



# ASSESSMENT OF THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES IN CRISIS AND POST CRISIS SITUATIONS

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## Introduction

This is a summary of a report that offers lessons on how Active Labour Market Policies (ALMPs) can be used to combat unemployment and improve human capital development during the pandemic-induced crisis and in light of trends such as climate change and digitalisation. A crisis can help set the stage for innovation and redefinitions of policy objectives. The present period presents opportunities to experiment with a broad range of ALMPs and to accelerate their adoption or consolidate their implementation.

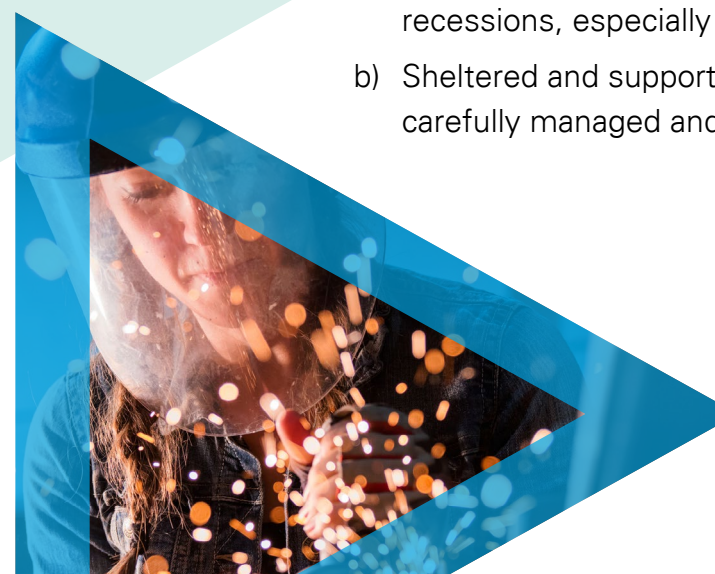
The report analyses the effectiveness of ALMPs, with particular focus on policy responses implemented in crisis and post-crisis situations, taking as reference the last major economic and social crisis (2008–10) and other crises that impacted the EU Neighbourhood countries. The paper reviews the most promising ALMPs to address economic challenges met by EU Member States and ETF partner countries in response to the pandemic-induced crisis.

It is part of a wider study commissioned by the ETF and led by Fondazione Giacomo Brodolini on ALMPs, labour market transitions, and skills development in ETF partner countries during the crisis. The report was written in March 2021 by Łukasz Sienkiewicz, with the support of Jack Harmsworth.

## Key findings

**An extensive literature review and examination of policies and their implementation revealed 11 key findings:**

1. Institutions and agencies around the world define ALMPs differently, thereby making comparisons difficult and complicated.
2. Employment may not always be the sole outcome of ALMPs. While generally less quantifiable, parallel outcomes such as improvements in human capital and quicker access to the labour market are also desirable.
3. Measurement of the net impact of ALMPs must include possible negative effects, requiring the use of rigorous counterfactual impact evaluations.
4. The analysis should encompass factors such as time (e.g., short-term, medium and long-term impact of ALMPs, particularly on the unemployed), both micro- and macro-level analysis, and the interdependence of policy and implementation.
5. Context is important. Among the elements to consider are: the economic cycle, a country's income level, and the strength of its institutions. These factors can be especially important in transition and developing countries.
6. Looking at what works historically, for whom (target group) and why (context), it is apparent that training policies have some of the greatest long-term impacts. Especially when combined with counselling, they prove to be the most effective of the ALMPs at increasing employment in low- and middle-income countries.
  - a) Employment incentives work best when they are targeted, but remain prone to displacement and deadweight. They can provide counter-cyclical stability during recessions, especially in developing countries when accompanied by training.
  - b) Sheltered and supported employment measures work best when they are carefully managed and when targeted on the inclusion of persons with disabilities.





