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Evidence from global practices of active labour market policies for young people's transition to work[1]

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1 Introduction

Since the 2007-2009 global financial crisis and due to rising unemployment, demographic pressures, and concerns regarding automation, policymakers worldwide have become increasingly concerned with youth employment. In many countries, youth employment outcomes have underwhelmed despite increasing levels of educational attainment. Meanwhile, precariousness and long working hours are serious problems faced by youths looking for decent work. According to the ILO, in 2015, 475 million new jobs would be needed worldwide over the next decade to absorb the 73 million unemployed youths and the 40 million new entrants into the labour market. International organisations have increasingly stressed the importance of providing adequate work opportunities for the youth to guarantee social, political and economic cohesion. UNICEF (2019, 25) notes that the increasing youth population presents "a historic opportunity to invest in human capital by improving access to education, health and protection and enhancing the prospects for inclusive employment".

To address these issues, governments have gradually focused on providing training programmes and employment services to the youth, as well as fiscal incentives to enterprises hiring new entrants into the labour market. The World Bank and its partner governments have spent an estimated USD1 billion per year on skills training programmes between 2002 and 2012 (Blattman and Ralston 2015). New global trends transforming the world of work are translating into the increasing importance of technical and vocational education (CEPAL 2017). In this context, short-duration training programmes have the potential to incorporate students into specific niches of the labour market, and thereby facilitate young people's transition to work (YPTW). The introduction of these policies has the potential to make life-long education and learning a reality, which will be increasingly important to adapt to technological changes in the economy and the fourth industrial revolution (UNICEF 2019, 59; CEPAL 2017, 64).

Despite the increasing importance of ALMPs in improving labour market conditions for youth, their implementation has often faced problems, especially when it comes to successful integration with existing social protection frameworks. Studies reviewing ALMPs have highlighted that these programmes are still largely peripheral to both social protection and social policy programmes, especially so in less-developed countries (Angel-Urdinola and Leon-Solano 2013). Moreover, despite the considerable expansion of ALMPs in the last decade, evidence of their effectiveness has been limited or inconclusive. In light of these concerns from the literature, this policy research brief contributes to the discussion by providing a summary of findings on the impact of ALMPs on youth employment. This brief adopts the definition of ALMPs from Kluve (2010), which divides them into four categories:

a. **Training programmes**—these encompass labour market programmes, such as classroom training, on-the-job training and work experience. The measures can either provide a more general education and basic skills, or more technical and advanced vocational training.

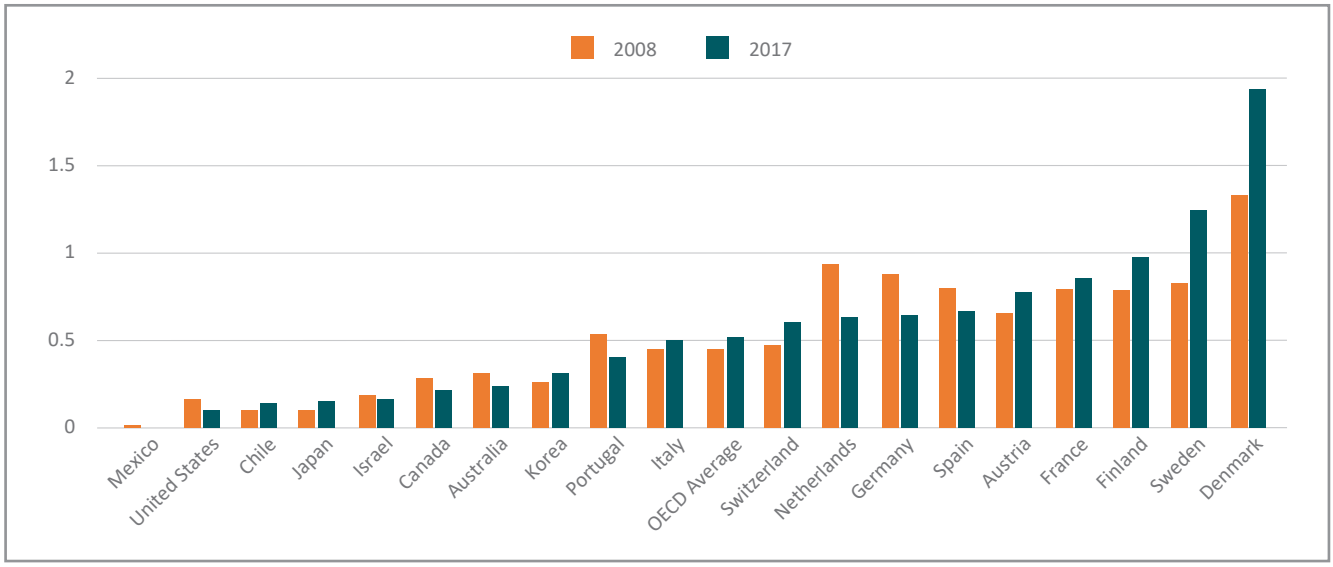
b. **Private sector incentives**—the most common of which are wage subsidies. These programmes are mainly aimed at creating incentives for employers and/or workers to engage in work. Wage subsidies can take the form of a direct wage subsidy to employers, or a financial incentive to workers for a limited period. These programmes frequently target the long-term unemployed and/or disadvantaged youths.

