

Active labour market policies: a broader perspective

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- **Country A – developed**
 - Economy has slumped and has entered a recession
 - Unemployment has increased from 5 to 10%
 - Youth unemployed has increased even faster
- **Country B – developing**
 - Economic growth averaging 6%
 - Unemployment is 2% but much higher in urban areas and among youth
 - 80% of workers are informally employed
 - Skills shortages in some sectors (esp. urban)
 - Underemployment in rural areas

Outline of lecture

1. **Reviewing ALMPs – what they are and what they do (and don't do)**
2. **ALMPs in developing countries – fantasy or reality?**
3. **Using ALMPs to target vulnerable groups: helping youth in the labour market**
4. **A new found counter-cyclical role? The part ALMPs played during the global financial crisis**
5. **Do ALMPs work? Evaluation methodologies**

1. Reviewing ALMPs – what they are and what they do (and don't do)

What are ALMPs?

- OECD: measures that directly help the unemployed (also the underemployed and inactive)
 - Policies that affect **labour demand and supply** and the **interaction** between the two
- Viewed in terms of reducing the **risk of unemployment** (getting individuals jobs) and increasing **earnings capacity** (through better returns to skills)

ALMPs definition

- **Auer et al. (2008):** “Passive policies are concerned with providing replacement income during periods of joblessness or job search, while **active policies** refer to labour market integration through demand- or supply-side measures”

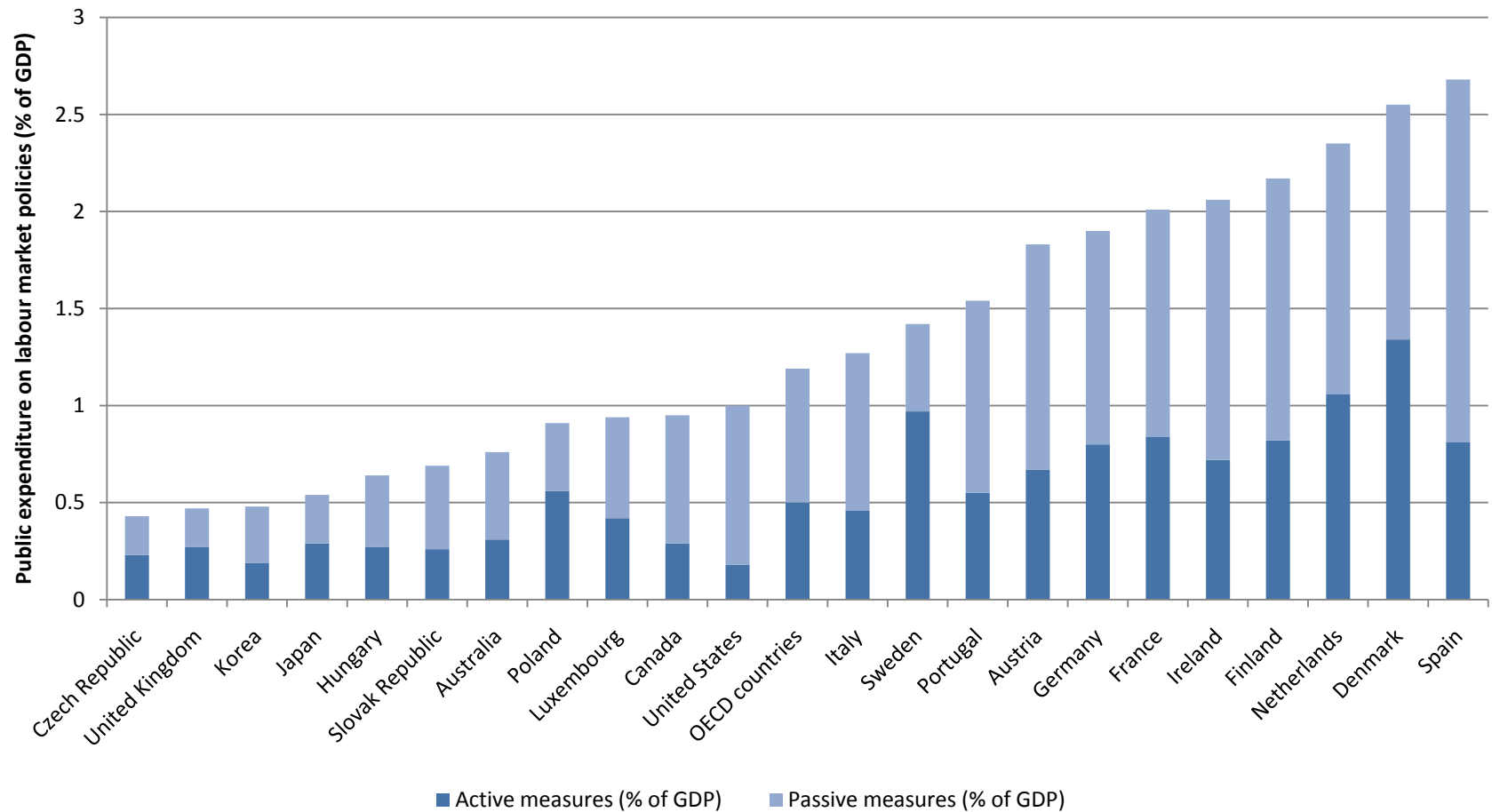
ALMPs definition

- **OECD: “Active Labour Market Policies** (ALMPs) help unemployed people back to work include job placement services, benefit administration, and labour market programmes such as training and job creation.”

