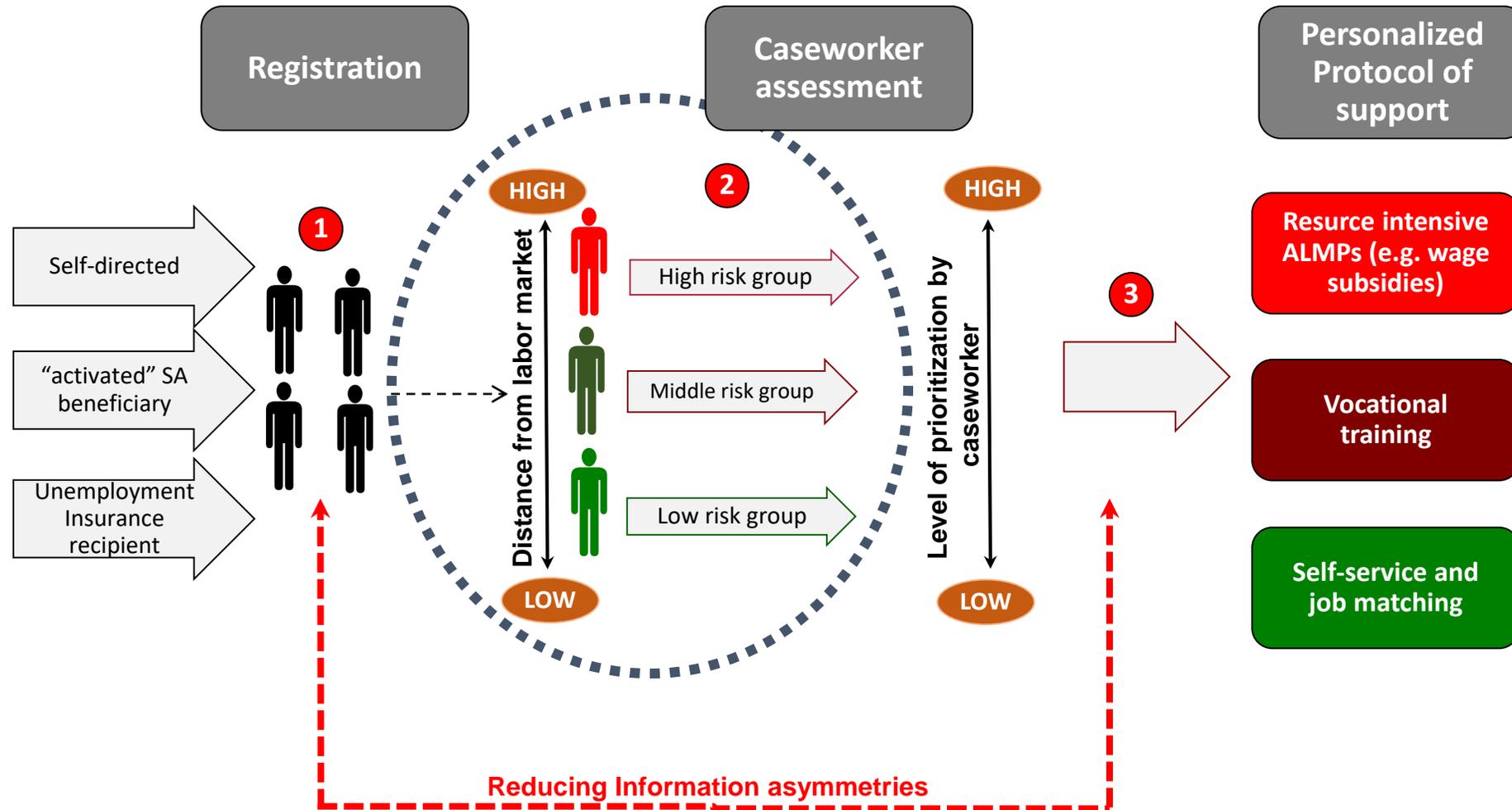
1. Prime-age low-educated jobseekers
3. Long-term unemployed active jobseekers
5. Secondary-educeted young jobseekers
7. Low-educated inactive young women

2. Low-educated mostly inactive women
4. Part-time workers and non-searchers
6. Unemployment benefit recipients
8. First time jobseeker univeristy graduates