c. **Services and sanctions**—which encompass all measures aimed at job search efficiency. These include job search courses, vocational guidance, job matching services, counselling and monitoring, and sanctions for non-compliance.

d. **Public sector incentives**—consisting mainly of public works programmes (PWPs) or other activities that produce public goods or services. These measures commonly target disadvantaged individuals to keep them in touch with the labour market. It is worth pointing out that that these incentives are sometimes treated separately from other ALMPs (see, for example, McKenzie 2017), since they do not directly promote private sector employment.[2]

FIGURE 1

Public expenditure on ALMPs (as a percentage of GDP) in OECD countries



Source: OECD STAT (accessed on 03/11/19).

ALMPs slightly differ from other categories of narrower definitions of social protection (i.e. social assistance and social insurance), as the main objective of ALMPs is primarily to encourage employment, while the central concerns of social assistance and social insurance are aimed at reducing poverty and vulnerabilities over the life cycle, and against socio-economic shocks. It is worth noting, however, that there can be some overlap among these categories. For example, ALMPs can be included as part of 'cash plus' programmes, which provide cash or in-kind transfers to promote small businesses or self-employment. ALMPs also differ from passive labour market policies (PLMPs)—which include unemployment insurance, unemployment assistance, and programmes for early retirement—as ALMPs are defined as programmes aimed specifically at improving the beneficiaries' prospects of finding gainful employment.

This brief summarises the empirical evidence of ALMPs on YPTW. It focuses on government programmes that either target youths directly, or programmes that can have a significant impact on youth employment and transitions into the labour market. We centre the review on studies examining employment outcomes; however, impacts on earnings or other outcomes of interest are also mentioned. Because there is a broad existing literature covering ALMPs and given the scope of this policy research brief, the focus here is to synthesise the findings from existing reviews and meta-studies on the effects of ALMPs on YPTW.[3]

2 Evidence from developed countries

ALMPs are the most common type of social protection used to improve employability, especially among young people. Figure 1 shows public expenditure on ALMPs in OECD countries, measured as a percentage of GDP, in 2008 and 2017. Across the OECD, average spending in ALMPs has increased from 0.46 to 0.52 per cent of GDP over the 10-year period. Figure 1 also shows a wide range of public expenditure in ALMPs, ranging from almost 0 in Mexico to 1.96 per cent of GDP in Denmark. The data illustrates clear trends across regions: Latin American, East Asian and Anglo-Saxon countries tend to spend relatively less on ALMPs; Southern European countries spend close to the OECD average; Western European countries spend more than the OECD average; and Northern European countries spend the most on ALMPs.

Evidence regarding the impacts on ALMPs in developed countries is largely based on recent meta-studies that analyse and compare the effects of different policies on employment. Card, Kluve and Weber (CKW 2010) conduct a meta-analysis of 97 micro-econometric evaluations of ALMPs conducted between 1995 and 2007. Almost all the study estimates (98.5 per cent) from the paper take place in either economically advanced, or Eastern European countries. In their follow-up paper, CKW (2015) cover over 200 evaluations of ALMPs from around the world, including new evaluations from non-OECD and Latin American countries.