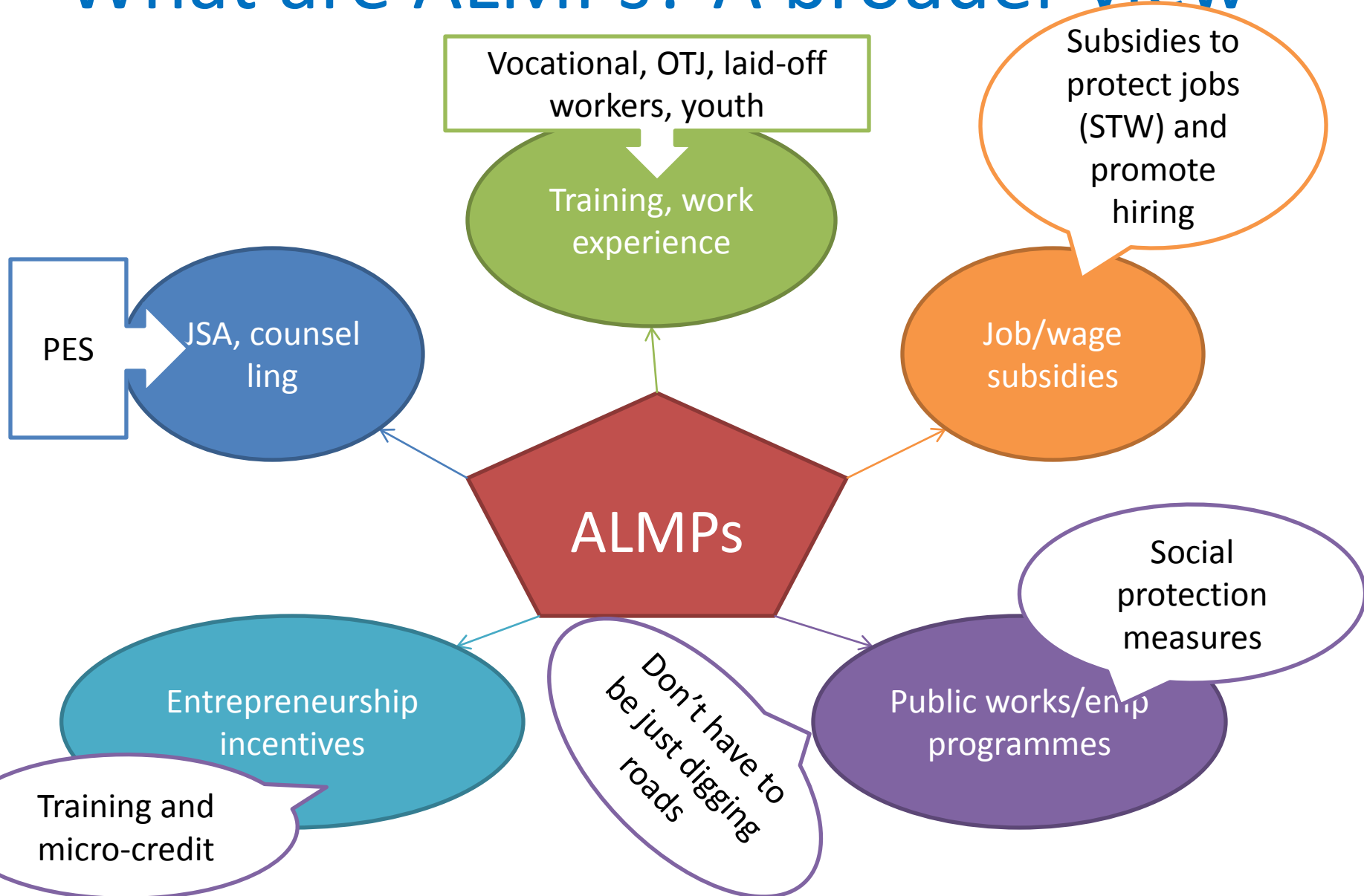
ALMPs & activation

- OECD countries: ALMPs play a central role in the **activation** of individuals receiving unemployment benefits
 - Activation involves JSA directed by counsellors, reporting, accepting job offers
 - But great variation in spending within OECD
- Activation has been on the increase – reflecting confidence in the **cost-effectiveness of PES interventions**

Variation in spending on ALMPs in OECD (2008)



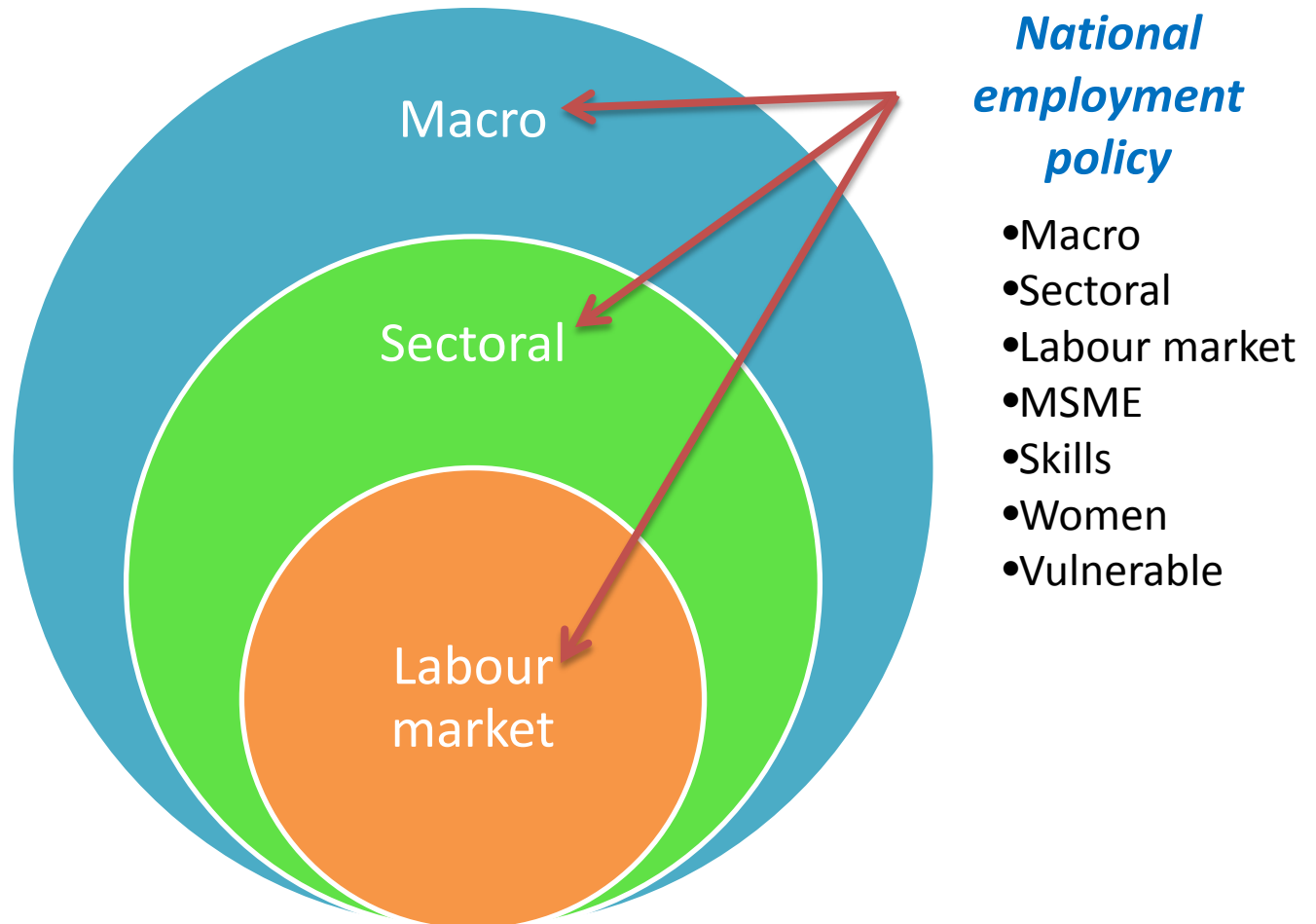
What are ALMPs? A broader view



What ALMPs are not

- **Passive labour market policies** (but linked to ALMPs in terms of activation strategies in OECD)
- Other policies that indirectly impact labour demand and supply
 - **Macroeconomic, sectoral, education, SME, etc**
- Confusion with **employment policy**, which is much broader
 - Set of policies that aim to create more/better jobs