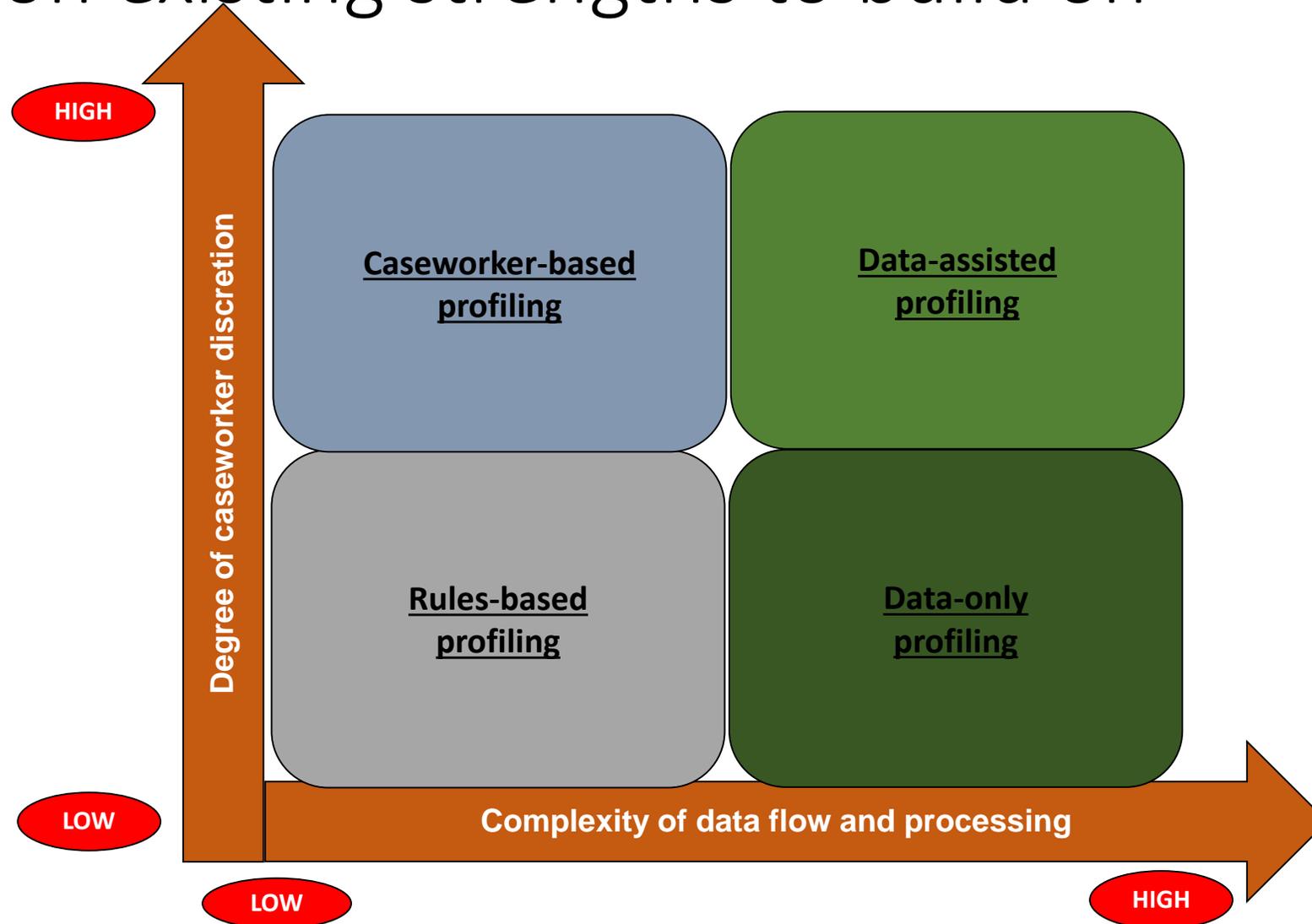
Profiling matters for better resource allocation and timing



