

Assessment of the effectiveness of active labour market policies in crisis and post crisis situations

(ETF draft report, forthcoming 2021)

Summary

The COVID-19 global pandemic presents an unprecedented challenge to the world's labour markets. Unemployment rates are rising near-universally across the world, just ten years after the 2008 financial crisis hit. It is crises such as these, and the active labour market responses to them, that are the subject of this report. It is intended as a resource for ETF partner countries to utilise in combatting unemployment from the pandemic, but also to actively rethink human capital in a labour market increasingly defined by the climate crisis and digitalisation.

Crises offer unique opportunities for innovation and a reset of social objectives. These grand aims are applicable to the present opportunity to experiment with, and implement at scale, different Active Labour Market Policies (ALMPs). This process is best supported by learning from past crises in which ALMPs have played a crucial role. More generally, ALMPs are an increasingly common feature in national governments' toolkits to tackle unemployment, driven by structural changes in the labour market.

The overall aim of the report is to assess the effectiveness of ALMPs in crisis and post-crisis situations. To achieve this, the report focuses on providing an overview and reflection on measures used by national governments in EU and ETF partner countries in crisis contexts, taking as reference the last major global economic and social crisis (2008-2010). As the situation in EU countries and ETF Partner Countries is significantly different (and varies also within these groups), the approach to analysing ALMPs effectiveness includes a critical review of available literature, studies and meta-analyses, research reports and other evidence that supports notions of policy effectiveness and its determinants. A multi-stage process of screening sources, extracting key information, clustering and analysis has been performed. This critical review of policy responses and their effectiveness provided grounds to formulate recommendations for shaping ALMPs design and delivery in the current crisis caused by the COVID-19 pandemic.

The report offers eleven preliminary findings and conclusions, as follows:

1. **Definitional differences of Active Labour Market Policies** exist between key international institutions, systematic reviews and meta-analytic studies, rendering comparative analyses a challenge and blanket inferences on effectiveness impossible.
2. **The report questions employment as the sole effective outcome of ALMPs** with a range of expected and actual outcomes the result of such policies. Whilst other outcomes such as an increase in human capital and shortening distance to the labour market may be less quantifiable than employment, they can still be a useful outcome.
3. **The analysis of ALMPs' net effects ought to take into account negative effects.** This requires the use of experimental and quasi-experimental studies including qualitative reviews. There is a particular lack of counterfactual impact evaluations in the developing country context. Fourthly, the literature review of this report allowed for the formulation of points to consider when designing the impact assessment of ALMPs. This includes time constraints, micro and macro levels of analysis and inclusion of interdependencies between policies and their implementation.
4. Another finding from the literature review highlights the **need to include time constraints** (differences in impact between short- medium- and long-term for different measures), **need to combine micro- and macro level of analysis** (to include labour market effects and “soft” effects) **and inclusion of interdependencies between policies and their implementation.**
5. **The report stresses that different contextual factors may influence ALMP effectiveness.** These include the phase of the economic cycle in which they are implemented, the income level of the country and its institutional capacity. These are found to be especially significant in the developing country context and the templates in Chapter 2 and Annex 2 help guide the suitability of ALMPs based on such parameters.
6. As regards the effectiveness of each ALMP based upon what works (as historically evidenced), for whom (target group) and why (context), **it is revealed that training policies have one of the greatest long-term impacts** and are most effective at increasing employment alongside counselling in low- and middle-income country contexts. Employment incentives' effectiveness is found to be highest if focused on targeted groups, but they remain particularly prone to the negative effects of displacement and deadweight. They can be an effective counter-cyclical stabiliser in periods of recession and are most effective in the developing country context when delivered with training. Sheltered and supported employment measures are most effective with strict programme management and work best for the inclusion of persons with disabilities into the workplace. **Direct job creation, which is often dismissed as ineffective, is found to be very effective in crisis contexts** both as an income protection policy and to retain workers in the labour market. It is an ALMP most effective in low- and middle-income countries with low institutional coherence for other programmes. Start-up incentives' effectiveness is maximised during periods of economic growth when the business environment is more positive, but this policy can also be effective for delivering social and training benefits to participants, above all women in low- and middle-income countries. Job search assistance is most effective in countries with a high level of institutional coherence and is best implemented with a focus on engaging search assistance rather than overly rigid sanctions.
7. **Past economic crises have boosted ALMP spending across countries.** This is most evident in higher income countries with growth also seen in lower- and middle-income countries. Finding eight explains that ALMPs funded through the ESF are stronger when interventions are customised to labour market demand, are delivered by integrated and partnership-based

approaches, combined with sufficient management capacity, and targeted at individuals at certain (medium) distance from the labour market. For those furthest away from the labour market, ESF support is most effective when combined in the longer term in combination with other measures that support the participants.