A broader view on policies



- Definitions are not important, objectives are

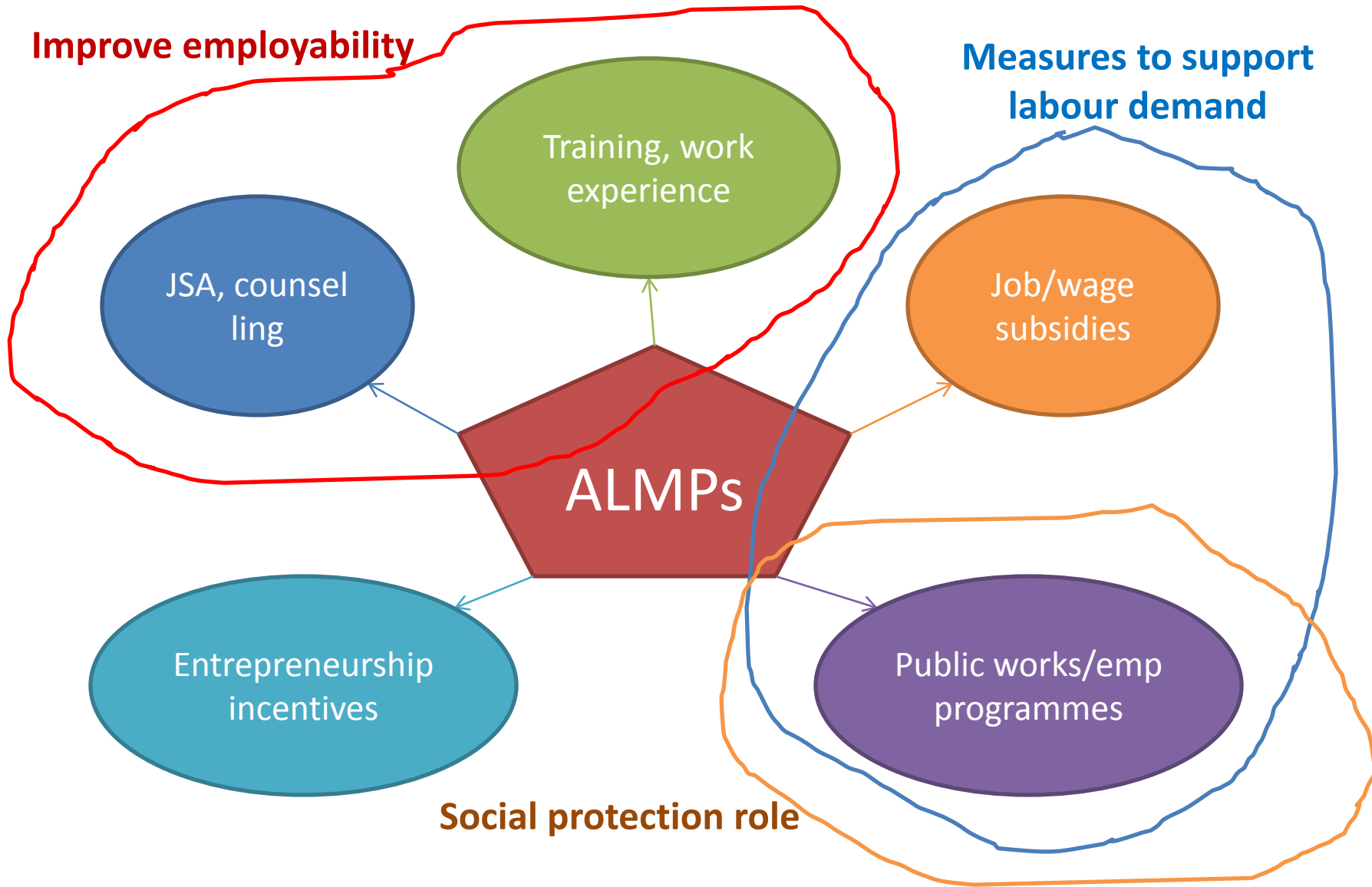
Why use ALMPs?

- Labour markets are not **perfectly competitive** and **contracts** are **incomplete**
 - **Imperfections** also exist because of cost of establishing information networks, skills mismatches or credit constraints
 - Individual decisions to allocate resources to training and job search will be **inefficient**
- **Social** and **distributional** concerns also matter

Why use ALMPs?

- 1. Maintain/promote labour demand by**
 - Keeping workers in jobs
 - Creating employment
- 2. Make the unemployed/inactive more employable** (improving the match between S&D)
- 3. Provide social protection** (not a traditional objective)
- 4. Target vulnerable groups such as youth** (cross-cutting)

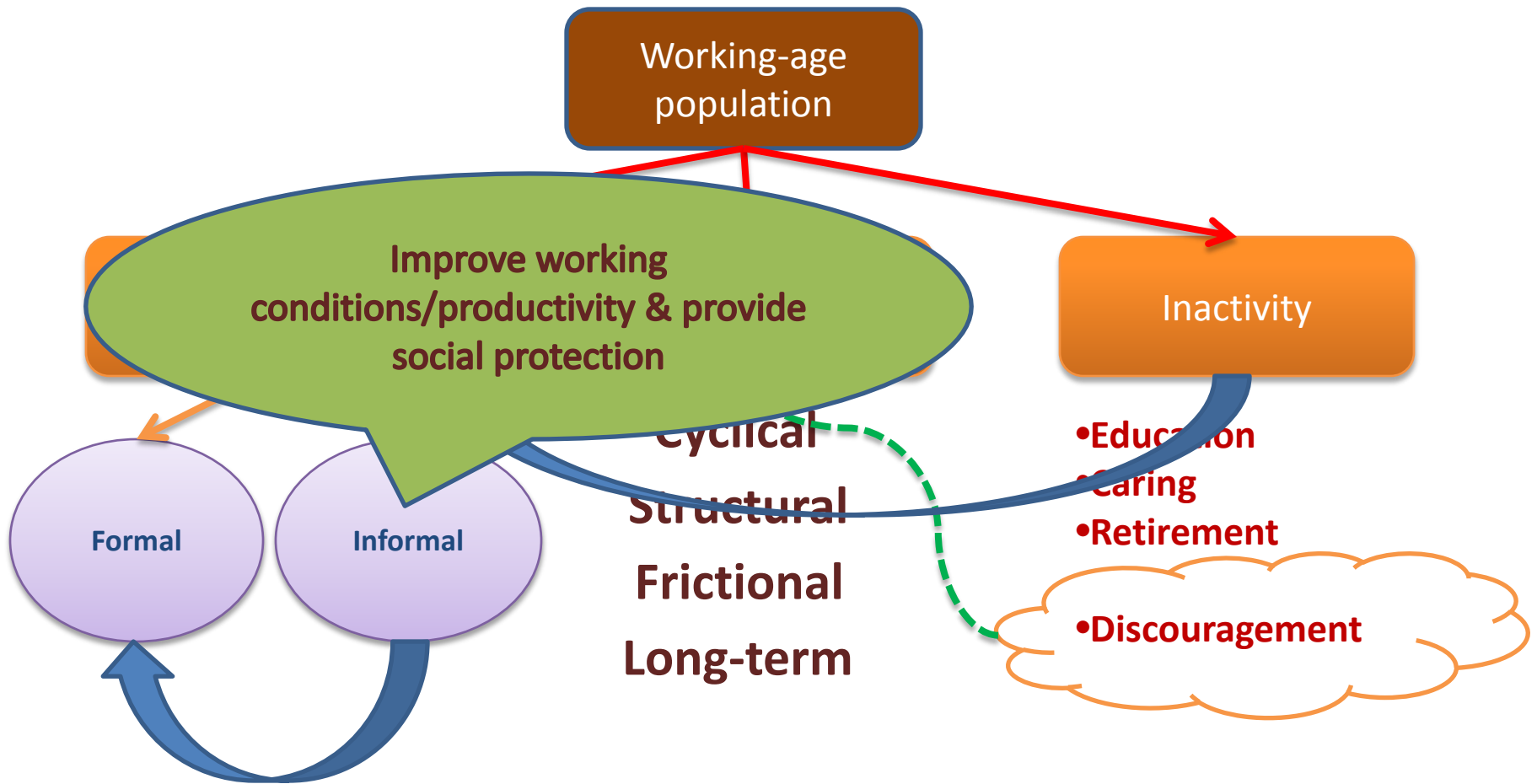
Why use ALMPs?