Use of profiling in employment services



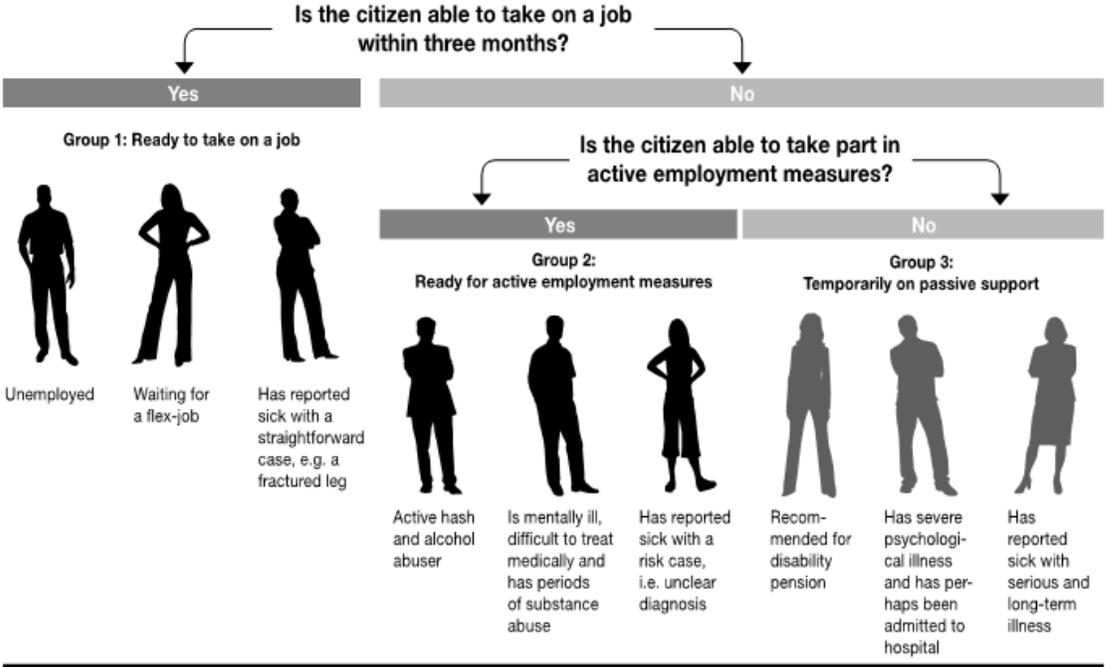
How in practice:
depends on existing strengths to build on



Caseworker-based profiling (Denmark)

