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STUDIES ON
GROWTH WITH EQUITY



WHAT WORKS

ACTIVE LABOUR MARKET
POLICIES IN LATIN AMERICA
AND THE CARIBBEAN

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FOREWORD

The ILO is committed to ensuring that constituents are provided with evidence-based advice on policies that are effective in improving employment and social outcomes. This was stated in the agenda for research agreed by the Governing Body in November 2014, where the Research Department was entrusted with the mission of contributing to positioning the ILO as a principal source of expertise on key employment and social policy issues, including specifically the assessment of “what works”.

This Synthesis Report is the outcome of a comprehensive multi-year research project undertaken by the Policy Assessment Unit of the ILO Research Department, with the aim of pursuing this mission of providing constituents with evidence of “what works”. In particular, the report provides a first systematic analysis of active labour market policies (ALMPs) in Latin America and the Caribbean (LAC) and assesses their effectiveness in improving labour market and social conditions.

This report comes at a time when governments in LAC and elsewhere are grappling with the challenge of creating quality, sustainable jobs. In this regard, the findings presented here demonstrate that ALMPs can be powerful policy instruments as they have the capacity to provide new job opportunities and ensure the continuous upgrade of workers’ skills, thereby improving the labour market performance of participants in a sustainable manner. ALMPs can therefore enhance the living conditions of workers and their families, and have the potential to reduce poverty and improve equity.

In addition to the Synthesis Report, the research project also includes: (i) a detailed ILO Compendium of labour market policies implemented in selected countries in the region since the 1990s; (ii) a meta-analysis conducted to review the main results found in the literature on impact evaluation of ALMPs, paying particular attention to evidence from LAC; and (iii) three individual impact evaluations, conducted on selected ALMPs in Argentina, Colombia and Peru. Each of these elements is available for consultation at the ILO webpage (www.ilo.org/almpp-america). The purpose of this report is, therefore, to present in a non-technical way the main findings of all these elements together in a single volume, so that it can

contribute effectively to enhancing the knowledge about “what works” in terms of ALMPs in LAC and under what circumstances.

A central objective of the project was to remain true to the ILO’s commitment to provide constituents with evidence-based policy advice that is relevant and applicable. With this in mind, in coordination with the ILO Regional Office for Latin America and the Caribbean and the ILO Country Offices for the Andean Countries and for Argentina, we organized visits to the three countries where the individual impact evaluations were carried out: Argentina in May 2015 and Colombia and Peru in August 2015. In each of the three countries, meetings were held with the Ministries of Labour, national institutes of statistics and institutions in charge of administering the programmes evaluated, as well as with trade union confederations, employers’ organizations, UN agencies, universities and research centres. These missions were central to ensuring that the research carried out accurately represented the particular situations of the countries. Perhaps most importantly, these consultations enriched the project’s understanding of the views and priorities of stakeholders in terms of the particular policies assessed, and also of the challenges affecting employment and social conditions in their countries and how best to address them.

Finally, particular efforts were made to ensure that the analysis undertaken in this project would be at the forefront of research in the area of policy evaluation. To achieve this, a Council of Experts, composed of renowned academic and policy experts in the field, was established for the project, with the aim of ensuring research excellence, overseeing technical rigor in the impact evaluations and identifying gaps in the research. In addition, a workshop on impact evaluation of ALMPs in Latin America was held at the ILO in April 2015, to present work in progress from the different impact evaluations and to receive detailed feedback from both ILO colleagues and the Council of Experts.

We hope this report, its findings and discussions, and the different products accompanying it, will provide useful inputs and stimulate the national and international debate regarding the role of ALMPs in addressing employment and social issues in the LAC region.

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The analysis presented in the report relies heavily on available data. Therefore, the authors take this opportunity to thank the ILO Department of Statistics, notably Edgardo Greising and Hassan Kashef, for providing data and detailed information on sources, and Rigoberto García and Bolívar Pino from the ILO/SIALC, for their advice on statistical definitions and data processing.

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TABLE OF CONTENTS

	page
FOREWORD	V
ACKNOWLEDGMENTS	VII
TABLE OF CONTENTS	IX
LIST OF FIGURES	XI
LIST OF TABLES	XII
LIST OF BOXES	XIII
LIST OF ABBREVIATIONS	XIV
EXECUTIVE SUMMARY	1
Chapter 1: Labour market and social developments: Recent progress and emerging challenges	13
Introduction	13
A Labour market performance	14
B Improvements in social outcomes: Poverty, inequality and work quality	25
C Role of public spending and policy innovations	32
D Conclusions and presentation of the report	39
Appendix: Main labour market indicators	42
References	46
Chapter 2: Role and evolution of ALMPs in Latin America and the Caribbean	49
Introduction	49
A Active labour market policies: Definitions and classification	50
B ALMPs in Latin America: Findings from the ILO Compendium of labour market policies	64
C Concluding remarks	72
References	74
Chapter 3: Evidence to date: A review and analysis of the ALMP literature	79
Introduction	79
A An overview of impact evaluations on ALMPs in Latin America and the Caribbean	81
B The effectiveness of ALMPs in LAC: A narrative literature review	89

C Assessment of ALMPs in LAC: Results from a meta-analysis	104
D Concluding remarks	110
Appendix: Summary statistics of metadata	112
References	113

Chapter 4: What works: Impact evaluations of ALMPs in Latin America **121**

Introduction	121
A Argentina: Combining active and passive support to promote formal employment creation	123
B Colombia: Quality employment and the role of the PES	136
C Peru: The role of workfare programmes in boosting employment prospects and job quality	152
D Concluding remarks	173
Appendix: Estimates from the three impact evaluations	175
References	180

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Tuesday 21 June 2016 at 16:00 GMT
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LIST OF FIGURES

	page
Figure 1.1. Unemployment rates in LAC and other regions, 2000–15 (percentages)	15
Figure 1.2. Change in the regional labour force participation rate decomposed by age and sex, 1999 = 0	16
Figure 1.3. Employment by sector, status and skill composition in LAC (percentages)	19
Figure 1.4. Average productivity growth rates (2000–15) and productivity levels (2000) by global regions	20
Figure 1.5. Unemployment rates in LAC, selected countries and regional average (percentages)	23
Figure 1.6. Employment composition by economic class	26
Figure 1.7. Income inequality	28
Figure 1.8. Informality and GNI per capita, latest available year	30
Figure 1.9. Share of the population covered by conditional cash transfers (percentages)	34
Figure 1.10. Public expenditure on labour market policies	38
Figure 3.1. Number of impact evaluation studies reviewed by country	83
Figure 3.2. Mapping of studies reviewed by year of evaluation, impact significance and method used	86
Figure 4.1. Number of recipients of contributory and non-contributory employment programmes and unemployment rate in Argentina, 2004–14	125
Figure 4.2. Structure of the transition stages from <i>Plan Jefes</i>	127
Figure 4.3. Transition rates across employment status in Colombia between 2010 and 2013 (percentages)	137
Figure 4.4. Overview of APE services for jobseekers and enterprises	141
Figure 4.5. Non-agricultural informal employment rates by quintile, LAC and Peru, 2013 (percentages)	153
Figure 4.6. Labour market policy spending in Peru	170

LIST OF TABLES

	page
Table 1.1. Main labour market indicators for LAC, 2015 (percentages)	42
Table 1.2. Share of employment by status in LAC, 2015 (percentages)	44
Table 2.1. Summary table on ALMPs in emerging and developing economies: Types of interventions, objectives and differences	59
Table 2.2. Results from the ILO Compendium of labour market policies	67
Table 2.3. Selected examples of ALMPs from the ILO Compendium of labour market policies	70
Table 3.1. Sources and selection criteria of impact evaluation studies reviewed	82
Table 3.2. Number of studies by country and type of programme evaluated	87
Table 3.3. Findings on the impact of training programmes by study, outcome variable and target group	93
Table 3.4. Findings on the impact of other ALMPs by study, outcome variable and target group	98
Table 3.5. Estimation results from the meta-analysis	108
Table 3.6. Contrasting the meta-analysis findings of the LAC and global samples	109
Table 3.7. Summary statistics of metadata	112
Table 4.1. Effects of activation measures in a CCT programme on employment status and job quality	129
Table 4.2. Number of beneficiaries of <i>Plan Jefes</i> , <i>SCE</i> and <i>Plan Familias</i> , 2004–10 (thousands)	131
Table 4.3. Results from the evaluation of APE in Colombia	145
Table 4.4. Effects of <i>Construyendo Perú</i> on employment status and job quality for different groups	161
Table 4.5. Effects of activation measures in a CCT programme on employment status and job quality	175
Table 4.6. Effects of participation in APE on employment outcomes in Colombia	176
Table 4.7. Estimates of the effect of <i>Construyendo Perú</i> on employment status and job quality	177