2. ALMPs in developing countries – fantasy or reality?

- What are the main characteristics of the labour market in developing countries?
- What are the main challenges to implementing ALMPs in these countries?
- Examples of ALMPs in developing countries?

The labour market



Cross-cutting: youth, women, ethnic group, etc

Challenges to implementing ALMPs in DCs

- **Labour markets** are different to OECD
 - E.g. labour market **transactions are informal**
 - But there is also **great diversity** within DCs
- **Institutional and technical capacity** is inadequate
 - ALMPs are **expensive** (some countries spend more than 1% of GDP)
- **Regulations** are not enforced
- Programmes are not **monitored and evaluated** and implemented in a **systematic** way

Challenges to implementing ALMPs in DCs

- **Public employment services** are massively underfunded and staffed
 - Consultant to jobseeker ratio is 1:4000+ in SSA (in South Africa it is 1:483), while in Latin America it is 1:350 and in Europe 1:150. In terms of money and equipment, it is worse
- **Training facilities** are inadequate
- **Urban bias**

Challenges to implementing ALMPs in DCs

Type of ALMP	Evidence on effectiveness	Constraints for DCs
Public employment services, JSA	Relatively cheap, highly effective	PES under-resourced, more suitable for formal sector jobs (versus informal job transactions)
Training	Relatively expensive, mixed evidence on effectiveness (more effective in long-term)	Training facilities inadequate
Wage/job subsidies	Expensive, mixed results	Expensive; potentially large deadweight/substitution costs; do not target the poor (informal sector)
Entrepreneurship incentives	Costly, mixed results	Low success rate
Public works programme	Less effective at creating longer term employment	Type of work provided

But ALMPs have already become a reality in DCs

- **Public employment programmes**
 - **India** – MGNREG scheme; **South Africa** – Expanded Public Works Programme; **Ethiopia** – Productive Safety Net Programme
- **Entrepreneurship schemes**
 - Training and micro-credit for youth
- Also more **innovative approaches**
 - Response to global financial crisis

Challenges to implementing ALMPs in DCs

- But **potential benefits** are much greater than in advanced economies!
 - Though difficult to capture in a cost-benefit analysis
- ALMPs are becoming **increasingly relevant in DCs**, particularly middle-income countries
 - Recent developments show that these countries can **utilize ALMPs** and are trying innovative programmes (see GFC)
- Nonetheless, must be **realistic** at what ALMPs can achieve
 - Relevant programmes depend on the country and **income-level**

GROUP EXERCISE

3. Using ALMPs to target vulnerable groups: helping youth in the labour market

- Why do youth face greater barriers in the labour market?
- What is the right policy response?
- Why do we need to target policies?
- What other groups should be targeted?

Youth in the labour market

- Youth around the world are more **vulnerable** in the labour market due to the lack of work experience and job search skills
- As a result, the **youth unemployment rate** is typically 2-3 times higher than adult rate (young women > young men)
- Youth suffer more **during recessions** (will return to ...)

Findings on ALMPs for youth in OECD

- However, youth appear to be the hardest to help
 - **Evaluations** show that training for youth is the most unsuccessful interventions
 - “One of the most disappointing conclusions from the evaluation literature is that almost all evaluations show that special measures are not effective for disadvantaged youths.” (Martin 2000: 95).
- Conclusion = focus on **prevention** (i.e. education)

UK New Deal for Young People

- Aimed to help unemployed youth (18-24) who were claiming jobseeker's allowance for 6mths+
 - First **JSA** (Gateway) then **wage subsidies, temporary public sector job and full-time education/training** (Options) followed by **Follow-Through**
 - **Compulsory**
- **Evaluations** show that young unemployed men were 20% more likely per period to gain employment (JSA is the most cost effective component)

Helping youth during the GFC

- **Netherlands takes a comprehensive approach** (lowest youth unemployment rate in 2007 – 5.6%)
 - Youth Unemployment Action Plan (2003)
 - Investing in Young People Act (WIJ) – municipalities obliged to give young people (18-27), who apply for social assistance, work, training or a combination of both
 - Incentives to remain in education

Jovenes programmes in Latin America

- **Joven Programme** started in Chile in 1990 before moving to other LAC (Argentina, Colombia, Peru, and Uruguay)
- Target youth from **low-income households** with **low levels of education** and **work experience**
- Consist of **training, work experience and JSA**
- **Evaluations** have shown that these programmes are successful in improving outcomes for participants

ALMPs targeting youth in Africa

- Youth dominates **population** in most African countries
- African youth represent that most **marginalized** group in the labour market
- Experience higher rates of **unemployment** & are over-represented in **informal economy**
- ALMPs are relevant for **targeting youth** in DCs but are only part of the policy response

ALMPs targeting youth in Africa

Programme	Example
Public employment services	Information services and youth advisory centres in South Africa
Training	Internship programme in Ghana, training vouchers in Kenya and South Africa
Public works programmes	Senegal, South Africa
Entrepreneurship incentives	Youth entrepreneurship funds in Algeria, Kenya, Mali, Senegal, South Africa

Promoting youth entrepreneurship in Africa

- **Promoting entrepreneurship** as a means of creating sustainable livelihoods for unemployed/underemployed youth
- Youth need **financial and technical support** to overcome many barriers (credit constraints, lack of skills and undeveloped culture of entrepreneurship)