8. In what regards the ALMP usage during the current pandemic, the **ALMPs used during the 2008 crisis have been up scaled in many countries**. Whilst income protection remains the most common measure so far, there are several training and reskilling measures beginning to emerge as time goes on, particularly in lower- and middle-income countries.
9. **The EU has significantly supported employment policy development in the EU Neighbourhood over the last two decades**. This contribution must be acknowledged as well as ETF Partner Countries governments' efforts to increase their respective country's policy effectiveness, which affects the ability to face the challenges of any crisis situation. Past crisis (2008-2010) experiences in those countries, as well as the EU and selected developing countries, also provide grounds to select the right policy response.
10. **ETF Partner Countries need to strengthen their efforts to adjust ALMP design and delivery capacity to effectively combat negative effects of the current crisis**. The most pressing policy challenges include strengthening PES institutional capacity for effective ALMP delivery, in terms of comprehensiveness of services, supporting and developing implementation structures, and increasing resource capacity where possible. ETF Partner Countries should also develop an evidence-base on ALMP effectiveness by strengthening efforts to consolidate monitoring and evaluation, pursue net impact assessments more regularly and adjusting methodologies to capture social impact (indirect effects of ALMPs). These efforts should also serve the development of measures and policy responses for the post-pandemic era suited to PES capacity and labour market informality using the findings, based on the assessment of ALMP effectiveness and the feasibility of their delivery.

*

The report is based on a broad-ranging literature review of evaluations and meta-analyses of ALMPs around the globe. The literature review has a particular focus on the needs and interests of the key target audience for the study – i.e., policy makers and strategic managers in the field of employment policy.

The main sources of information have been extracted from search engines such as Google Scholar and full-text databases of peer-reviewed journals, with publications from the World Bank, ILO, OECD, Inter-American Development Bank, African Development Bank, European Bank for Reconstruction and Development, and European Investment Bank all consulted.

Major sources of information regarding Covid-19 are taken from Eurostat, International Labour Organisation, International Monetary Fund, and European Employment Policy Observatory. In addition to searches of journals and databases, "Grey Literature" in the field of ALMPs was studied to identify documents from sources including websites of professional groupings and reports of conferences. This identifies information from government, academic, NGOs, and business organisations of particular relevance to the report.

The information collected through the literature review was then screened and categorised, with relevant information extracted. A qualitative review of the relevant meta-analyses, impact evaluations and country reports were then created. Particular focus is given to ALMPs introduced in crisis and recovery periods, looking at how these crises impact employment services and the way ALMPs are used. The question of skills development in response to crises and green recovery is given a central role.

The report tackles two main challenges. The first refers to the fact that most research in this area focuses on OECD countries, which differ from the majority of ETF partner countries in many ways – socio-economic context, public employment services capacity, level of informality in the economy, etc. One major challenge has therefore been to focus on evaluations of measures which can actually be applied in partner countries, taking into consideration the economic challenges met by ETF partner countries in the recovery period, and to find evaluations of ALMPs which have been implemented in similar countries in the developing world.

A second challenge is related to the definition of effectiveness, in particular how it should be measured and on what time scale. There is a tendency in ALMP evaluations to focus only on measurable outcomes, whereas some programmes targeted at the most disadvantaged may aim simply to bring people closer to the labour market, with employment outcomes a fairly distant end goal. This is particularly relevant regarding measures addressing informality in countries such as ETF partners: if the aim is to bring informal workers into the formal economy, the measure can be highly successful despite there being no visible improvement in terms of the employment rate. This work package therefore includes a critical review of the idea of effectiveness, which can be understood differently in various contexts.

Preliminary key messages and lessons learned

1. **Definitional differences of Active Labour Market Policies** exist between key international institutions and major systematic reviews and meta-analytical studies. In the latter case aggregations of ALMPs are often used, mostly due to lack of granular data and approach taken by researchers. This makes comparative analyses challenging and limits the possibility of drawing conclusions in relation to separate measure or target group in question.
2. Employment of the beneficiary is usually assumed as a key outcome of ALMP, but the literature review revealed a range of **expected and actual outcomes of activation policies**. While the major studies focus mostly on employment and earning outcomes, due to possibility of quantitative analysis of these factors, other outcomes (including wider societal effects, developing human capital and skills, increasing the employability of beneficiaries, or shortening the distance to the labour market) might be crucial to assessing effectiveness of policies in developing countries.
3. **Analysis of net effects of ALMP** (programme/policy impact) requires taking into account negative effects (most notably deadweight, substitution and displacement effects), through finding evidence on interventions actually causing results (counterfactual). This calls for the use of methodological designs beyond monitoring, including experimental and quasi-experimental studies, as well as qualitative reviews. Such an approach is challenging in design and delivery, and although the number of counterfactual impact evaluations is growing in recent years, our review revealed a limited availability of these in developing countries (including ETF Partner Countries).
4. The literature review allowed to formulate points to consider in **designing the impact assessment of ALMPs**, including time constraints (differences in impact between short-medium- and long-term for different measures), need to combine micro- and macro level of analysis (to include labour market effects and “soft” effects) and inclusion of interdependencies between policies and their implementation (with a comprehensive approach to measures supporting each other, as well as institutional cooperation).
5. **Different contextual factors** can influence the effectiveness of ALMPs. These include – especially in the developing countries context – the phase of the economic cycle in which they are

implemented (recession, recovery and prosperity), economic development phase of the country in scrutiny (as represented by economic growth, income level and/or level of informality of economy) and institutional capacity (mostly in relation to Public Employment Services, as responsible implementation bodies). Use and effectiveness of ALMPs – as well as transferability of practices from more developed countries – can be limited in in ETF Partner Countries due to these contextual factors, most notably the PES institutional capacity.