LIST OF BOXES

	page
Box 1.1. What is underpinning low productivity growth rates in LAC?	21
Box 1.2. Conditional cash transfers and workfare programmes	35
Box 2.1. Active and passive labour market policies	51
Box 2.2. Definition of PES and labour market services according to the ILO	62
Box 2.3. ILO Compendium of labour market policies: ALMPs in Latin America	65
Box 3.1. An introduction to impact evaluation	84
Box 3.2. Meta-analysis methodology	105
Box 4.1. Evolution of labour market policies in Argentina since 2000	124
Box 4.2. Using DID and PSM to address selection bias	129
Box 4.3. The 2013 reform of PES in Colombia	139
Box 4.4. The use of PSM: Steps for the estimation strategy	144
Box 4.5. Modalities of intervention of <i>Construyendo Perú</i>	155
Box 4.6. Regression discontinuity design: Assumptions and robustness analysis	159

LIST OF ABBREVIATIONS

ALMPs	Active Labour Market Policies
APE	Agencia Pública de Empleo (Colombia)
ARS	Argentine Peso
BCRP	Banco Central de Reserva del Perú (Peru)
BOB	Bolivian Boliviano
BRL	Brazilian Real
CCTs	Conditional Cash Transfers
CIA	Conditional Independence Assumption
CIL	Centro de Intermediación Laboral (Peru)
CINTERFOR	Inter-American Centre for Knowledge Development in Vocational Training (ILO)
CONSEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social (Mexico)
COP	Colombian Peso
CV	Curriculum Vitae
DID	Differences-in-Differences
DPSC	Dirección de Promoción Social y Capacitación (Peru)
ECLAC	Economic Commission for Latin America and the Caribbean
ELCA	Encuesta Longitudinal Colombiana de la Universidad de los Andes (Colombia)
ENAH0	Encuesta Nacional de Hogares (Peru)
EPH	Encuesta Permanente de Hogares (Argentina)
EU	European Union
FAD	Factor de Asignación Distrital (Peru)
FGT(2)	Second Index of the Foster-Greer-Thorbecke Poverty Measures
GDP	Gross Domestic Product
GEIH	Gran Encuesta Integrada de Hogares (Colombia)
GNI	Gross National Income
IADB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
INEI	Instituto Nacional de Estadísticas e Informática (Peru)
IPEA	Instituto de Pesquisa Econômica Aplicada (Brazil)
IT	Information Technology
IV	Instrumental Variable
IZA	Institut zur Zukunft der Arbeit

KILM	Key Indicators of the Labour Market (ILO)
LAC	Latin America and the Caribbean
MEF	Ministerio de Economía y Finanzas (Peru)
MEP	Programa de Microemprendimientos Productivos (Argentina)
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme (India)
MTEySS	Ministerio de Trabajo, Empleo y Seguridad Social (Argentina)
MTPE	Ministerio de Trabajo y Promoción del Empleo (Peru)
NBER	The National Bureau of Economic Research (United States)
NGO	Non-Governmental Organization
OAS	Organization of American States
OECD	Organisation for Economic Co-operation and Development
OPP	Oficina de Planificación y Presupuesto (Peru)
PEN	Peruvian Nuevo Sol
PES	Public Employment Service
PLANE	Plan Nacional de Empleo de Emergencia (Bolivia)
PLMPs	Passive Labour Market Policies
PNPE	Programa Nacional de Estímulo ao Primeiro Emprego (Brazil)
PPP	Purchasing Power Parity
PROCAL	Programa de Capacitación Laboral (Uruguay)
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (United States)
PSM	Propensity Score Matching
PSNP	Productive Safety Net Program (Ethiopia)
R&D	Research and Development
RCT	Randomized Control Trials
RDD	Regression Discontinuity Design
REPRO	Programa de Recuperación Productiva (Argentina)
RIEPS	Register of Impact Evaluation Published Studies (3ie NGO)
SCE	Seguro de Capacitación y Empleo (Argentina)
SENA	Servicio Nacional de Aprendizaje (Colombia)
SISBEN	Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales (Colombia)
SISFOH	Sistema de Focalización de Hogares (Peru)
SMEs	Small and Medium-sized Enterprises
TFP	Total Factor Productivity
UK	United Kingdom
USD	United States Dollar
YEN	Youth Employment Network (ILO, United Nations, World Bank)

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EXECUTIVE SUMMARY

Since 2000, the Latin America and the Caribbean region has experienced substantial progress in labour market and social outcomes. . .

Following weak labour market performance in the 1990s, labour market and social outcomes have improved considerably since 2000 in most countries in Latin America and the Caribbean (LAC). In particular, after having increased from 8 per cent in 1991 to nearly 11 per cent in 2000, the unemployment rate for the region fell steadily to reach 6.4 per cent in 2014 (although it rose modestly to 6.5 per cent in 2015). This represents the sharpest reduction registered across all ILO regions over the past decade and a half. The fall in the regional unemployment rate has occurred in parallel with an increase in the employment to population ratio (from 57.3 per cent in 2000 to 61 per cent in 2015). Importantly, this means that employment growth has exceeded growth of the working-age population. Over the same period, social conditions also improved considerably. The share of working poor in employment (living below 3.1 USD per day) more than halved, going from 17.8 per cent in 2000 to 8.2 per cent in 2015. This was accompanied by a dramatic fall in income inequality in the majority of the countries in the region.

. . . supported by innovative social policies.

These developments have been driven in part by strong economic growth in the region (the annual GDP growth rate in LAC averaged over 3 per cent between 2000 and 2015). However, the active role played by governments and social partners was also central to tackling social challenges and promoting job quality. First, a number of countries made considerable efforts to extend national social security systems, which was facilitated by gains in formal employment. Second, conditional cash transfers (CCTs) constituted an important element of policy strategies in the region, the aim being to improve the living conditions of the population and provide social protection for those not covered by contributory schemes. In fact,

as of 2013, the region spent 0.4 per cent of GDP on CCTs, which reached more than 21 per cent of the population (compared with 0.1 per cent of GDP and less than 6 per cent of the population, respectively, in 2000). Finally, active labour market policies (ALMPs) have gained relevance in a number of countries in the region during the past decade as tools to address a wide range of labour market and social challenges. Between 2000 and 2010, spending on ALMPs increased in all countries for which information is available.

Despite the remarkable progress, the shift towards a more knowledge-driven economy, based on higher-quality jobs, remains incomplete...

The improvements at the aggregate level mask, to some extent, the fact that the pace and quality of changes with respect to the structural composition of the labour market has been less than stellar. In particular, the shift towards quality productive employment in the past decade has been less pronounced in LAC than in other regions. Overall, the size of the service sector increased only modestly, from 60.8 to 63.3 per cent of total employment, whereas that of the agricultural sector increased slightly (by 2.5 percentage points) and employment in industry remained stable (the opposite took place in other regions where strong gains in service sector employment occurred alongside declines in agricultural employment). Additionally, the skills composition of the workforce and its occupational distribution have only marginally improved. In fact, employment in high-skilled occupations increased only slightly, from 17.6 to 19.9 per cent, while the share of employment in occupations requiring low and medium skills decreased by 0.6 and 1.5 percentage points, respectively, during the 15 years to 2015. This suggests that the employment shift to the service sector has not translated into higher-skilled jobs.