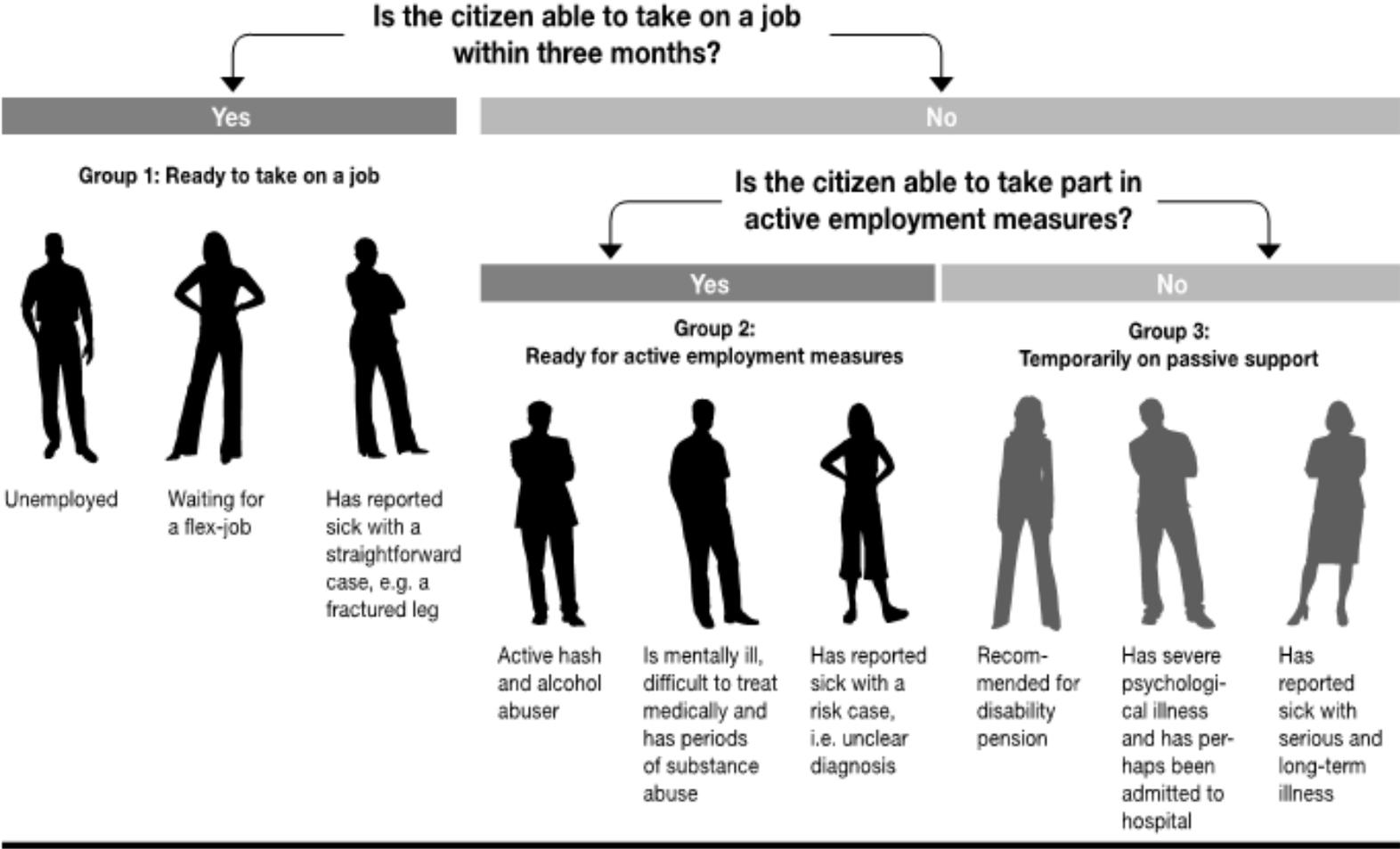


The Dialogue Guide



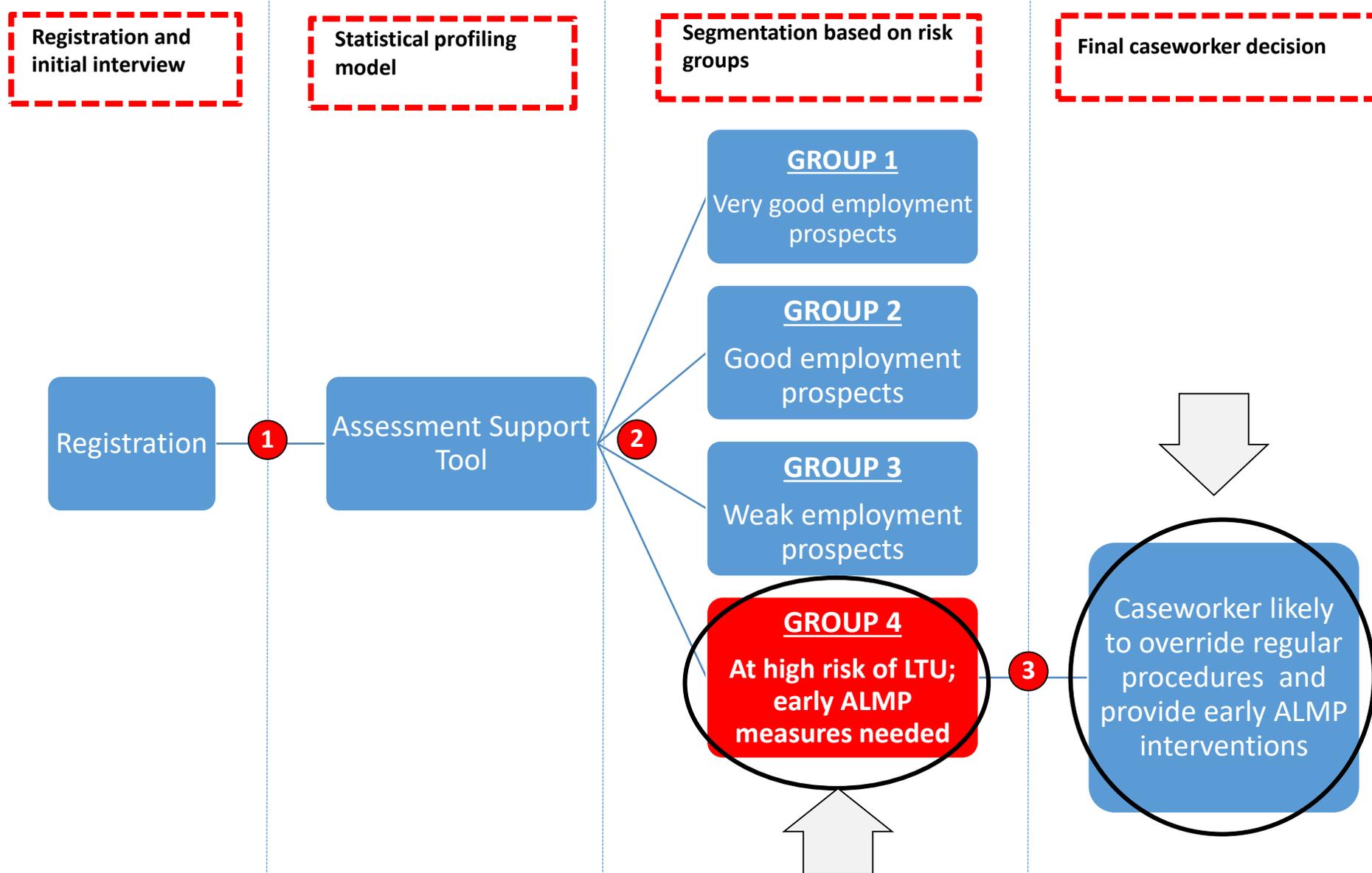
Labor market matching model