- c) Direct job creation, often dismissed as ineffective, can be very useful during a crisis, both for income protection and job retention. It is most effective in low- and middle-income countries that lack the institutional structures to run other programmes.
- d) Incentives for start-ups prove most effective during economic upturns, but can deliver social and training benefits, especially to women in low- and middle-income countries.
- e) Job search assistance works best within a strong institutional framework and with a focus on providing help for job seekers rather than sanctions.
7. During past economic crises, there has been an uptick in ALMPs almost everywhere. The phenomenon appears strongest in higher income countries but persists elsewhere.
8. ALMPs funded through the European Social Fund (ESF) work best when customised for labour market demand and in cooperation with partners. Other important factors include management capacity and proper targeting. For those furthest away from the labour market, ESF programmes are most effective when combined with longer-term support for participants.
9. During the current pandemic, policymakers have deployed ALMPs similar to those implemented during the 2008 crisis, albeit more forcefully in many countries. Income protection remains the most common tool, but training and reskilling are gaining strength, especially in lower- and middle-income countries.
10. The EU has provided substantial support for employment policy development in the EU neighbourhood over the last two decades. This is important, as are efforts from ETF partner countries to improve their performance and confront challenges. The 2008-2010 crisis can provide useful lessons in this regard.
11. ETF partner countries need to improve the design and delivery of ALMPs to confront the current crisis. Public Employment Services (PES) need to improve their ability to deliver comprehensive services. Their help is needed to develop institutional capacity. ETF partner countries need to ramp up monitoring and evaluations. These need to be more regular and dynamic, adjusting methodologies to capture social impact (i.e, the indirect effects of ALMPs)..



## Definitions

### Active Labour Market Policies (ALMPs)

ALMPs are social expenditures that aim to improve people's employment prospects and/or their ability to earn more money. They are considered to be crucial elements of successful activation policies which help the unemployed with job searches and are believed to increase employment opportunities.

The main tools include public employment services and administration, labour market training, special programmes for youth in transition from school to work, and programmes to provide or promote employment. and programmes to provide or promote employment.

The report adopted in large part the criteria used in the European Union to classify ALMPs, adding "job search assistance," to come up with six categories:

- Training
- Employment Incentives
- Sheltered and supported employment
- Direct Job Creation
- Start-up incentives
- Job search assistance



## Target Groups

Target groups are categories of people who have trouble in the labour market. Labour market policies designed to address their needs are distinguished from broader social protection and fiscal policies that may also promote employment. The European Commission identifies three main target groups:

- **Unemployed – persons without work but available for and actively seeking work.**
- **Employed at risk – persons currently in work but at risk of involuntary job loss due to economic circumstances, restructuring, or something similar.**
- **inactive – persons currently not part of the labour force who would like to work but are somehow disadvantaged.**

In practice, most ALMPs target the unemployed. In parallel, many policies focus on specific groups such as youth, women, the long-term unemployed and the low-skilled unemployed. They may also focus on groups such as people with special needs, people with complex problems, young people not in employment, education or training (NEETs), and migrants.

## Measurement of the effectiveness of ALMPs

There appears to be consensus among researchers that ALMPs should primarily aim to improve the employment prospects of participants. However, the literature review showed that there is an assumption that ALMPs will also have multiple outcomes related to employment and earnings. They are expected to have spill-over effects in society at-large and “soft” outcomes, the latter defined as less tangible and harder to measure. Each category can be broken down further, thereby making the measurement of “ALMP effectiveness” quite complex.



## ASSUMED OUTCOMES OF ALMPS AND THEIR MEASUREMENT

Perspective	Key outcomes	Specific outcomes	Metric		
<b>Employment outcomes</b>	Increasing employment probability of individuals	Employment as an effect of the programme / intervention	Short-term employment effect	Employment rate after intervention within 12 months	
			Medium-term employment effect	Employment rate after intervention within 12-24 months	
			Long-term employment effect	Employment rate after intervention after 24 months or more	
	Other employment outcomes	Employability increases as an effect of the programme / intervention	Job quality	Increasing individual's capacity to find employment (e.g., by increasing on-demand skills)	Micro-level (individual) assessment based on PES administrative data Surveys
				Decreasing individual's distance to the labour market	
				Job content Skills/qualifications requirements	Low/medium/high skills requirements Individual assessments
		Job duration	Share of full time & open-end contract vs Fixed-term contract/other contractual forms (on-call, 0hrs)	Share of beneficiaries in full time and permanent job after 6/12/24 months	
		Individual productivity	Increase of outputs / work productivity	Company-level data Aggregate data at national economy level	
<b>Earnings/welfare related outcomes</b>	Combating poverty	Decreasing poverty rate		Administrative data	
	Level/rate of unemployment	Decreasing aggregate unemployment Decreasing rate/share of LTU in total unemployment			
	Economy informality	Decreasing level of informality of economy			
<b>Wider societal effects/spill-over</b>	Crime rate	Reduction in crime rate		Administrative data	
	Healthcare	Reduction in healthcare costs			
	Schooling / education	Reduction of school drop-out rate			
<b>Soft outcomes</b>	Well-being of beneficiaries	Increase of subjective well-being		Micro-level (individual) assessment based on PES administrative data Surveys	
	Self-assessment of career / employment prospects	Increase of career confidence			
	Entrepreneurship	Increase of positive attitude towards self-employment			

Source: Authors (based on the literature review)





## Effectiveness of ALMPs in different places and contexts

Based on the literature review, the report outlined the effectiveness of the key ALMPs under analysis.

