Active Labor Market Programs and Public Employment Services

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Active labor market programs

- Training
- Counselling and intermediation
- Wage subsidies
- Entrepreneurship
- Public works
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

**Demand for work**
- Economic cycle
- Conflict and violence
- Constraints to business and job creation

**Supply of work**
- Inadequate skills
- Household income
- Incentives and social and cognitive biases

**Employment and labor productivity**
- Lack of information about returns on education and jobs; job search costs, etc.
- Employers lack information about workers

**Intermediation and Information**

Source: adapted from Solutions for Youth Employment (World Bank, 2015)
Supply side factors, more in detail

Employability barriers

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

Lack of Information or Incentives

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

Participation constraints

- 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

Source: Author, based on Eurostat
A variety of active labor market interventions

- Programs stimulating \textbf{DEMAND} for work
- Programs strengthening \textbf{SUPPLY} of work
- Programs improving \textbf{INTERMEDIATION} and \textbf{INFORMATION}

\textbf{COMPREHENSIVE} programs

Addressing specific constraints

Broader approach
A policy response framework

<table>
<thead>
<tr>
<th>A combination of demand, supply and intermediation programs</th>
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- **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**
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 our 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.

*Source: Brown and Koettl 2015.*
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

Remedial and mitigating policy instruments CAN NOT SOLVE SYSTEMIC ISSUES
A healthy dose of skepticism is needed

Impact on Employment Outcomes Across Main Intervention Categories

Source: Kluve et al 2018
A healthy dose of skepticism is needed

Impact on Earnings Outcomes Across Main Intervention Categories

Source: Kluve et al 2018
Cost-benefit considerations change depending on time horizon of interventions

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...

- Programs stimulating **DEMAND** for work
- Programs strengthening **SUPPLY** of work
- Programs improving **INTERMEDIATION** and **INFORMATION**

**COMPREHENSIVE** programs

- Addressing specific constraints
- Broader approach
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 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)
  - 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

- 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)

Source: Evaluating the impact of job training programmes in Latin America (Ibarran & Shady 2009)
Kenya: Youth Empowerment Project

- 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

Source: The Impact of Private Sector Internship and Training on Urban Youth in Kenya (Honorati 2015)
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

Jobseeker Registration

Assessment and profiling

Case management

Cash benefits administration

Intermediation / job matching

Vacancy Collection

Jobseekers Services

Employers services

Active Labor market programs

On the job training programs

Special services: disability, health, addictions, social work, etc
Stylized example of activation process in employment services

- Registration
- Work-Ability determination
- Profiling
- Intermediation
- Job Search Assistance
- Other ALMPs
- Training & Education
- Benefit Administration
- Case Management
Delivery models for PES

- **Public (e.g. Germany, Poland)**
- **Public-Private Partnerships**
  - Cooperation model (e.g. New Zealand): Public and private providers share information on vacancies
  - Complementarity model (e.g. UK): Outsource SOME employment services for the hard to place
  - Competition model (e.g. Australia): Fully private regulated service providers

*SOURCE: Solano 2016*
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
2. Low-educated mostly inactive women
3. Long-term unemployed active jobseekers
4. Part-time workers and non-searchers
5. Secondary-educated young jobseekers
6. Unemployment benefit recipients
7. Low-educated inactive young women
8. First time jobseeker university graduates

Profiling matters for better resource allocation and timing

- **Far**
  - Missed opportunities

- **Near**
  - Best chance of reemployment

- **Low Intensity of Support**
  - Self-Service

- **High Intensity of Support**
  - Training
  - Wage Subsidy + intense counselling

- **Improved chance of reemployment**

- **Little chance of reemployment**

- **Wasted resources**
Use of profiling in employment services

Distance from labor market

HIGH

LOW

Reducing Information asymmetries

Self-directed

“activated” SA beneficiary

Unemployment Insurance recipient

Registration

Caseworker assessment

HIGH

LOW

Level of prioritization by caseworker

High risk group

Middle risk group

Low risk group

Personalized Protocol of support

Personnel intensive ALMPs (e.g. wage subsidies)

Vocational training

Self-service and job matching

Level of prioritization by caseworker

LOW

HIGH

1

2

3
How in practice: depends on existing strengths to build on

Degree of caseworker discretion

Caseworker-based profiling
Rules-based profiling

Complexity of data flow and processing

Data-assisted profiling
Data-only profiling
Caseworker-based profiling (Denmark)

The Dialogue Guide

Labor market matching model
Caseworker-based profiling (Denmark)

Is the citizen able to take on a job within three months?