Caseworker-based profiling (Denmark)

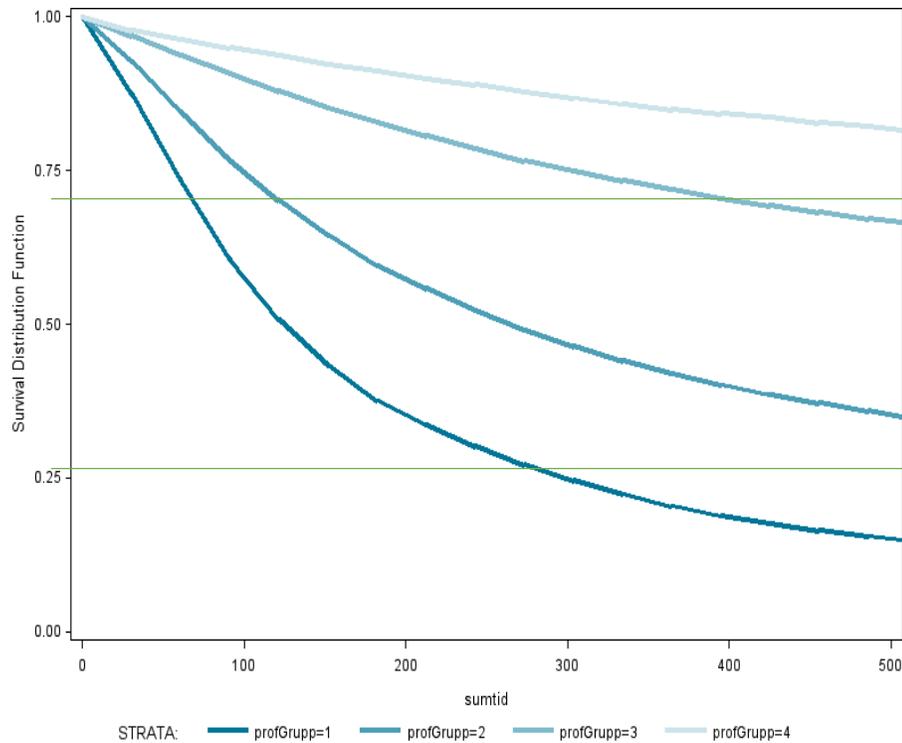


Labor market matching model (new)