Evidence on **training programmes** generally finds **little impact on employment** in the **short term,** but **positive medium- and long-term gains in employment** (CKW 2010; 2015). This is consistent with the theory, as training improves human capital accumulation, which is more likely to lead to long-term gains in productivity and employment compared to short-term gains. However, impacts on employment are generally modest (Kluve 2010), while there is little evidence on whether these programmes are cost-effective. There is also some indication that training programmes have stronger impacts among women and the long-term unemployed, but weaker among the youth and older workers (CKW 2015).

Search and matching services, and wage subsidies are both found to have **positive impacts on employment in the short term, but not in the long run**. Lack of consistent evidence of long-term effects on wage subsidies is particularly concerning, given that the provision of these programmes tends to be **expensive**. Wage subsidy programmes are also likely to have **significant displacement effects—**i.e. when

gains to programme beneficiaries (employment) come at the expense of (qualified) non-recipients—particularly if programme beneficiaries and non-beneficiaries are competing for the same jobs. Impacts on vulnerable groups are mixed, although different meta-studies do find positive impacts of wage subsidies among disadvantaged groups (Escudero 2018, CKW 2015). Despite a lack of evidence of wage subsidies on long-term employment, these programmes can be useful for **disadvantaged youth to learn on-the-job skills.** In situations where displacement effects might be strong, programmes should be targeted at jobseekers from disadvantaged backgrounds, for equity reasons.

Not only do they show evidence of positive impacts on employment in the short term, **search and matching programmes are relatively inexpensive** to provide and are **best used before other (more expensive) measures are adopted** (Kluve 2014). Search and matching services have also shown evidence of **displacement effects** when services are personalised. In a study exploring the displacement effects of a labour market policy in France, Crépon et al. (2013) find that counselling programmes led to stable jobs for university-educated youths. However, gains were found to be only transitory, and they appear to have come partly at the expense of eligible workers who did not benefit from the programme. Therefore, the programme had very small net benefits. In contexts of limited available jobs, personalised services should also **target low-income and/or disadvantaged jobseekers.**

PWPs—or direct job creation programmes—are the least common type of ALMP found in developed countries. Evidence from the literature finds that they have **no positive impact on employment** (CKW 2010; 2015)**.** In fact, some studies find evidence of **negative** impacts on employment (Heckman et al. 1999), most likely due to employers placing little value on experience gained in PWPs, or due to these programmes having little to no skill-building element.

Moving onto the general impact of ALMPs, CKW (2015, 25) find that these policies are more likely to show **positive impacts during a recession**. Countercyclical job training programmes and private employment subsidies are particularly effective for the longer-term unemployed in a recessionary climate, and therefore can play an important role in preventing labour force exit and loss of productive capacity. It should be noted that meta-studies do not always provide a complete picture of ALMPs and their dynamics. These (meta-)studies tend to focus on the average policy impacts, and do not focus in detail on (i) **programme specificities** and (ii) **impacts on different population groups**. The first issue is discussed in a review of ALMPs in OECD countries (Martin 2014**)**, which notes that **the implementation of ALMPs has varied greatly across member countries**. In countries where the activation principles were ineffectively implemented, outcomes were generally found to be disappointing, as many countries merely pay lip service to activation principles. Likewise, the literature on ALMPs often overlooks how programmes affect groups with different characteristics. For instance, **little is known about whether ALMPs are as effective among individuals from poorer or lower educational backgrounds** compared to more wealthy individuals. Escudero (2018) examines the effectiveness of ALMPs in improving labour outcomes with a focus on low-skilled individual across 31 economically developed countries. She finds that **start-up incentives** and measures **aimed at vulnerable populations are more effective** than other ALMPs in promoting employment. She also finds that **programme management and implementation are very important** in determining the effectiveness of ALMPs, which is consistent with the findings in Martin (2014).