And despite recent improvements, high levels of informal employment persist. This is one of the main concerns in the region. In 2013, informal employment represented almost half of total non-agricultural employment (46.8 per cent). Although historical data are limited, the evidence shows that the share of informal employment increased in the first half of the

2000s, reaching 52 per cent of total non-agricultural employment in 2005, before gradually declining to its current level. As a result, most countries in LAC still have a higher share of informal employment than countries with similar income levels in other geographical regions. For example, the share of informal employment (in total non-agricultural employment) is still above 70 per cent in Bolivia, Honduras and Nicaragua and above 50 per cent in Colombia, Mexico and Peru; while in countries in Africa and Central Asia with similar income levels, the share of informal employment is generally below 50 per cent.

The slow pace of labour market transformation in LAC in part explains the limited improvement in labour productivity (i.e. from a yearly average of 0.5 per cent in the 1990s to 0.7 per cent since the beginning of the 2000s). In fact, while some countries achieved strong gains, on average, productivity growth rates in LAC since 2000 have been among the lowest registered in any region. For example, between 2000 and 2015 the second lowest recorded productivity growth rate, after LAC's, was 2.8 per cent in Central and Western Asia.

... which has been brought to the fore in the context of the current economic slowdown and its implications for employment and social outcomes.

Since 2012, GDP growth has trended downwards, even contracting in 2015, and the region's economy is expected to grow significantly below the world average in the coming years. The decline in external demand (most notably from China) and the fall in commodity prices are the most prominent factors behind this downturn. This has unveiled some structural weaknesses that accumulated in the regional economy (e.g. low productivity), as well as the excessive reliance on commodity exporting during the boom years.

The recession and protracted slowdown have already started to weigh heavily on employment and social conditions. In particular, the regional unemployment rate in LAC registered the second consecutive annual increase in 2015 – reaching 6.5 per cent of the labour force. Similarly,

employment growth is expected to reach only 1.2 per cent in 2016 – compared with an average growth of 2.7 per cent between 2008 and 2013. As a result, achievements obtained since the 2000s in terms of job quality and social inclusiveness have recently stalled and, in some instances, have already started to reverse. For instance, the Gini index of income inequality increased between 2012 and 2013 in eight out of 13 countries with available information.

Moving forward, a new policy strategy is needed to address existing vulnerabilities and help countries transition to a new growth model...

A reorientation of policy strategies is needed to prevent the current slowdown from translating into structural stagnation, to boost further economic and social progress and to avoid a reversal of past labour market and social achievements. The potential economic gains from increased labour market participation are likely to have reached a plateau, while traditional sources of growth for the region have proven to generate high macroeconomic volatility with negative spillover effects on individual well-being. As such, future labour market and social improvements will critically rely on shifting the economy towards more competitive specializations and higher productivity growth – and on the presence of public policies to encourage this change. With this in mind, a new policy approach is required that complements the innovative income generation policies of the past decades (such as conditional and unconditional cash transfers, typically implemented during previous crises) with policies aimed at increasing and improving the quantity and quality of the demand and the supply of labour either directly (e.g. employment creation) or indirectly (e.g. training), such as ALMPs.

... and the evidence to date demonstrates that ALMPs can act as a central pillar of labour market and social policies in this regard...

A functional system of ALMPs in the region, and elsewhere, can ensure the continuous upgrade of workers' skills, improve the quality of the matching between workers and employers and directly or indirectly promote

productive employment creation. More generally, a comprehensive set of ALMPs can substantially support and facilitate the shift of the labour market in LAC towards high-value-added economic specializations and enhance productivity growth in the region. Importantly, these policies are capable of improving not only the labour market performance of participants in a sustainable manner, but also their living conditions and those of their families. This is particularly the case in developing and emerging economies, where ALMPs aim to address multiple objectives, beyond enhancing the employability of participants, which often include tackling some longer-term challenges, such as poverty reduction and community-level development. This multi-objective approach makes ALMPs a mainstay of national social protection floors in the region. As such, at the country level, a comprehensive set of ALMPs can contribute to improving equity in a sustainable manner, while enhancing employment mobility and job quality, thereby raising individual and economic potential more generally.

This report presents a thorough literature review and a meta-analysis of the impact evaluations of ALMPs carried out in LAC over the past two decades. The results highlight that these types of interventions can have an important impact on sustaining productive employment in the region (although further research is needed to unveil results on more specific aspects). In particular, the evidence to date suggests that training programmes, employment subsidies and self-employment and micro-enterprise creation programmes have been generally effective in LAC; although only limited knowledge exists concerning the two latter types of interventions. At the same time, public works schemes have proved to be successful in raising living standards of beneficiaries during participation, although their effects in terms of enhanced employability remain unclear. Similarly, very little is known with respect to the effectiveness of public employment services in the region. For all types of active interventions, the meta-analysis shows that the design, targeting and implementation of a policy are essential in ensuring its effectiveness.

... but for the moment ALMPs represent an untapped potential in the region.

Despite the increased prevalence of ALMPs in the region, there continue to be gaps in both the coverage of ALMPs and the quality of the services provided, constraining the potential role of ALMPs as a policy tool to promote sustainable employment. In particular, while public spending on ALMPs has generally increased in the region, only in a few countries (i.e. Argentina, Brazil and Chile) is the level of expenditure on ALMPs as a share of GDP comparable with the levels registered in higher-income countries. In other LAC countries, no such policies exist or spending levels remain inconsequential, as is the case in Ecuador, Mexico and Peru, where spending is below 0.1 per cent of GDP (a mere fraction of expenditures dedicated to CCTs).

In addition, this report finds that while ALMPs in LAC often have multiple objectives, they are frequently narrowly focused on one type of intervention, rather than providing a more comprehensive set of measures. For example, as shown by the ILO Compendium of labour market policies developed as part of this research project, training initiatives have been the most popular form of ALMP in LAC, both in terms of their incidence and the share of spending: 44 per cent of ALMPs implemented in the countries analysed have either been exclusively focused on training or have had a training component. Policies aimed at self-employment and micro-enterprise creation have also been popular, but only account for around one-quarter of all ALMPs. As such, the evidence presented in the report points to the need to leverage additional, and a more comprehensive set of ALMPs, as well as to exploit the complementarities and synergies with policies that are already in place. For instance, the report finds that non-contributory programmes, particularly CCT programmes, provide an outstanding channel for leveraging further ALMPs to promote quality and sustainable employment.

The shift in policy strategy that leverages past innovations will require, first, improving the design of ALMPs...

To complement the review of the literature and meta-analysis, a series of impact evaluations (in Argentina, Colombia and Peru) was undertaken in an effort to address existing knowledge gaps and to enhance the overall understanding of the effects of ALMPs, especially in LAC. The results point to the need to improve the design of ALMPs in the region in order for countries to leverage fully the beneficial effects of these policies. In particular, the new evidence presented demonstrates that ALMPs have the capacity to improve the labour market and social prospects of participants, and that they can even be self-financing (e.g. through reductions in contributory and non-contributory social transfers), but only when they are properly designed and executed. This report suggests the following design improvements:

- *Exploit complementarities and generate incentives to increase the take-up of ALMPs:* Leveraging complementarities among labour market policies and reinforcing the incentives to participate in ALMPs are necessary steps if countries are to increase the efficiency and reach of the policies implemented. In this regard, the experience of Argentina shows that supporting individuals to move from traditional CCTs to labour market-oriented programmes can improve job quality and contributory benefits coverage. This will, however, require that the incentives to encourage such a transition are in place; such as (i) allowing individuals to keep their benefits for an adequate period after a successful transition to employment (under certain conditions); (ii) adjusting the criteria such that it is not overly burdensome to participate in an ALMP or related programme; and (iii) enhancing targeting of participants while broadening the eligible population. Similarly, evidence from the evaluation of the PES in Colombia (the *Agencia Pública de Empleo*) shows that one of the main obstacles to the increased effectiveness of the *Agencia Pública de Empleo* is its limited reach and the disproportionate focus on certain categories of workers and enterprises (e.g. large companies in some specific sectors). To improve the coverage and reach of PESs as well as to enable more effective matching between jobseekers and vacancies, it

is important to: (i) create incentives for a wide range and scope of both jobseekers and employers to join the system; and (ii) ensure that the system benefits (i.e. in terms of coverage) from the connections with other types of active and passive policies in the country in question, e.g. training programmes.