Promoting youth entrepreneurship in Africa

- Entrepreneurship programmes focus on:
 - **Start-up financing** (usually micro-credit)
 - **Training programmes** to develop skills in business planning, marketing, product development, mentoring
 - **Combined strategy of both financing and training**

Constraints to promoting youth entrepreneurship

- The **main constraints** to entrepreneurship programmes in developing countries are
 - **Costs**
 - **Effectiveness** of training
 - **Limitations** to micro-credit
 - **Low take-up rate** due to bureaucratic procedures/lack of awareness
 - **Social constraints**

Constraints to promoting youth entrepreneurship

- How many young people can become an entrepreneur?
 - Can only **support a minority** of those entering labour market every year
 - Need also a broader approach – **entrepreneurship education**
- And need more **monitoring and evaluation**

Youth in Kenya



Youth Enterprise Development Fund in Kenya

- YEDF launched in 2007 to address youth unemployment and underemployment.
- Measures
 - **Micro-credit**
 - **Business development services**
 - **Supporting infrastructure** - business/industrial parks, open air markets, market stalls, business incubators
 - Develop **linkages** with larger enterprises
 - Facilitate **marketing** of products
 - Access to **foreign labour markets**

Youth Enterprise Development Fund in Kenya

- The disbursement of the Fund operates through **two channels**: financial intermediaries such as micro-finance institutions and directly to youth through constituencies

Youth Enterprise Development Fund in Kenya

- Until 2008, **696,200,000 Kenya Shillings** was disbursed to financial intermediaries.
- 7,289 out of 7,885 youth who benefited from these funds were **young women**
- **1,799 youth groups** received funding through the constituency scheme, representing 72,689,214 Kenya Shillings.
- Youth have also been offered **entrepreneurship training**

Youth Enterprise Development Fund in Kenya

- Latest status report
 - Fund has disbursed **KSh. 1.9 billion** (US\$ 25 million) to more than **65,000 youth**
- But every year **500,000 young Kenyans** are joining the labour market

Umsobomvu Youth Fund in South Africa

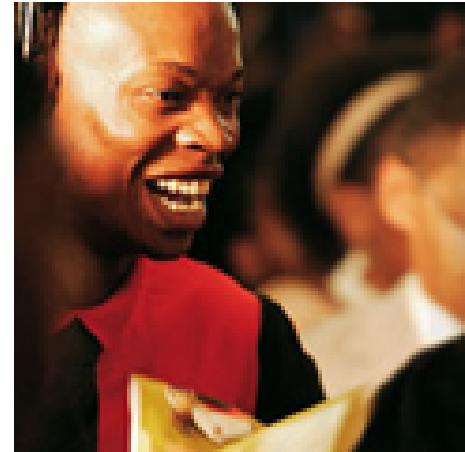
- **Umsobomvu** is a comprehensive strategy:
 - **Micro-Finance (MF)**
 - **National Youth Service Programme (NYSP)**
 - **Business Consultancy Services (BCS)**
 - **JOBS programme**
 - **Small and Medium loans products (SME)**
 - **Volunteers in Action Mentorship Programme (VIA)**
 - **Cooperatives Programme**

Umsobomvu Youth Fund in South Africa

- Overall, **78,625 jobs** were created from April to September 2009, mostly through micro-finance
 - Remember that almost 50% of youth aged 15-24 are unemployed representing over 1.2 million individuals
- **3,737 business consultancy vouchers** were issued
- 30,803 individuals were **enrolled school**

Former Offender Transforms into an Over-achiever

- Ian Dlamini grew up in Soweto and was raised by their grandmother. He did not complete his high school education and ended up getting involved in crime.
- At 19, Ian was imprisoned and sentenced to 22 years in prison.
- While still in prison Ian passed matric and volunteered to teach fellow inmates maths and accounting.
- In 2008 Ian enrolled for a one-year ABET Diploma
- The programme is implemented by UYF and the NYC.
- He now holds Engineering Studies (N3), Business Management and Computer Literacy Certificates and is currently busy with the Computer Practice Certificate and the BCompt degree.



4. A new found counter-cyclical role?

The part ALMPs played during the global financial crisis

ALMPs during the GFC

- Why did governments around the world utilize ALMPs during the GFC?
- Who was hit hard (in terms of rising unemployment, etc) and in which countries?
- What else did they do?

The global financial crisis

- What started as a collapse in the US housing market, resulted in the **worst recession since the WWII**
- The crisis spread quickly from the US to Europe and the rest of the world via **financial and trade channels**
 - **Hard hit countries:** Spain, Ireland, Baltic countries, Eastern Europe, Mexico, South Africa
 - **Hard hit groups:** men, youth, unskilled
 - But there was great **diversity** in the impact

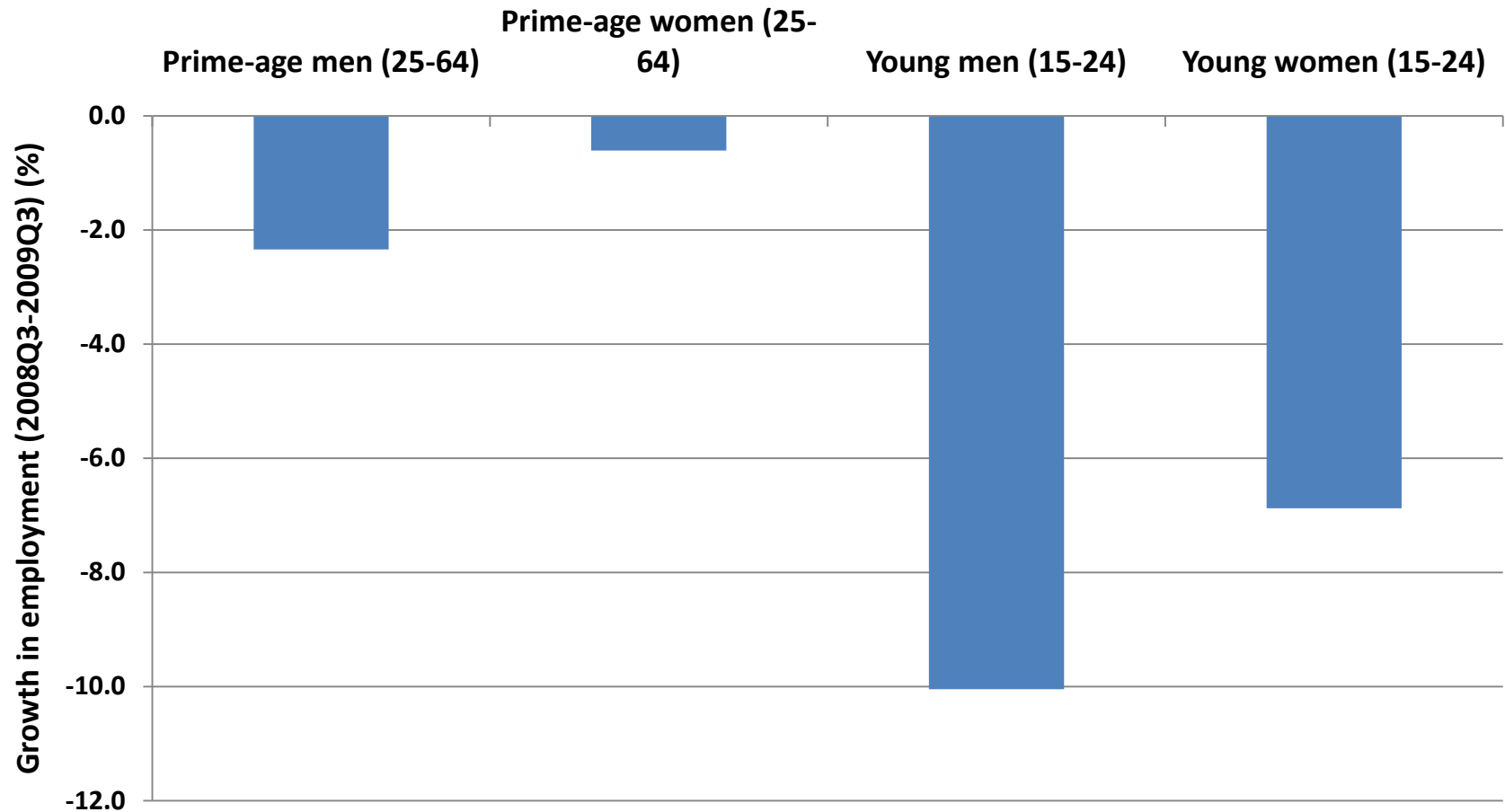
Channels of adjustment during an economic downturn