These results provide a brief overview of empirical evaluations of ALMPs in developed countries. However, they do not always provide a complete picture of the different challenges faced by empiricists when trying to determine the total programme impact. One critical issue when assessing the effectiveness of ALMPs—in addition to displacement effects—is **cost-effectiveness**. Few studies include information on costs and/or conduct detailed follow-ups, which **jeopardises the ability to run cost-benefit analyses**. Even in a situation where positive impacts are found, one must critically assess and quantify how the success of a programme (employment) compares to the overall costs, particularly since costs can be significant for most ALMPs. Policymakers should be mindful about the question of cost-effectiveness when designing ALMPs, so that there are clear justifications for their increased spending.

3 Evidence from developing countries

Available data on government expenditure confirms that spending in ALMPs tends to be lower in developing countries, although there are considerable differences across regions. Estimates from 4 middle-income countries in Latin America—Argentina, Colombia, Costa Rica, and Uruguay—find that government expenditure on ALMPs was, on average, 0.35 per cent of GDP (CEPAL 2018, 129). Meanwhile, average expenditure was estimated at 0.1 percent of GDP in 25 Asian countries (ADB 2019, 10-11); and estimates from MENA—based on information from Lebanon, Morocco and Tunisia—find spending on ALMPs at 0.07 per cent of GDP. These figures are considerably lower than the average public expenditure on ALMPs in OECD countries (0.52 per cent).

While experiences from developed countries provide a benchmark for research on ALMPs in developing countries, it is important to highlight some key differences between the challenges faced in these different contexts. First, ALMPs are more likely to take on an **anti-poverty dimension** in addition to an activation one in less developed countries. This is especially true for PWPs and 'cash plus' programmes. Second, **displacement effects of ALMPs are potentially stronger in developing countries**. This is true if ALMPs target jobs that are highly competitive, and in **contexts of high youth unemployment**. Third, ALMPs (such as training programmes and search services) in developing countries are **less likely** to be **integrated into broader social protection frameworks**. However, there is increasing evidence from developing countries that this trend is shifting, as governments are increasingly combining income assistance programmes with activation policies. Finally, due to budget constraints and lack of integration, ALMPs in developing countries **tend to target specific groups** or **individuals,** despite significant differences across programmes and regions. For example, training programmes introduced in Latin America mostly target poorer and more disadvantaged youth (Kluve 2016), while Angel-Urdinola and Leon-Solano (2013) find that training programmes in MENA have mostly targeted more educated

and skilled youth. This heterogeneity among ALMP recipients in developing countries is important and should be considered when assessing impact evaluations.

The review for developing countries separately assessed the impacts of (i) technical and vocational training (TVET), and (ii) entrepreneurial skills training. Evidence on **TVET programmes** finds **positive benefits** in terms of **formal employment, earnings,** and **human capital formation** (Escudero et al. 2018, Tripney and Hombrados 2013), although some studies have questioned the evidence of long-term impacts (Kluve 2016). In their meta-study on developing countries, Escudero et al. (2018) also find that **training programmes that explicitly target poor people are more likely to yield positive results**—which is encouraging. There is also evidence that the length of the programme is more likely to have a significant impact on employment than the combination of interventions when training is shorter (Escudero et al. 2018, Tripney and Hombrados 2013). As with developed countries, however, impacts tend to be **modest**, while training is **rarely cost-effective** (McKenzie 2017). Nonetheless, two recent studies from India (Maitra and Mani 2017) and Nepal (Chakravarty et al. 2019) find evidence that **TVET skills training targeting low-skilled young women can both be very cheap to provide**, and lead to significant increases in earnings and self-employment in their homes. To optimise their effectiveness, TVET programmes should focus on teaching **skills that are valued in the economy**, building **partnerships with the private sector**, and **targeting disadvantaged groups**, especially **women and youth**.

The empirical literature finds that entrepreneurial training has positive impacts on **business skills** and **business creation** (Cho and Honorati 2014, McKenzie and Woodruff, 2014). However, there **is little evidence of impacts on employment** (Cho and Honorati 2014, Grimm and Paffhausen 2015). Interventions that combine financing with entrepreneurial training are more likely to lead to skill acquisition, while there is also some indication that entrepreneurial training is **more likely to show positive impacts among the youth** (Cho and Honorati 2014)**.** Programmes that reduce gender barriers are also likely to lead to an increase in female entrepreneurship. Field et al. (2016) find that women in India who attended business training with a friend were more likely take out a loan, successfully expand their businesses, and increase household earnings and expenditures. They also find stronger impacts among women subject to social norms that restrict female mobility. In their conclusion, they suggest that: "rather than being bad entrepreneurs, women may be constrained in ways that men are not" (p. 148). Therefore**, interventions** that **reduce gender discrimination can significantly improve female entrepreneurship** and **increase earnings**.