- *Tailor the policy to context-specific needs, in particular to those of the labour market:* Another important conclusion from the report is that the effectiveness of ALMPs is context specific. The meta-analysis shows that economic and country contextual factors have a highly significant impact on the effectiveness of ALMPs in LAC. As such, the further development of ALMPs needs to bear in mind that policy design must be based on an assessment of the labour market and social needs of the country, as well as an understanding of the complementarities with other existing policies. For example, the evaluation of *Construyendo Perú* – a public works programme in Peru – suggests that the likelihood of finding and keeping a job following such a programme will depend (among other things) on whether the provision of training is tailored to fit the productive needs of the regional labour market. Importantly, including social partners in the design of the programme (e.g. in the decision regarding the types of projects to be funded) is a much needed step in this direction. Indeed, social partners have particular knowledge of the region, in terms of the most pressing needs of workers and employers, and as such their inclusion will help to ensure that the programme is demand driven. For instance, the evaluation of the *Agencia Pública de Empleo* in Colombia suggests that increasing the involvement of social partners could contribute to improving the content of the labour market services that it provides.

... while conducting a more careful targeting of the interventions...

It is also important to ensure that interventions have a clear and well-defined targeting strategy. In this regard, the impact evaluations, both new and existing, highlight the following lessons:

-
- *Ensure the programme reaches its targeted population, while promoting equity:* Some features of programme design are central to guaranteeing everyone who should benefit from the programme has the opportunity to do so. This necessitates appropriate enforcement of targeting rules, and also ensuring that initiatives are tailored for the individuals in most need, thereby preventing discrimination in programme participation. For example, the evaluation of *Construyendo Perú* suggests that better enforcement of targeting rules, particularly at the local level, is key to preventing eligible participants from participating more than allowed (e.g. number of times or duration), thereby ensuring that the programme reaches all those who deserve to participate. In addition, establishing the right set of rules from the outset is particularly important because evidence from the report shows that ALMPs are more effective among some specific groups, such as women; yet, the inclusion of these groups in ALMP initiatives has not always been taken into proper consideration. For instance, the evaluation of the Argentinian programme *Seguro de Capacitación y Empleo* – a multi-approach activation programme – highlights the importance of promoting the inclusion of eligible women in activation initiatives and, in turn, reducing the gender gap in labour market opportunities. Moreover, it is fundamental to extend the provision of ALMPs to remote areas of LAC, which often are also the poorest and have the highest number of potential beneficiaries. Of course, this will also entail ensuring that labour market institutions in these remote areas have the capacity to deliver such programmes, as discussed below.
 - *Target the different components of the ALMP to individuals' needs:* The success of any intervention will also depend on whether policies are tailored towards individuals' needs. For example, training policies need to be aligned with skill needs, educational deficiencies or work experience. The analysis of *Construyendo Perú* suggests that tailoring the design of training components to fit the needs and characteristics of individuals would help to improve employment outcomes (e.g. tailoring training components to women's particular needs, given their high proportion among programme participants). Likewise, the evaluation of the *Agencia Pública de Empleo* in Colombia shows that the PES is

more effective when the services are provided face-to-face – rather than online. However, currently, the majority of its users access its services online, often because they are located at a considerable distance from a PES centre. This, as discussed above, suggests that governments should consider extending the reach of PESs and combine different channels of provision (involving the use of new technologies) that are adapted to the needs of individuals.

- *Adapt programme characteristics to align with those that have proven to be the most efficient:* Among the different characteristics of ALMP programmes, duration appears to be one of the key drivers of effectiveness. Evidence from the meta-analysis shows that programmes with a short duration (four months or less) are significantly less likely to have a positive impact on labour market outcomes. This is discussed in the evaluation of *Construyendo Perú*, which suggests that the considerable variation in content, quality and duration of activation measures and capacity-building may have reduced the likelihood and quality of post-programme employment. As such, it is recommended that training components have appropriate duration (and intensity) that takes into consideration factors such as the needs of the local labour market as well as the individuals' needs. Moreover, the evaluation of the Argentinean *Seguro de Capacitación y Empleo* programme suggests that the duration of the benefit is a decisive characteristic for low-income groups when considering participation and that adjusting the duration could reinforce the incentives to participate in ALMPs.

... and allocating sufficient attention to the successful implementation of ALMPs.

Appropriate policy design and careful targeting will only improve the effectiveness of ALMPs if sufficient attention is given to implementation. This necessitates careful planning of resources and institutional actions to guarantee the functioning of planned activities throughout – and beyond – the duration of the programmes and services. This is particularly important in emerging and developing countries where, as discussed

in the report, the lack of institutional capacity to implement fully-fledged ALMPs is a common concern. The report points to the need to:

- *Strengthen the institutional capacity to support the implementation of ALMPs:* Evidence from the evaluations shows that having insufficient administrative capacity within regional offices reduces the reach and effectiveness of any programmes for which they are responsible. For instance, in Argentina, the Ministry of Labour created a network of PES offices at the municipal level in order to strengthen the institutional capacity of the *Seguro de Capacitación y Empleo*. However, this institutional capacity was not deployed to the same extent (both in terms of the number of offices and in time) in all areas of the country and, as a result, a large group of potential beneficiaries was not given the option to join the programme. Likewise, in the case of *Construyendo Perú*, the limited capacity within local offices that allocated participants into the programme may have played a role in explaining the multiple participation among eligible participants.
- *Improve monitoring during the implementation of the programme:* Together with strengthened institutional capacity, ALMPs need continuous and appropriate monitoring to ensure their implementation is successful. This includes regular supervision of the different activities and following up on the evolution of well-established targets. It also requires proper cooperation and continuous communication between the different stakeholders (e.g. project implementing agency, local government, programme management, social partners, etc.). This would reduce inefficiencies during programme implementation, such as inadequate use of resources, and would reinforce the objectives of equity and of ensuring that everyone who should benefit from the programme has the opportunity to do so.
- *Remove red tape and avoid administrative inefficiencies:* Excessive administrative requirements can impinge on the functioning of and participation in ALMPs in the region. For example, some PESs are burdened by duplications of competencies across the different providers of

labour market services, and by excessive administrative requirements for both jobseekers and enterprises using the system. In the case of Colombia, a move towards a more flexible system of PESs could be envisaged, where synergies between different public and private providers of labour market services are exploited, and jobseekers and employers can use the *Agencia Pública de Empleo* as a complementary – rather than a unique – channel for job searching.

Finally, encouraging further rigorous assessments that can translate into evidence-based policy-making would be key to ensuring successful actions.

Developing an adequate strategy for designing, targeting and implementing an ALMP is an extremely complex task – especially if multiple objectives are to be achieved within a single policy intervention. Solutions that might sound reasonable at first could prove erroneous or suboptimal for a specific country context. This generates inefficiencies that – if not properly targeted – can compromise the effectiveness of the public investment. A rigorous evidence-based approach should be embraced in order to adequately assess what works and under which specific circumstances. This requires governments to: (i) be actively involved in planning an evaluation phase as part of each project (at least for large scale and/or innovative projects); (ii) collect the necessary data to conduct a rigorous impact evaluation; and (iii) to revise the policy strategy based on the results of the evaluation. Of course, lessons drawn from evaluations conducted in other countries are helpful and can be used in the design and implementation phases. However, attention should be given to the extent to which the same outcomes would be affected by changing objectives, needs and circumstances. And, finally, it is important to bear in mind that the quality of impact evaluations and policy advice will depend critically on the extent to which governments, social partners and institutional bodies collect and disseminate relevant data.