- **Three main channels for firms to adjust to drop in demand**
 - **Working time** – firms adjust hours of work more rapidly
 - **Employment** – drop in economic activity leads to dismissals, plant closures and hiring freezes -> **unemployment**
 - **Wages** – cuts in nominal wages happen less than expected (wage freezes)

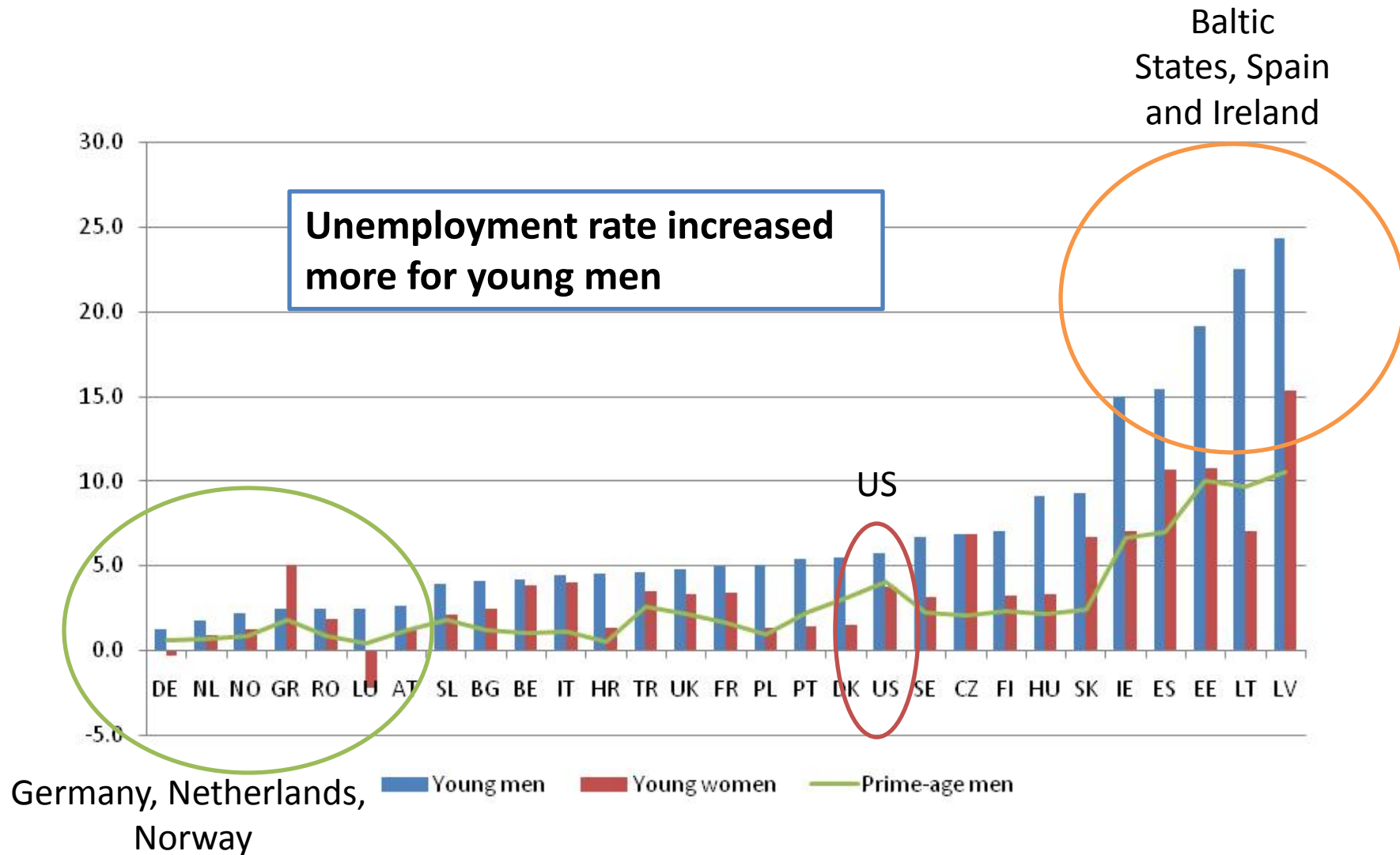
Channels of adjustment during an economic downturn

- Crises also result in
 - **Flows** between contracting and expanding sectors
 - In developing countries, laid-off workers don't stay unemployed but instead end up in the **informal and agricultural sectors**
 - Changes in **household labour supply** such that spouse/children increase labour supply to compensate for loss of jobs in household