6. **Analysis of each ALMP** (training; employment incentives; sheltered and supported employment; direct job creation; start-up incentives and job search assistance) based on a qualitative reading of the literature on its effectiveness performed on the dimensions of what works (as historically evidenced), for whom (target group,) and why (context) revealed the following.

Training measures' employment effectiveness is dependent on targeting (group/sector); impact is visible in the long term; increases with the use of other supportive measures (like counselling); and is most effective in low- and middle-income countries for specific groups (e.g., women).

Employment incentives' effectiveness is dependent on targeting to specific groups; is significantly prone to negative effects (displacement, deadweight); if used as a wage subsidy, can play a role of counter-cyclical market stabiliser in protecting jobs and income during recessions; is most effective in low- and middle-income countries when tied to training.

Sheltered and supported employment measures' effectiveness is dependent on strict programme management and works best for inclusion of persons with disabilities into workplaces (e.g., through job carving approach) or supporting autonomous social functioning (bringing a person closer to the labour market).

Direct job creation's effectiveness is dependent on programme management (e.g., correct setting of wage level of public works to avoid displacement); is most effective in crisis context as an income protection policy, allowing to keep beneficiaries close to the labour market and retain the level of human capital; particularly effective in low- and middle-income countries with lower institutional capacity.

Start-up incentives' effectiveness is dependent on the economic context (might be lower in recession due to unfavourable conditions of running a business); particularly effective in low- and middle-income countries when partnered with training (especially for the low-skilled) and for women in low-income countries.

Job search assistance effectiveness is dependent on the existence of high institutional coherence (thus most widespread and effective in high-income countries) and determined by a right balance of job search support and sanctioning, particularly effective for young people.

7. A review of past crisis measures (crisis of 2008 and beyond) revealed that **the crisis generally increased the use of ALMPs in high income countries, but middle- and low-income countries also increased spending and scope of their activation policies**. In high income countries the most important measures included employment incentives and training. Some ALMPs have begun to tackle the challenge of climate change in both high- and middle-income countries (greening of jobs). Also, ETF Partner Countries actively used ALMPs in response to the crisis, but the scale of implementation was hugely varied with regional differences and institutional capacity determining delivery.
8. **Effectiveness of ALMPs funded through the ESF** – as evidenced by micro and macro level counterfactual analysis – is stronger when interventions are customised to labour market demand, are delivered by integrated and partnership-based approaches, combined with sufficient management capacity, and targeted at individuals at certain (medium) distance from the labour market. For those furthest away from the labour market, ESF support is most effective when

combined in the longer term in combination with other measures that support the participants (including health, housing, etc.).

9. During the current crisis caused by Covid-19 pandemic, activation measures trialled in the 2008 recession have been up-scaled in many countries. The most important role is played by income protection measures – most notably large-scale subsidised employment has been used as a near universal response. Some EU countries developed new and innovative measures in relation to re-training / re-skilling towards current and future labour market needs. In ETF Partner Countries, **the majority of measures focus on income protection, with evidence on more innovative practices (and their effectiveness) being limited.**
10. **EU has significantly supported employment policy development** – including ALMPs design and provision and PES capacity building – in the EU Neighbourhood over the last two decades. This contribution has to be acknowledged as well as ETF Partner Countries governments' efforts to increase their respective country's policy effectiveness, which affects their ability to face the challenges of the crisis situation. Past crisis (2008-2010) experiences of those countries, as well as the EU and selected developing countries, also provide grounds to select the right policy response. However, currently the crisis caused by COVID-19 pandemic is of unprecedented scale, negatively affecting the worldwide economy and causing unexpected turbulence and changes in the labour market.
11. Therefore, the **ETF Partner Countries need to strengthen their efforts to adjust ALMPs design and delivery capacity to effectively combat negative effects of the current crisis.** The most pressing policy challenges include strengthening PES institutional capacity for effective ALMPs delivery, in terms of comprehensiveness of services (especially in relation to wide range of ALMPs), supporting and developing implementation structures, and increasing resource capacity. ETF Partner Countries could also develop evidence-base on ALMPs effectiveness (what works, for whom and why) by strengthening efforts to consolidate monitoring and evaluation, pursue more regularly net impact assessments and adjusting methodologies to capture social impact (indirect effects of ALMPs). These efforts should also serve the development of measures and policy responses for the post-pandemic period.