CHAPTER 1

LABOUR MARKET AND SOCIAL DEVELOPMENTS: RECENT PROGRESS AND EMERGING CHALLENGES

INTRODUCTION

Driven by strong economic growth coupled with a number of important policy innovations, most countries in Latin American and the Caribbean (LAC) have achieved significant results over the past decade in terms of improved labour market performance and social inclusion. Labour force participation has increased, while the regional unemployment rate – despite having risen in the past two consecutive years – is still significantly below the average levels registered in the 2000s. As a result, 70 million Latin Americans have been lifted out of poverty since 2000 and the share of working poor has more than halved. Governments in the region have increased their efforts to promote labour market inclusion and enhance living standards. Public social spending has increased in almost all countries and social protection coverage has been expanded.

However, the economic outlook has recently deteriorated and this has drawn attention to a number of macroeconomic and labour market challenges that remain unsolved. In particular, productivity growth has stagnated since the 2000s and, as of late, has translated into lower economic growth. Moreover, the share of informal employment remains high while inequality levels are still elevated and, in some instances, are well above those registered in many other developing and emerging countries. In the short term, some large LAC countries, including Argentina and Brazil, are confronted with weak to negative growth (Brazil had already entered recession in 2015) with important spillover effects on the region. Over the medium term, as GDP growth in the region is expected to slow to a more moderate pace, continued gains in quality employment and social progress will rely heavily on effective policy interventions. The aims of this chapter are to: provide an overview of labour market developments in LAC (Section A); analyse trends in poverty, inequality and employment quality (Section B); describe the role of public policies in shaping these trends (Section C); and, finally, introduce the remainder of the report (Section D).

A LABOUR MARKET PERFORMANCE

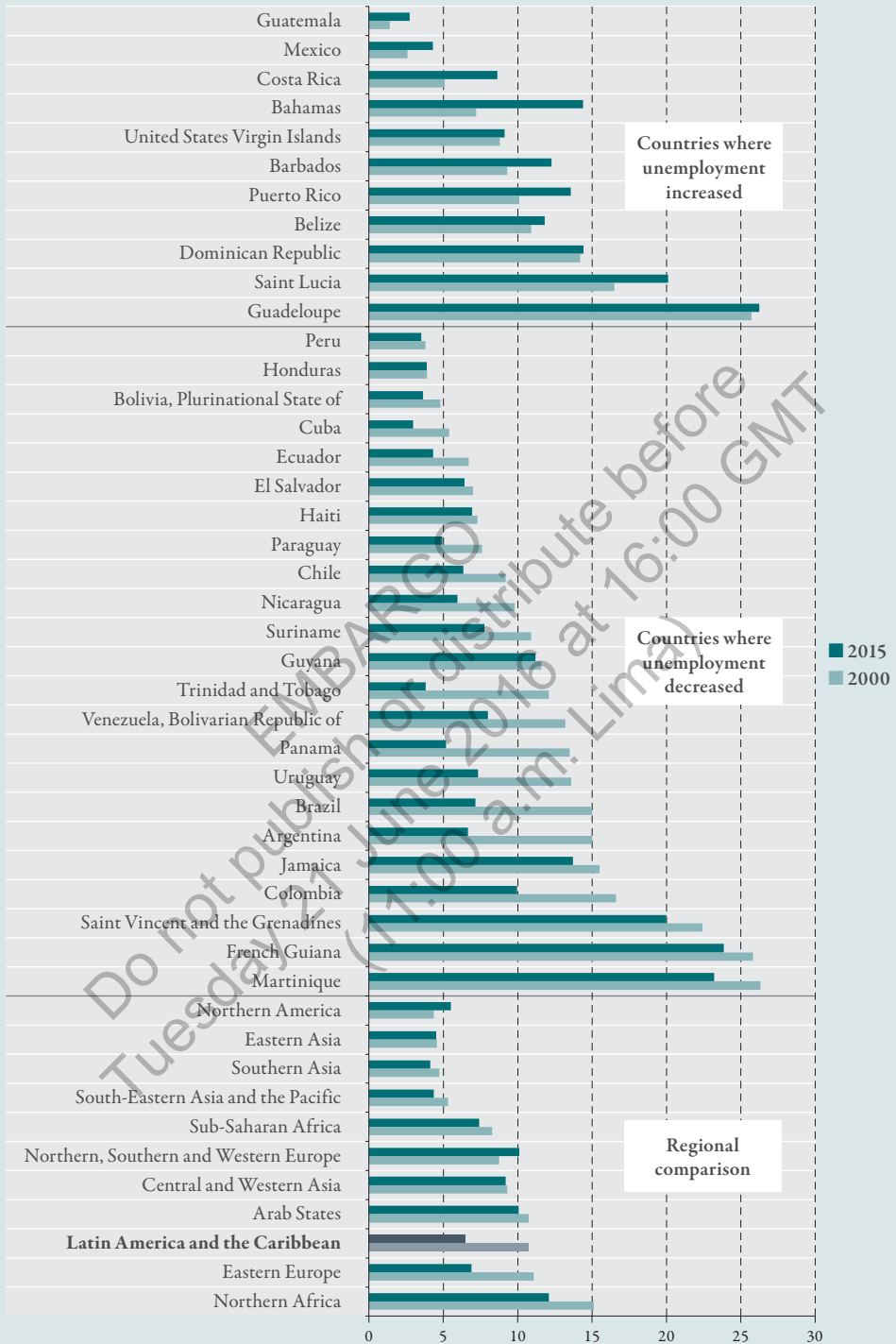
Labour market indicators have improved since the 2000s

Following weak labour market performances in the 1990s, employment and unemployment have improved considerably since 2000 in most countries in LAC.¹ In particular, the unemployment rate for the entire region increased from 8 per cent in 1991 to 10.7 per cent in 2000, but fell steadily thereafter to 6.4 per cent in 2014 (rising modestly to 6.5 per cent in 2015). This represents the sharpest reduction registered across all regions over the past decade and a half.² Moreover, in a number of countries – such as Argentina, Brazil, Colombia and Uruguay – the improvements in the labour market situation have been particularly marked, with unemployment rates cut nearly in half between 2000 and 2015 (Figure 1.1 and Table 1.1 in the appendix to this chapter). The fall in the regional unemployment rate has occurred in parallel with an increase in the employment to population ratio; in other words, employment growth has exceeded growth of the working-age population. Indeed, the total employment rate for the region has gone from 57.3 per cent in 2000 to 61 per cent in 2015. Only in Eastern Asia (66.3 per cent), South-Eastern Asia and the Pacific (66.9 per cent) and Sub-Saharan Africa (65 per cent) are employment rates higher. Despite the aggregate improvements, in 11 out of 34 countries in the region, unemployment rates increased between 2000 and 2015 – in some cases incrementally since the 2000s and in others as a result of the global financial crisis. Moreover, the labour market outlook has recently deteriorated and the regional unemployment rate is set to slightly increase in the coming years (see below).

¹ The report will follow the ILO classification of regions. See ILO (2016b) for the full list of countries by region.

² In making comparisons across regions, it is important to take into consideration the differences in the roles of informal employment and underemployment. See for instance Sengenberger (2011) for a detailed discussion.

Figure 1.1. Unemployment rates in LAC and other regions, 2000–15 (percentages)

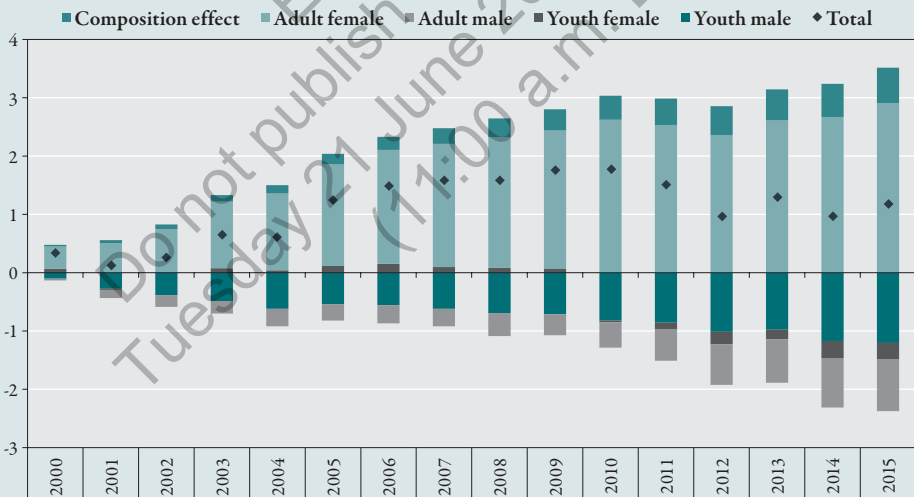


Note: Data for 2015 are preliminary.