Sweden: statistical profiling for prioritization of active labor market programs

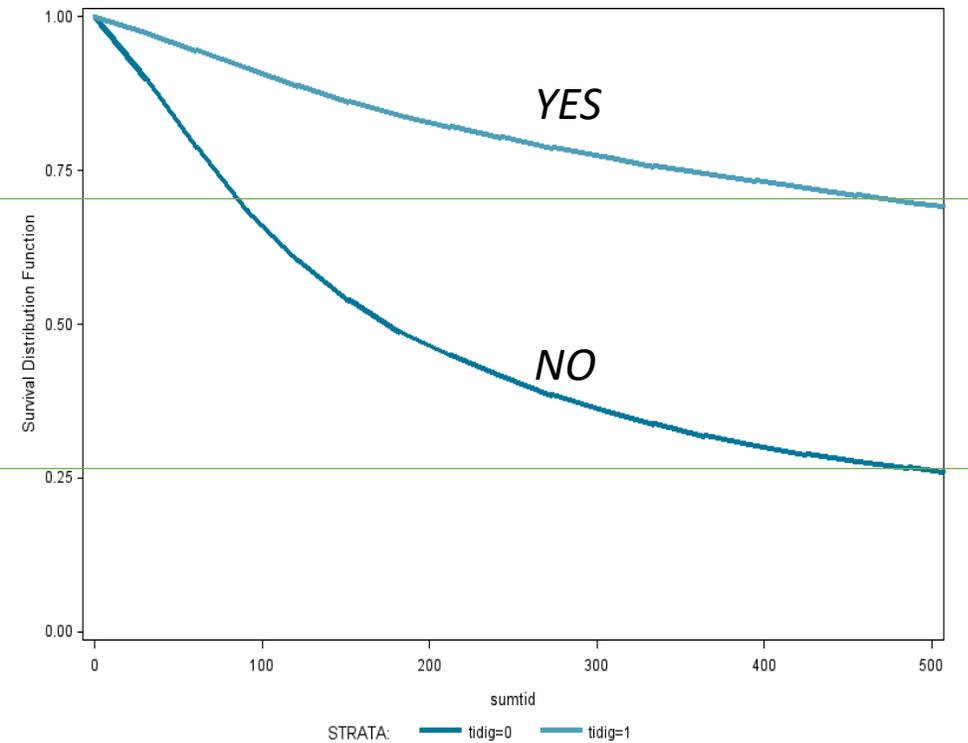


Probability of not finding a job, sorted according to the statistical risk profiling group



Inflödet till arbetslöshet '2013-01-01' och '2014-06-30'

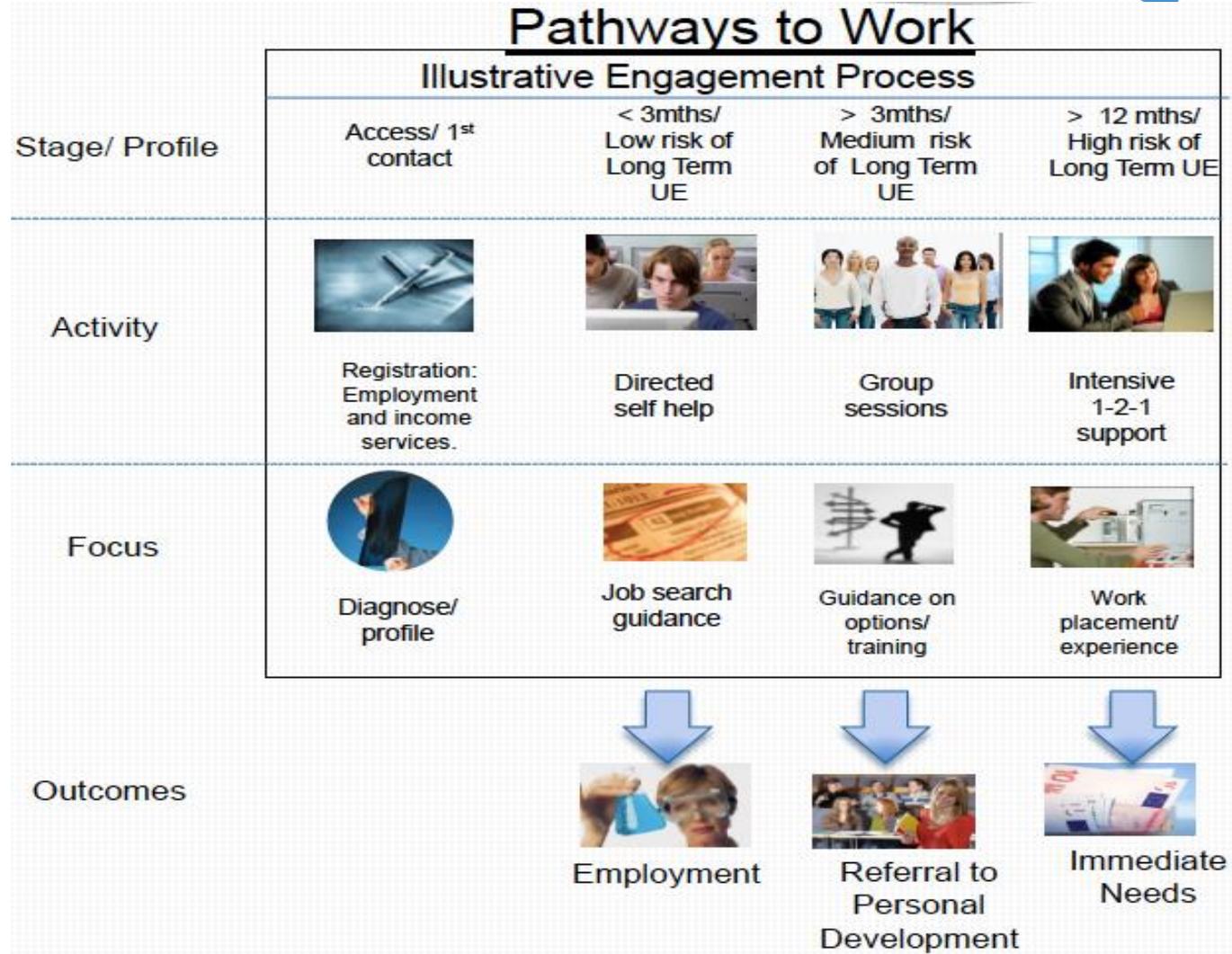
Probability of not finding a job, according to the case worker's assessment of the need of early intervention (Need of early intervention, 0=No, 1=Yes)