Yes

Group 1: Ready to take on a job
- Unemployed
- Waiting for a flex-job
- Has reported sick with a straightforward case, e.g. a fractured leg

No

Is the citizen able to take part in active employment measures?

Yes

Group 2: Ready for active employment measures
- Active user and alcohol abuser
- Mentally ill, difficult to treat medically and has periods of substance abuse

No

Group 3: Temporarily on passive support
- Has reported sick with a risk case, i.e. unclear diagnosis
- Recommended for disability pension
- Has severe psychological illness and has perhaps been admitted to hospital
- Has reported sick with serious and long-term illness

Labor market matching model (new)
Sweden: statistical profiling for prioritization of active labor market programs

Registration and initial interview → Statistical profiling model → Segmentation based on risk groups → Final caseworker decision

GROUP 1: Very good employment prospects
GROUP 2: Good employment prospects
GROUP 3: Weak employment prospects
GROUP 4: At high risk of LTU; early ALMP measures needed

Caseworker likely to override regular procedures and provide early ALMP interventions
Probability of not finding a job, sorted according to the statistical risk profiling group

Source: F. Dahlen (2015), Swedish PES
Ireland: statistical profiling for case management intensity

**Statistical Profiling at registration of benefit claim**

### Pathways to Work

**Illustrative Engagement Process**

<table>
<thead>
<tr>
<th>Stage/Profile</th>
<th>Access/1st contact</th>
<th>&lt;3mths/Low risk of Long Term UE</th>
<th>&gt;3mths/Medium risk of Long Term UE</th>
<th>&gt;12mths/High risk of Long Term UE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registration: Employment and income services.</td>
<td>Directed self help</td>
<td>Group sessions</td>
<td>Intensive 1:2:1 support</td>
<td></td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diagnose/profile</td>
<td>Job search guidance</td>
<td>Guidance on options/training</td>
<td>Work placement/experience</td>
<td></td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>Referral to Personal Development</td>
<td>Immediate Needs</td>
<td></td>
<td></td>
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</tbody>
</table>
Austrália: statistical profiling to define treatment streams...

If Multiple or Complex Barriers are identified in the JSCI, further assessment through an Employment Services Assessment (ESAt) may be required.

- Stream 1
- Stream 2
- Stream 3
- Stream 1 - 3
- Stream 4
- Employment Support Service
- Disability Management Service

Job Seeker Classification Instrument (JSCI)

Employment Services Assessment (ESAt)

Job Services Australia

Disability Employment Services
... And to determine reimbursement to private providers

![Diagram showing the flow from Centrelink Registration to Job Seeker Classification Instrument/Job Capacity Assessment to Provider]

### Employment Pathway Plan

<table>
<thead>
<tr>
<th></th>
<th>Work Ready</th>
<th>Disadvantaged Job Seekers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stream 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44% of new job seekers*</td>
<td>27% of new job seekers*</td>
<td>18% of new job seekers*</td>
</tr>
<tr>
<td>$11 in Employment Pathway Fund</td>
<td>$550 in the Employment Pathway Fund</td>
<td>$1100 in the Employment Pathway Fund</td>
</tr>
<tr>
<td>$385–$440 in Job Placement fees</td>
<td>$385–$2800 in Outcome and Job Placement fees</td>
<td>$385–$6600 in Outcome and Job Placement fees</td>
</tr>
<tr>
<td>Up to $781 in service fees</td>
<td>Up to $85 in service fees</td>
<td>Up to $1120 in service fees</td>
</tr>
</tbody>
</table>

**Work Experience** including Work for the Dole and Green Corps

- $500 in the Employment Pathway Fund
- Up to $722 in service fees (includes $330 one-off work experience service fee plus up to $392 in service fees for the year)
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...

<table>
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<th>Target group</th>
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<tbody>
<tr>
<td>Profile / constraints</td>
<td></td>
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<tr>
<td>Intervention(s) proposed</td>
<td></td>
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<tr>
<td>Institution involved</td>
<td></td>
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<tr>
<td>Delivery and coordination arrangements</td>
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<tr>
<td>Key outputs and outcomes</td>
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