As in the case of developed countries, there is little evidence that wage subsidies lead to long-term employment, while **displacement effects** are a strong concern (McKenzie 2017). Nonetheless, wage subsides could be useful in three cases. First, **during large and temporary shocks**, as wage subsidies can have smoothing effects for households during a recession (Bruhn 2016). Second, they can be useful as a form of social protection, by creating **temporary employment** conditions **in economically and politically fragile contexts** (McKenzie et al. 2016). Lastly, they can play a role by providing **on-the-job training** and **work experience**. While the empirical evidence of this is limited, wage subsidies targeting disadvantaged groups, such as **first-time job seekers**, **women in underrepresented professions**, or **workers who have experienced long periods of unemployment** or **inactivity**, could be particularly beneficial.

Impacts of **search and matching services** also tend to find **little evidence of impacts on employment**, unless interventions are linked to a (large) increase in new job opportunities (Jensen 2012). As in wage subsidy programmes, potential **displacement effects** mean that personalised services should be prioritised based on **need** and **vulnerability**. Services that **assess capabilities** can nonetheless be valuable, particularly in contexts where educational systems might not be as effective in signalling skills and ability (McKenzie 2017, 142).

A major development in social protection policy in developing countries over the last 20 years has been the increased importance of PWPs. Evidence from PWPs in developing countries finds that these programmes can have **significant short-term impacts** on **food security** (Berhane et al. 2014), **well-being**, **migration**, and, if implemented at a large enough scale, **non-public wages** (Imbert and Papp 2015). Impacts on **women's employment** have also been found to be **substantial** (Azam 2012). There is **no clear evidence of long-term effects on employment outcomes**, while some studies have found that these programmes might have little effect in **reducing violence or conflict** (Mvukiyehe 2018). **Ultimately, outcomes largely depend on programme design**, and governments should set clear policy goals when designing and implementing PWPs. Key factors identified by Zimmerman (2014) include: (i) **identifying and reaching the target population**; (ii) **setting the right wage rate**; and (iii) establishing government **institutions whose implementation of PWPs is efficient and transparent** (p. 9). If these conditions are met, PWPs are more likely to provide a viable safety net option.

4 Key findings and lessons for policymakers

Key Findings

1. **Despite similar programmes, outcomes from ALMPs can differ between developed and developing countries**. For instance, studies from Latin America and the Caribbean find that ALMPs are more effective during periods of economic growth. Interestingly, the result was found in meta-studies from OECD countries, as the literature finds that ALMPs tend to be more effective during a recession. Although more evidence is needed to confirm this finding, it does suggest that ALMPs might be more effective anti-cyclical tools (i.e. they are more effective in times of recession) in developed economies, but more effective pro-cyclical tools (i.e. during periods of economic boom) in developing countries.

2. **When evaluating the effectiveness of ALMPs, it is important to look at the time dimension of interventions.** On average, training programmes and interventions that promote human capital accumulation are more likely to have positive impacts in the medium- and long-term. Conversely, search and matching services and wage subsidies are more likely to show positive impacts in the short term. Differences in time horizons across outcomes is an important reminder that different types of interventions address different issues with employability. Whichever intervention is best suited will depend on the state of the labour market and the characteristics of job-seekers.

3. **Public works programmes (if well implemented) can play a key role in reducing vulnerabilities and responding to economic shocks, especially in poorer countries.** While evidence from developed countries find that PWPs do not help employment, they have the potential to be important safety and policy tools for reducing poverty, especially in the short- and medium-term and in the context of developing countries. However, their success depends on setting clear goals and providing effective programme design and implementation.