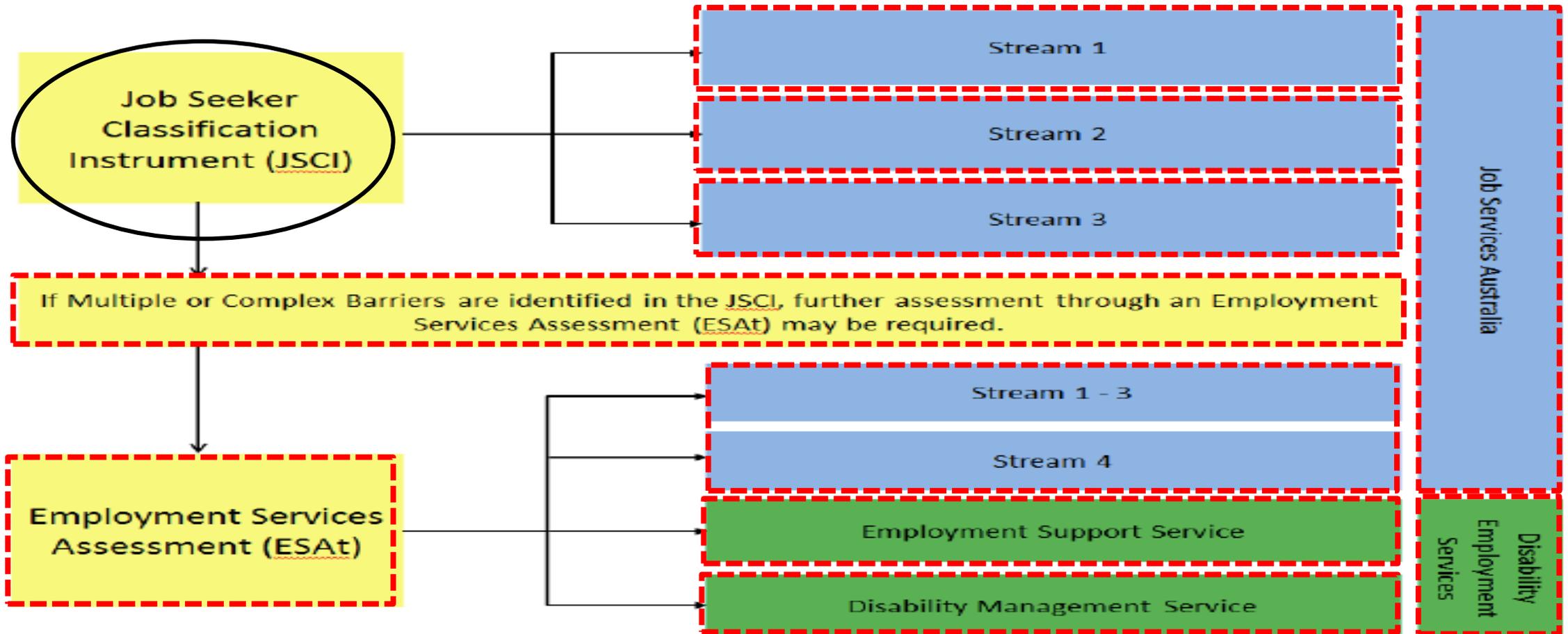
Inflödet till arbetslöshet '2013-01-01' och '2014-06-30'