The employment impact of the GFC



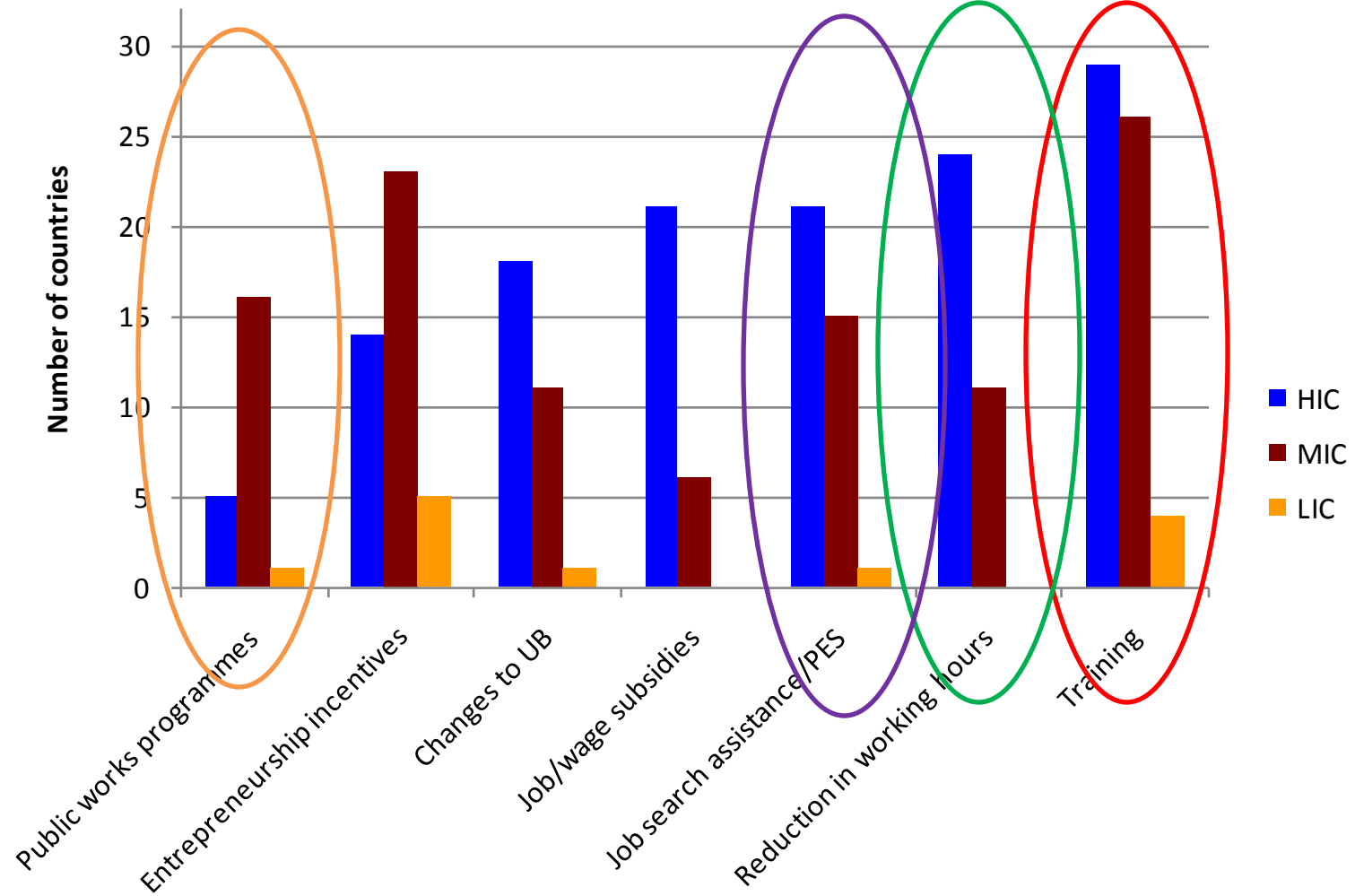
Impact of GFC on youth



The global financial crisis

- Governments responded by
 - Cutting **interest rates** (monetary policy) and **bailing out banking system**
 - **Fiscal stimulus packages** which focused on infrastructure spending, tax cuts and transfers, and ALMPs...

ALMPs in response to the GFC



Job search assistance during the GFC

- **Aim:** to improve match between demand and supply; prevent LTU
- **GFC examples:**
 - PES staff levels were increased in many countries (Argentina, Cambodia, Germany, Hungary, Ireland, UK)
 - Netherlands: immediate activation into training/work experience for youth upon registering for assistance

Job search assistance during the GFC

- Advantages: Relatively cost-effective
- Disadvantages: Requires effective PES; difficult in times of crisis; more suitable for formal sector jobs (versus informal job transactions)

Training during the GFC

- **Aim:** To improve employability and reduce skills mismatch
- **GFC examples:**
 - Indonesia: Vocational Training Centres (BLK) (50,000 job seekers received assistance)
 - China: vocational training scheme for laid-off and migrant workers
 - Many measures have targeted youth (OECD)

Training during the GFC

- Advantages: Positive long-term benefits
- Disadvantages: Less effective in SR and in times of crisis; requires training facilities; skills forecasting is difficult

Subsidies during the GFC

- **Aim:** To support labour demand by preventing layoffs or encouraging hiring
- **GFC examples:**
 - Work-sharing schemes - highest participation in Belgium, Italy, Germany and Luxembourg (3-6% of employees)
 - Spain - €1,500 per year social contribution rebate for new hires

Subsidies during the GFC

- Advantages: Can be effective in preventing layoffs (and promoting hiring?)
- Disadvantages: Expensive; deadweight/substitution costs; do not target the poor

Work-sharing around the world

- Schemes exist in
 - **Central and Eastern Europe** – Bulgaria, Croatia, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia
 - **Latin America** – Argentina, Chile, Mexico and Uruguay
- **Mauritius** introduced a scheme that subsidized employers to keep workers on and put them on training instead
 - Aimed to save 6,000 employees (allocated almost US\$10 million)

Work-sharing schemes during the GFC

Country	Scheme	Number of beneficiaries
Germany	Kurzarbeit	1.43 million workers (June 2009)
Italy	Cassa Integrazione Guadagni (CIG)	716.8 million hours compensated in Jan-Oct 2009
Netherlands	Deeltijd WW	36,000 workers (third quarter 2009)
Turkey	Short pay scheme	508,000 beneficiaries in 2009
South Africa	Training layoff scheme	7,676 workers (June 2010)

Entrepreneurship incentives during the GFC

- **Aim:** to promote entrepreneurship as a way out of un/under-employment
- **GFC examples:**
 - Youth entrepreneurship funds
- **Advantages:** Effective means of targeting poor, vulnerable groups
- **Disadvantages:** High failure rate; difficult to build right skills

Public works programmes during the GFC

- **Aim:** to provide short-term employment (act as a safety net) to poor/vulnerable (and construct infrastructure)
- **GFC examples:**
 - South Africa: EPWP II
 - Spain: State Fund for Local Investment (400,000 jobs created)