4. **Although studies on ALMPs often find positive impacts on employment, the effects are often modest, and it is unclear if most interventions are cost-effective.** Studies from both developed and developing countries reach similar conclusions. While most studies do not report programme costs, available data from training programmes usually find that administrative costs largely exceed net benefits in terms of employment. Though training programmes might have benefits in addition to improved productivity (such as, for example, keeping unemployed workers attached to the labour force despite long periods of inactivity), the cost-effectiveness of ALMPs should be carefully considered.

5. **ALMPs are less likely to be effective in promoting youth employment in situations where young people are marginalised or face excessive barriers in entering the labour market**. In situations where obstacles to entering the labour market are too high, even an effective ALMP may not be enough to help youth access employment. There is a correlation between high degrees of employment protection legislation and ineffective impacts of ALMPs on youth. High levels of unemployment, especially among the youth, can create additional barriers to accessing the labour market. Greater attention must be given to structural factors causing youth unemployment, as ALMPs alone are most likely an inadequate solution.

Lessons for policymakers

1. **It is important to understand the purposes of different ALMPs and identify potential beneficiaries.** In practice, ALMPs will only be effective if interventions address specific employability issues. For instance, search and matching services are unlikely to lead to work for jobseekers with severe skill deficits. Conversely, training programmes are likely to be inefficient if jobseekers already have skills in demand, and simply need guidance or better information concerning available opportunities. Making sure that the right type of ALMP is diagnosed is important to maximise the efficiency of ALMPs.

2. **Design and sequencing of activation policies can impact employment outcomes.** Growing evidence from OECD countries shows that the most effective programme sequence for unemployed individuals is to start with job-search services with counselling and monitoring, given that these services tend to be less expensive to provide and are more likely to achieve positive effects in the short term, and later move on to training programmes which are more expensive, but yield positive effects in the medium to long term due to acquisition of new skills and human capital. This recommendation is also relevant for developing countries, although policymakers should further assess the dynamics of formal and informal labour markets when devising activation strategies.

3. **The effectiveness of training programmes depends on programme design and the skills taught.** Training programmes that are demand-driven and teach skills that are valued in the labour market are more likely to impact employment outcomes. In addition to the importance of quality of teaching, results from the literature suggest that training programmes that involve—and build partnerships with—private sector actors are more likely to lead to positive outcomes. Quality apprenticeships are another important tool that can provide market-relevant training to young people.

4. **Programmes targeting poor and vulnerable groups can lead to positive impacts.** Although policymakers often deal with trade-offs between efficiency and equity, the empirical literature on ALMPs finds that measures such as training programmes and start-up initiatives can lead to significant impacts on poor and vulnerable individuals. Moreover, basic skills training targeting women from disadvantaged, poor and rural backgrounds in developing countries can have positive impacts on earnings. Finally, in situations where ALMPs have potential displacement effects, it can be argued that vulnerable and disadvantaged individuals should be targeted first and given priority to improve their employment opportunities.

5. **Steps must be taken to integrate ALMPs within broader social protection and social policy frameworks**. This involves in-depth knowledge of how ALMPs interact with other social protection programmes, including social assistance and social insurance schemes, and finding ways to integrate ALMPs within broader social policy frameworks along the life-cycle. Evidence from the literature finds that interventions that combine income support with activation policies are more likely to have successful impacts on employment, especially when targeting individuals that had previously been excluded from formal arrangements.

6. **ALMPs are not a substitute for education policy.** It would be a mistake to think that ALMPs can make up for poorly designed education systems and curricula. The literature on ALMPs emphasises how these programmes can be expensive, which underscores the need to focus on education policy and earlier interventions in the educational system. Moreover, the success of ALMPs largely depends on strong and successful educational systems to be able to focus on adjusting and refining human capital to the labour market. Hence, ALMPs are more likely to be successful in situations where educational systems are strong and better equipped to prepare young people for the world of work.

1. This Policy Research Brief is based on a Research Report (Bird and Silva 2020).

2. For instance, PWPs are classified as a type of social assistance by the World Bank. In this review, we include PWPs and other public sector incentives as a type of ALMP.

3. In the main report (Bird and Silva 2020), we expand our definition to include all forms of social protection affecting youth employment (e.g. conditional and unconditional cash transfers, unemployment insurance, etc.) and focus more on individual programmes at the country level.

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