### Training

#### Key Findings:

- Training is most effective when focused on specific groups of people and sectors where there are skills gaps.
- The results tend to become more apparent in the long-term.
- Assigning counsellors to trainees helps improve employment prospects.
- In low- and middle-income countries, training works best when tied to counselling.

Training aims to improve the employability of people in target groups by building human capital. Programmes are usually funded publicly, although the private sector sometimes plays a role in delivery. It has a supply side focus, aiming to turn out qualified workers to meet envisioned demand in the labour market - theoretically focusing on areas where skills gaps are expected. Training can be carried out in a school or training facility, in a workplace, or both.

In efforts to tackle unemployment, training is the most common ALMP worldwide. However, the literature is split about its effectiveness. A country's level of economic development emerges as a key factor. The best results appeared for women-centred programmes in low-income countries. Programmes in developing countries more frequently target the most disadvantaged. Assigning counsellors to trainees for competence and skills assessments can help ensure effective planning.

### Employment Incentives

#### Key findings:

- They tend to be expensive.
- Employee suitability is necessary for effectiveness.
- They work best when focused on specific target groups.
- In low- and middle-income countries, they are most effective when tied to training.

Employment incentives consist of subsidies, usually funded by the state but sometimes by non-government organisations, designed to encourage employers to recruit unemployed workers. Job rotation and sharing come under this category. By lowering the cost of labour, the incentives aim to fuel demand. Participants often learn new skills via these programmes, thereby increasing human capital overall. Employment subsidies are most common in developed countries due to their high costs.

### Sheltered and Supported Employment

#### Key findings:

- This is the least common ALMP.
- It requires strict programme management.
- It works best for the inclusion of persons with disabilities in workplaces.

Sheltered and supported employment policies target unemployed persons facing obstacles to entrance in the labour market. This approach is often used for persons with disabilities. The rationale is that workplaces should be more inclusive. Equity is a key driver.



## Direct Job Creation

### Key findings:

- During a crisis, it helps support low-income individuals and keep them close to the labour market.
- It is particularly effective in low- and middle-income countries with weaker institutions.
- It should concentrate on socially beneficial outcomes.

Direct job creation, often referred to as “public works,” aim to boost employment by hiring jobless individuals. They usually come with time-limits and focus on community needs, often local infrastructure. The jobs tend to be in the public and non-profit sectors. They are typically used in periods of high unemployment, with the state being viewed as the employer of last resort.

Direct job creation is most common in low-income countries, though limited resources restrain coverage. Such schemes are rarer in developed countries. If they exist, they tend to focus on the most marginalised. There is consensus in the literature that public works are ineffective in combating long-term unemployment, but that they can play a vital role during downturns.

## Incentives for start-ups

### Key findings:

- In low- and middle-income countries, they are particularly effective when combined with training, mentoring, or coaching.
- Despite widespread success everywhere, they rank among the least common ALMPs.
- They are especially successful among women in low-income countries.

Incentives for start-ups aim to encourage the jobless to start businesses. Supporting entrepreneurs to create their own jobs, these schemes also seek to boost the demand for labour as the budding firms begin to hire. The main tools are loans, subsidies and mentoring to help people draw up business plans and put them into practice. This approach works well for people with considerable job experience and who are open to new careers and/or those who have been laid off.



## Job Search Assistance

### Key findings:

- They are most common in high income countries.
- They require good institutions.
- Sanctions and job search support must be well balanced.
- Young people particularly benefit from job search support.







Job search assistance requires unemployed people to look for work, often in return for welfare support. They usually require a specific time commitment from beneficiaries. A PES official monitors participation and imposes sanctions for non-compliance. In some instances, the PES official will provide guidance for job seekers. The goal is to boost labour supply to meet demand.

Job search assistance works best when the “carrot and stick” elements are well balanced. There is a consensus that these programmes can deliver results quickly and that they should be implemented in lower income countries. However, there are concerns about the lack of sufficient incentives in poorer countries due to low unemployment benefits.





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