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

Between 2000 and 2015 the regional labour force participation increased from 64.4 to 65.2 per cent – the increase was initially higher, but it was partially reversed after the onset of the global financial crisis. Gender gaps in labour force participation persist despite having been substantially reduced. The improvement stems from a decrease in the adult male labour force participation – from 81 to 78.4 per cent – and an increase in adult female participation rate – from 48.1 to 52.6 per cent. Although female labour force participation is still comparatively low in LAC, the reduction in the gender gap has been among the most significant across ILO regions (ILO, 2016a). During the same period, the youth labour force participation rate decreased – from 54.7 to 49.6 per cent – partially as a result of an increase in enrolment in tertiary education.³ Overall, the increase in labour force participation has mostly come from prime age (25–64 years) women entering the labour market and the increasing share of adults in

Figure 1.2. Change in the regional labour force participation rate decomposed by age and sex, 1999 = 0



Note: Composition effect refers to the contribution of changes in the age composition of the population to the overall labour force participation rate. Other categories refer to the contributions of changes in labour force participation rate for a specific group to the overall change in labour force participation.

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

³ See Bassi et al. (2012) for a description of trends in youth performance in LAC within and outside the labour market.

the regional population arising from demographic changes – the so-called “composition effect” (Figure 1.2).

The structural composition of employment has only marginally changed

Economies and labour markets in LAC have undergone profound changes in recent decades. While these changes have contributed significantly to the creation of a sufficient number of jobs to accommodate the growing labour force (discussed above) and supported improvements in living standards (as discussed in Section B), the pace at which these transformations have shaped the structural composition of the labour market has often fallen short of expectations – especially when compared with other geographical regions. Now that the pace of economic growth is decelerating, completing the move towards a more highly skilled and formal economy will prove essential to sustaining the creation of quality jobs.

In particular, the sectoral composition of employment has changed in the past decade, partly because of the increasing female labour participation, as described above. Overall, the share of the agriculture sector in total employment decreased from 17.5 per cent in 2000 to 15 per cent in 2015. During the same time, the share of employment in industry remained stable – at 21.6 per cent in both 2000 and 2015 – while the size of the service sector increased from 60.8 to 63.3 per cent of total employment (Figure 1.3).⁴

These broad sectoral shifts are consistent with developments that have occurred in other regions during past decades, although the transformation has generally been less pronounced in LAC.⁵ Moreover, regional data hide large differences across countries. For example, the share of employment in the service sector is higher than the regional average in countries such as Argentina (73.4 per cent), Chile (67.2 per cent) and Venezuela (73.5 per cent). Meanwhile, Brazil, Colombia and Mexico have experienced an

⁴ Male employment is distributed 19 per cent in agriculture, 27.2 per cent in industry and 53.8 per cent in the service sector. Female employment is 8.8 per cent in agriculture, 12.2 per cent in industry and 79 per cent in services.

⁵ For instance, the share of employment in agriculture has declined between 2000 and 2015 from 46 to 26.3 per cent in Eastern Asia, from 48 to 33.9 in South-Eastern Asia and the Pacific and from 17.8 to 11.4 per cent in the Arab States; while it remains relatively higher in Northern Africa (26.7 per cent), Sub-Saharan Africa (53.8 per cent) and Southern Asia (44.6 per cent). See ILO (2014a) for a discussion.

increase in line with the regional average during the past decade, while the share of employment in the service sector still remains lower in Bolivia (49.4 per cent), Ecuador (55.3 per cent) and Peru (56 per cent).⁶

The pace of this transformation has also been relatively slow, which is reflected in the still relatively high share of informality. Between 2000 and 2015 the share of wage and salaried workers in LAC increased from 60 to 64.8 per cent of total employment. Conversely, the relevance of own-account workers decreased during the same period, from 27.9 to 26.1 per cent of total employment, and the share of contributing family workers went from 7.7 to 5 per cent of total employment. Over the same time, the share of employers in the labour force remained fairly stable – falling slightly from 4.3 to 4.2 per cent (Figure 1.3).⁷

Even in this case differences emerge between countries. In particular, the share of wage and salaried employment in total employment ranges from above 80 per cent in the Bahamas, Barbados and Suriname to 40 per cent in Bolivia, 42 per cent in Haiti and 44 per cent in Honduras (see Table 1.2 in the appendix to this chapter for country details). For comparison, the share of wage and salaried employment is 79.2 per cent in the Arab States, 57 per cent in Eastern Asia, 43.6 per cent in South-Eastern Asia and the Pacific and 28.2 per cent in Sub-Saharan Africa.

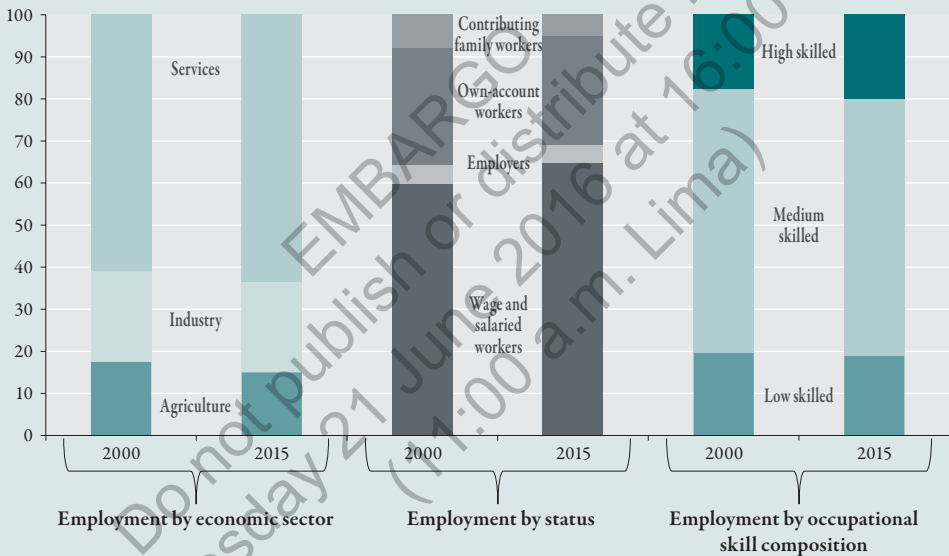
Finally, the skills composition of the workforce has only marginally improved. In particular, the share of employment in occupations requiring low skills decreased from 19.6 per cent in 2000 to 19 per cent in 2015. During the same time, employment in occupations requiring medium skills decreased by 1.5 percentage points to 61.1 per cent; while employment in high-skilled

⁶ ILO Research Department's, *Trends Econometrics Model*, November 2015 update.

⁷ Wage and salaried employment makes up 63.6 per cent of male and 66.6 per cent of female employment; own-account workers account for 27.8 per cent of male and 23.5 per cent of female employment; contributing family workers for 3.4 per cent of male and 7.2 per cent of female employment; and employers for 5.2 per cent of male and 2.7 per cent of female employment.

occupations increased modestly from 17.6 to 19.9 per cent (Figure 1.3).⁸ Thus, this shift towards high-skilled jobs has been only marginal and signals the fact that the employment shift to the service sector has not fully translated into higher-skilled jobs. Evidence shows that the supply of skills – both in terms of the quality and quantity of the skills acquired – in the region has generally been inadequate and this has contributed to the limited role played by improvements in skills and education in shaping the regional development model over the past decade (OECD, 2014).