Ireland: statistical profiling for case management intensity

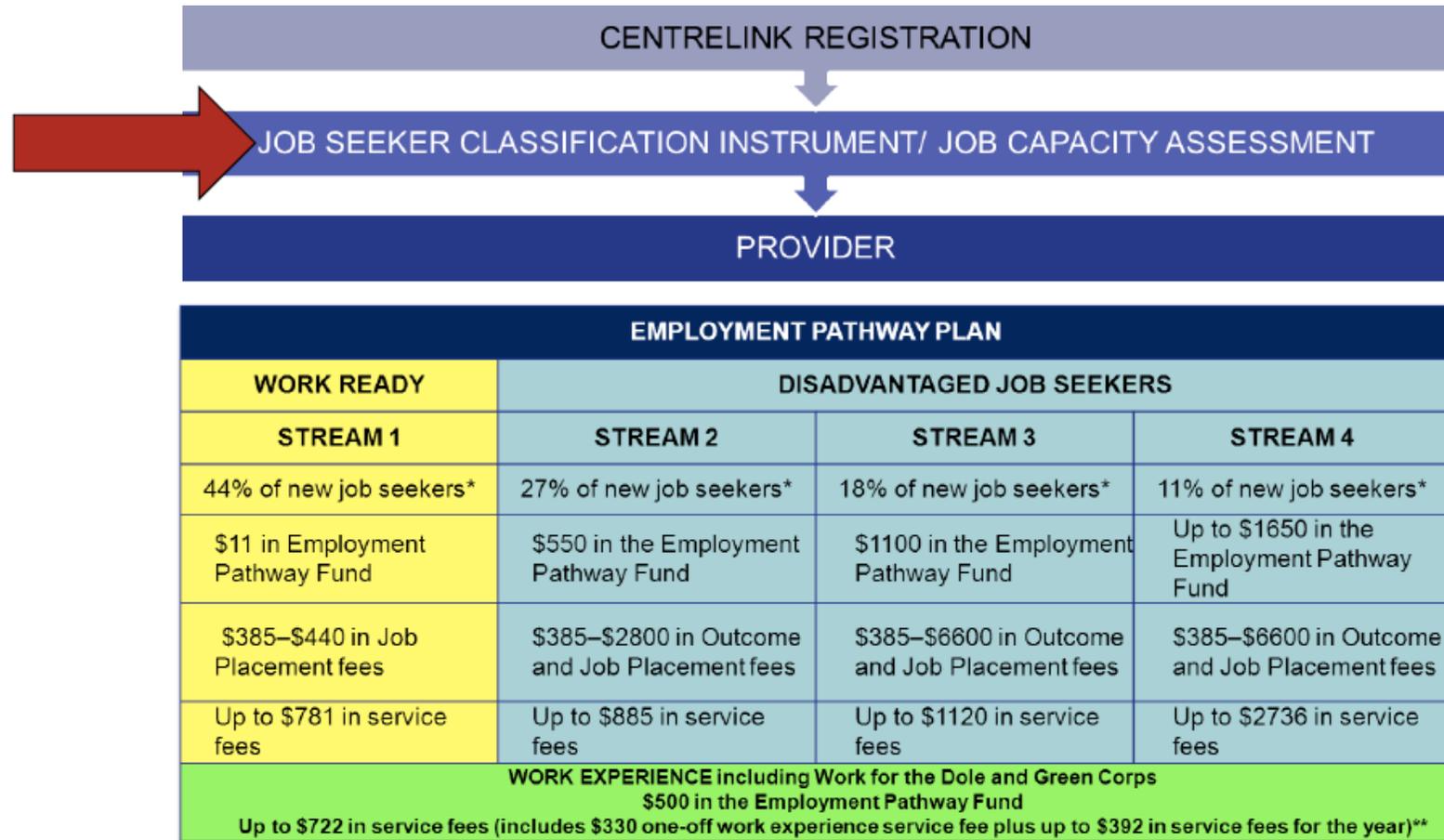
Statistical Profiling at registration of benefit claim



Austrália: statistical profiling to define treatment streams...



... And to determine reimbursement to private providers



Evidence on impact

- **Employment services**

- Positive short run effects (ok; it is about speeding up and improving the matching process), although usually small in magnitude. But cost-effective (*Kluve 2014, Kluve et al. 2016*)
 - Not likely to have a significant impact in times of weak labor demand
 - Most evidence comes from developed economies, but this is changing rapidly
 - Positive impact on academic achievement and labor market outcomes of providing labor market information (*Jensen 2010, Hicks et al. 2011*)
-
- Difficult to assess overall impact as PES - part of a complex delivery system with positive spillovers beyond intermediation : (i) targeting ALMPs more efficiently (ii) reducing moral hazard in cash benefits; (iii) reducing search costs for firms (less important than in the past)



Active Labor Market Programs: What they are, impacts and design options

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Group Work: Building on existing context, programs, institutions, population, fiscal constraints...

Target group

Profile / constraints

Intervention(s) proposed

Institution involved

Delivery and
coordination
arrangements

Key outputs and
outcomes