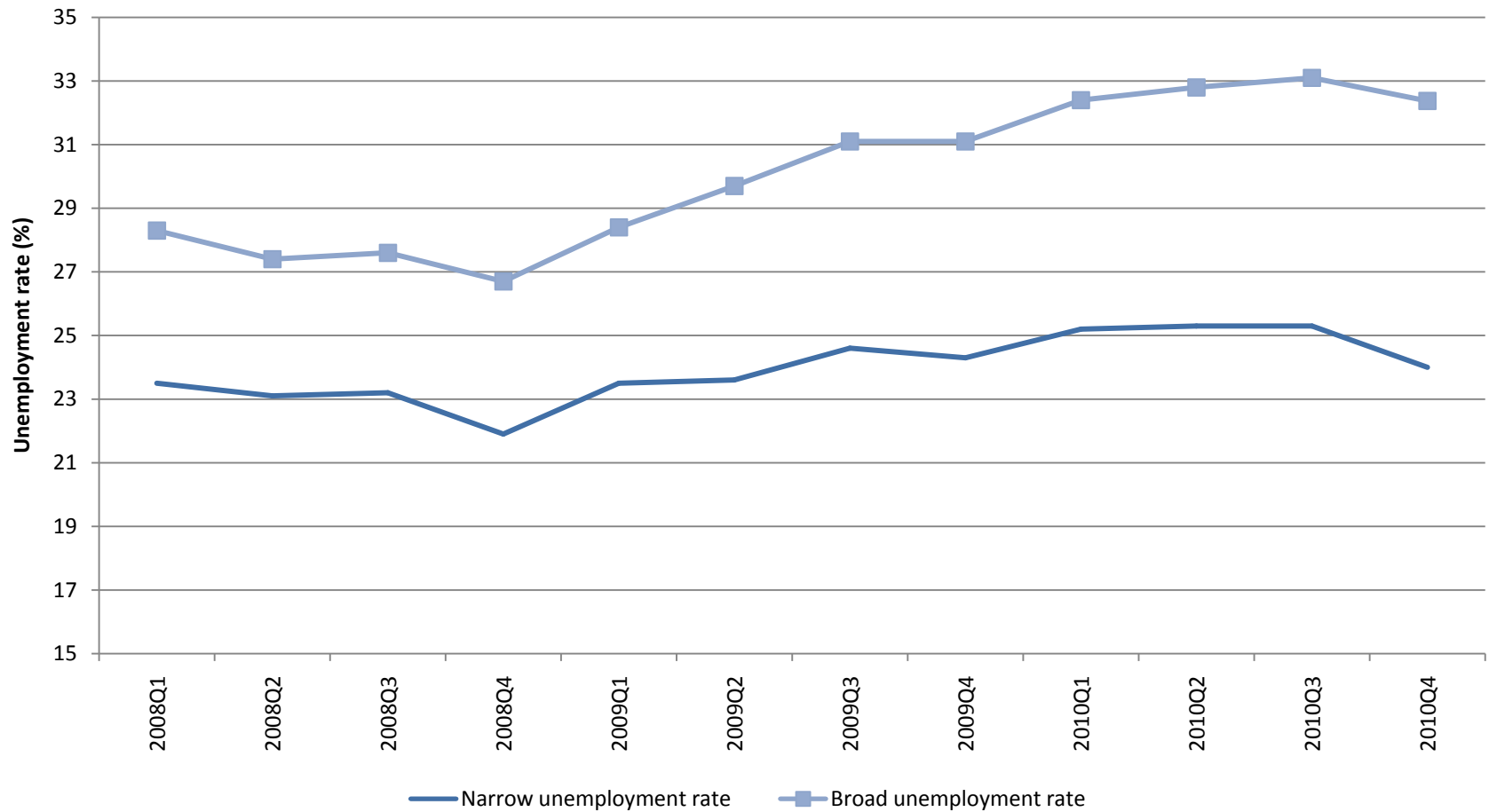
Public works programmes during the GFC

- Advantages: Effective post-crisis/disaster/seasonal measure to protect incomes and prevent poverty; indirect benefits for households
- Disadvantages: does not provide long-term labour market opportunities

Germany's “job miracle”

- Output fell by 5% in 2009 but unemployment rate rose by only 0.2% from 2008 to 2009 (since fallen to 7%)
- ***Kurzarbeit* work-sharing scheme**
 - In May 2009, more than 1.5 million workers were on this scheme, the highest number since re-unification
- But **adjustment of hours** at the firm-level was also achieved via other mechanisms (79% of adjustment)
- German firms found it optimal to keep on workers because of **skills shortages prior** to GFC
- **Demographics** helped too!

The crisis hit South Africa hard



Right policy response in SA?

- **Fiscal stimulus** – infrastructure spending
- **Expanded Public Works Programme**
- **Training Layoff Scheme**
 - 7,647 workers on the scheme (of which 1,646 were not successful)
 - Problem: lack of awareness and complexity of scheme
- What about those who have given up **job search**?
 - Need to address cost of job search

5. Do ALMPs work? Evaluation methodologies

Do ALMPs work?

- Given the constraints, it is key to know whether ALMPs are **effective** in increasing employment chances and earnings
- **Evaluation problem:** what would have been the outcome (employment and wages) if the person had not participated in the programme? $E(Y_1 - Y_0/X, D=1)$
 - Challenge is to construct the **counter-factual**

Impact evaluation methods

- **Experimental** – randomly assign participants to treated and control groups
- **Quasi-experimental** – Control for selection → matching, selection and difference-in-difference methods
- Important methodology for piloting
- Challenge: external validity (replicability)

Findings of evaluations

Intervention	Empirical evidence	Additional constraints for developing countries
Job search assistance	Generally positive impact; inexpensive and cost-effective	Lack of employment services (public and private); more relevant for formal transactions in the labour market; less relevant when structural and cyclical unemployment is high
Training	Stronger positive impact over longer term; on-the-job training more effective; training targeting youth have been generally less successful	Training facilities are inadequate and inappropriate
Wage/employment subsidies	Less effective (mixed evidence); can generate deadweight costs and substitution effects	Expensive and are only relevant to the formal sector
Public works/employment	Public works are an effective social protection scheme but are unlikely to improve employment outcomes; subsidized public sector employment tend to be ineffective	Working conditions tend to be poor in infrastructure-related programmes; poor link to training, entrepreneurship and other complementary interventions
Entrepreneurship incentives	Some positive impact for older/better educated	Low success rate

Evaluation of ALMPs (cont)

- **New meta-analysis** (Card et al. 2010, Kluve 2010) suggests that
 - Classroom and OTJ training programmes yield more positive impacts in medium-term (2 years)
 - Found also US: JSA dominates training in SR but over longer term, gains to HC development policies are larger

Evaluation of ALMPs (cont)

Card et al. (2010):

“... few studies include enough information to make a crude assessment of benefits of the programme relative to costs. Indeed, many studies completely ignore the “cost” side of the evaluation problem.”

Some other insights about what works

- Programmes tend to work better when they are
 - Part of **comprehensive packages**
 - Oriented to **labour demand**
 - Linked to a **real workplace**
 - Carefully **targeted**

Steps to selecting the right ALMP

1. Identify the **objective of the intervention** (labour market characteristics, target population)
2. On this basis **select** the appropriate intervention, drawing on evidence and taking into consideration constraints
3. **Evaluate** the programme to improve impact and effectiveness

ALMPs are not a panacea ...

- Be realistic about what ALMPs can achieve – make sure **programmes match objective**
- Ensure policies are adequately **funded and resourced**
- **Monitor and evaluate** to improve effectiveness of ALMPs
- Consider **broader package of policies** to address structural problems and to respond to crises

THANK YOU!