Figure 1.3. Employment by sector, status and skill composition in LAC (percentages)



Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

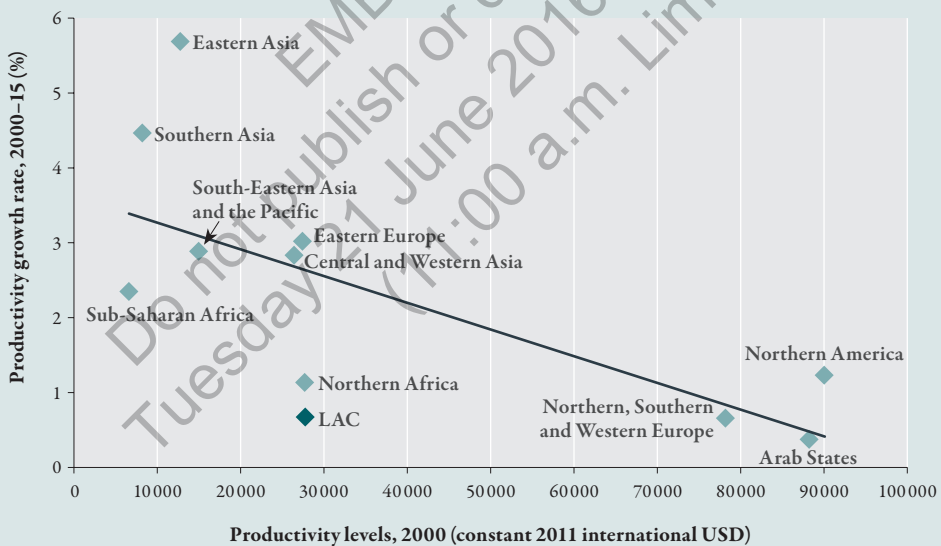
Productivity growth has stagnated

The slow pace of labour market transformations in LAC has meant that improvements in labour productivity have been limited – such that productivity has often been regarded as the missing component in LAC

⁸ Overall, women are more represented than men in high-skilled occupations (23.5 per cent of total employment against 17.5 per cent, respectively).

growth performances (IADB, 2014; Lora and Pagés, 2011). In particular, labour productivity growth⁹ has increased from a yearly average of 0.5 per cent in the 1990s to 0.7 per cent since the beginning of the 2000s. Some countries have achieved more positive performance, such as Cuba, Panama and Peru, but this has been negatively compensated by stagnant productivity growth rates in large economies such as Brazil and Mexico – driving down the regional average. As a result, productivity growth rates in LAC since 2000 are among the lowest registered in any region. Even in regions that started with productivity levels similar to those of LAC (e.g. Central and Western Asia, Eastern Europe and Northern Africa), productivity growth rates have been substantially higher (Figure 1.4).

Figure 1.4. Average productivity growth rates (2000–15) and productivity levels (2000) by global regions



Notes: Data for 2015 are preliminary. Productivity growth is calculated using compound annual growth rates.

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

⁹ Labour productivity is measured as real output per worker, PPP-adjusted.

Box 1.1. What is underpinning low productivity growth rates in LAC?

As seen in this section, countries in LAC have underperformed in terms of productivity growth rates compared with most developed and emerging and developing regions during recent decades. Relative income per capita in LAC has decreased since the 1960s with respect to the global average – although a modest rebound occurred in the 2000s. Indeed, income per capita in LAC as a share of the world average decreased from 117 per cent in the 1960 to 88 per cent in 2000 and 98 per cent in 2010 (IADB, 2014; OECD, 2014).

The reasons behind the disappointing productivity performances in LAC in recent decades are related to the low growth of total factor productivity (TFP). Economic output depends on both the amounts of inputs that are used – labour and capital – and the efficiency with which those factors are used – the so-called TFP. Both labour and capital accumulation have been faster in LAC than in OECD economies, thus reducing the physical and human capital gap of the region. However, the productivity of these factors decreased from 78 to 53 per cent with respect to the levels of the United States between 1960 and 2010. The decline was even more significant with respect to fast-growing developing and emerging countries: TFP in LAC halved relative to the average level of Eastern Asia and the Pacific countries.

Moreover, productivity growth in LAC is disproportionately reliant on faster accumulation of labour – rather than TFP or capital growth. In particular, only 58 per cent of GDP per capita growth between 2000 and 2010 was derived from TFP growth, while 52 per cent was linked to labour accumulation, and capital accumulation had a negative contribution to growth (-10 per cent). This compares with a contribution of TFP to growth of 90 per cent in China and 72 per cent in fast-growing Asian economies. Since there are natural limits to the accumulation of labour – labour force participation has also recently stabilised in LAC, as seen above – the already low productivity growth rates experienced in the region seem also to be unsustainable. This suggests that the recent slowdown in economic growth in the region is not simply a temporary deviation, but rather the reflection of lower growth potentials (IADB, 2014).

Low productivity levels in LAC cannot be merely attributed to the sectoral composition of the economy. Indeed, low productivity growth also concerns many service industries – such as logistics. The only notable exception is agriculture, where productivity has increased rapidly during the past decade. Among the main causes of low productivity are inadequate public services, a generally weak business environment, the large share of the informal economy and low absorption of new technologies. If these issues are effectively targeted, the benefits for the region will be enormous: if the productivity gap with the United States could be halved – back to the 1960 levels – per capita income in LAC would double.¹⁰

¹⁰ See Powell (2013) for alternative estimates of the benefits of productivity increases on per capita income.

Among the main reasons for the low and stagnant productivity are the predominance of micro and small firms (especially in the informal sector), the insufficient investment in R&D, inadequate skills in the workforce, gaps in public infrastructure and the inadequate access to credit – see Box 1.1 for a more detailed discussion of the topic (IMF, 2014). Understanding the causes behind low productivity performance in LAC is of crucial importance. Recent trends suggest that the reliance on commodities exports – which have led economic performance in the past decade, especially in South American economies – will not prove sufficient to sustain economic growth and provide sufficient job growth in the coming years. As part of the strategy to sustain the achievement of further improvements in living standards, the region will therefore need to address the structural bottlenecks to productivity growth.

The economic and labour market outlook has recently deteriorated

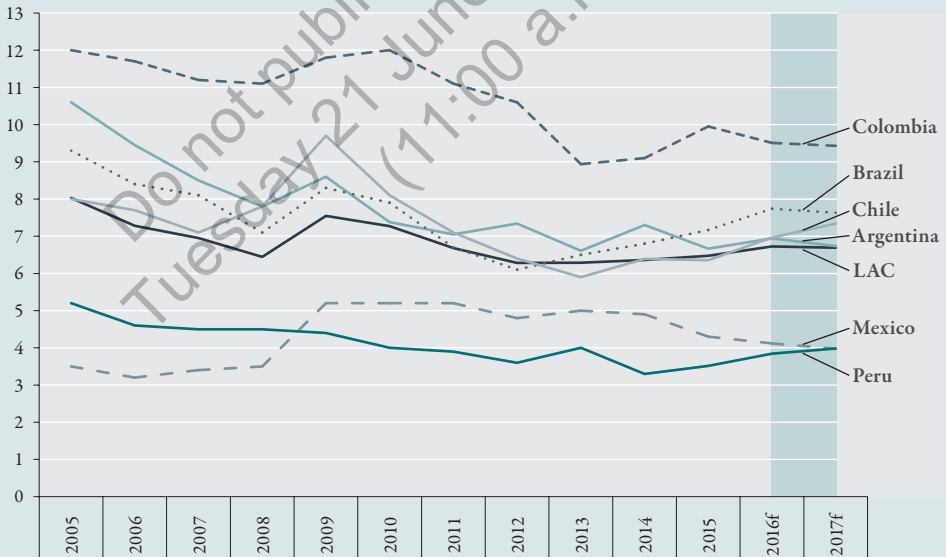
Economic growth rates in the countries in LAC have significantly slowed down in recent years and forecasts point to more modest growth rates (in line with advanced economies).¹¹ Between 2012 and 2015, regional GDP growth was substantially below the world average – 1.8 per cent compared with 3.3 per cent. This is in contrast to the performances registered during the first phase of the crisis, when GDP growth in LAC was outperforming the global average (i.e. 3.3 per cent compared with 3.1 per cent between 2008 and 2011). Moreover, between 2016 and 2020 economic growth is expected to be substantially below the values registered between 2003 and 2008 – 2.2 per cent compared with 4.5 per cent – and below the world average of 3.9 per cent. The causes behind this slowdown are of diverse nature. Partially, this is a cyclical trend that can be connected to the recent fluctuations in commodity prices. The prices of all main export products of the region have fallen, including food and beverage products (–29 per cent since 2011), metals (–54 per cent) and petroleum (–60 per cent).¹² However, other explanations are of a structural nature and point towards weak productivity growth – as discussed above (IMF, 2014).

¹¹ See for instance ILO (2015a; 2016b) and OECD (2014).

¹² Final prices are considered as those of October 2015 (IMF Primary Commodity Prices Database).

After a period of initial resilience (i.e. until 2013), the main effects of this slowdown on the labour markets of the region have started to materialize – and there is potential for the effects on both employment quantity and quality to intensify in the coming years (see ILO, 2015c and 2016b for a detailed discussion of the possible implications). In particular, the regional unemployment rate in LAC registered the second consecutive annual increase in 2015 – reaching 6.5 per cent of the labour force. Moreover, unemployment forecasts suggest that this trend will continue – with the regional unemployment rate likely to approach 6.7 per cent by 2017 (ILO, 2016b). Similarly, employment growth (which averaged 2.5 per cent between 2000 and 2007 and 2.7 per cent between 2008 and 2013) declined to 1.5 per cent in 2015 and is expected to reach only 1.2 per cent in 2016. Youth have been particularly affected by this slowdown, registering a more marked deterioration in all main labour market indicators in recent years (ILO, 2015c). Strong disparities persist across countries and forecasts suggest that these will increase in the coming years. In particular,

Figure 1.5. Unemployment rates in LAC, selected countries and regional average (percentages)



Note: Values in the shaded area are forecasts (f).

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

unemployment rates have seen a more marked increase in Argentina (6.7 per cent in 2015), Brazil (7.2 per cent) and Colombia (10 per cent). At the same time, unemployment rates are expected to continue their downward trend in Chile (6.4 per cent in 2015), Mexico (4.3 per cent) and Peru (3.5 per cent) – see Figure 1.5 for forecasts up to 2017 and Table 1.1 for detailed country information. Finally, recent evidence shows that the economic slowdown has also started to affect the quality of jobs (ILO, 2015c).

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B IMPROVEMENTS IN SOCIAL OUTCOMES: POVERTY, INEQUALITY AND WORK QUALITY

Working poverty has been cut in half

Improvements in labour market performance in the region have led to a substantial reduction in poverty levels. The share of working poor in the total employed population – defined as those living on less than 3.1 USD per day – remained relatively stable in the 1990s; while it has more than halved since the beginning of the 2000s – going from 17.8 per cent in 2000 to 8.2 per cent in 2015.¹³ Similarly, the relative importance of the near poor – those living on between 3.1 USD and 5 USD per day – decreased by only 1.2 percentage points in the 1990s; while it went down from 16.2 per cent in 2000 to 9.7 per cent in 2015. Conversely, the share of the developing middle class – from 5 USD to 13 USD per day – in the total employed population increased from 38.1 per cent in 2000 to 39.4 per cent in 2015. More significant was the rise of the developed middle class and above (above 13 USD), which has increased from 27.8 to 42.6 per cent of total employment since the beginning of the 2000s (Figure 1.6, panel A).¹⁴

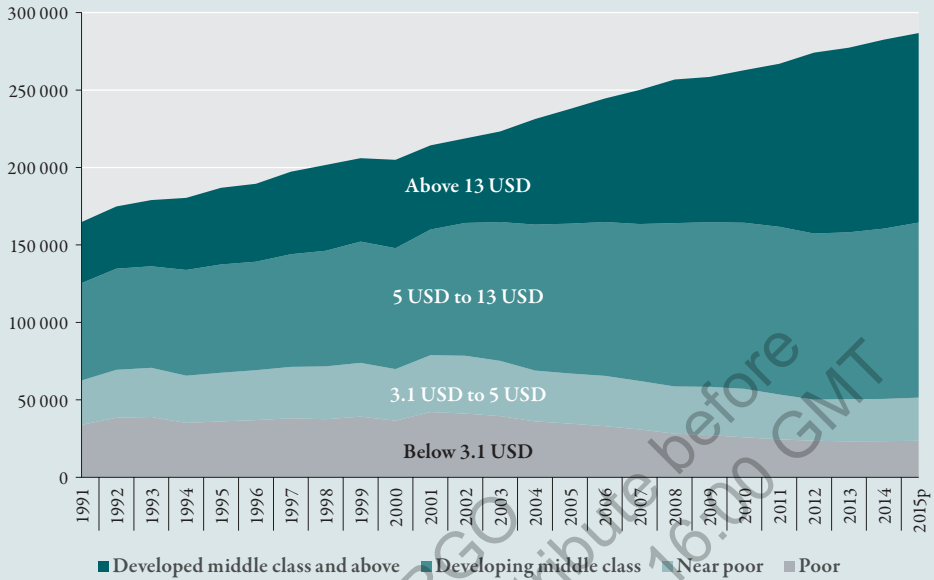
In comparison, the share of the developed middle class and above in total employment in LAC is higher than but comparable to the levels registered in Central and Western Asia (33.5 per cent in 2015) and the Arab States (32.4 per cent); and is considerably higher than in other developing and emerging regions, such as Eastern Asia (15.4 per cent), Southern Asia (2.9 per cent) and Sub-Saharan Africa (3.8 per cent). Improvements in the share of the developed middle class and above have been particularly significant in countries such as Argentina, Brazil, Chile and Uruguay. Some countries, including Ecuador, Mexico and Peru, have made notable progress, but their share of developed middle class and above in total employment remains below the regional average. Finally, a reduction in the relative size of the developed middle class and above since 2000 has been registered in Bahamas, Barbados and Dominican Republic (Figure 1.6, panel B).

¹³ Working poor and other economic classes are defined by per capita per day consumption levels in 2005 USD, PPP.

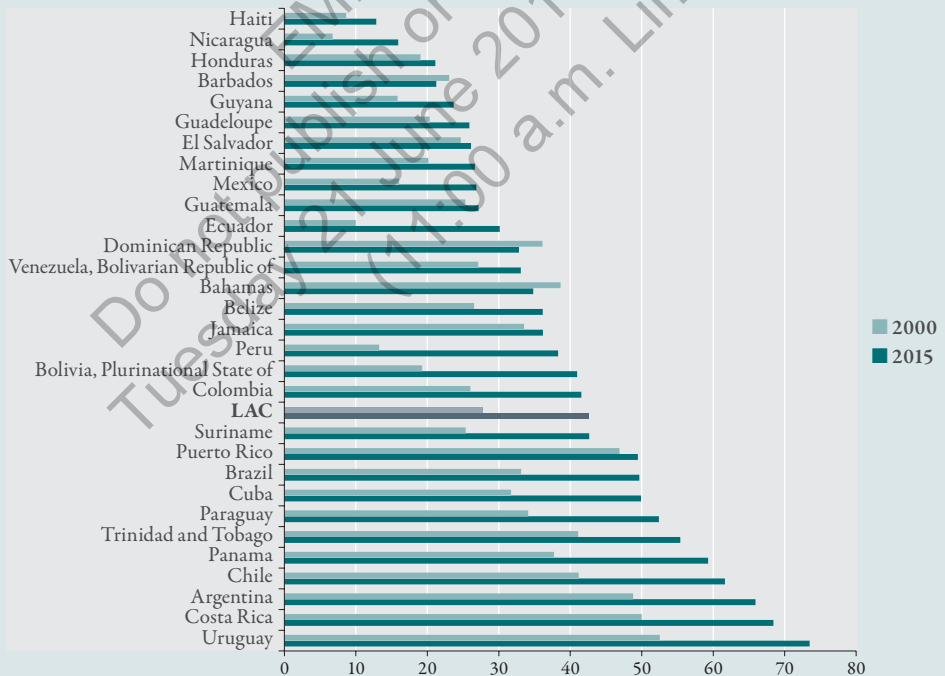
¹⁴ Improvements in labour income have been found to be the main driver behind poverty reduction in the region (Azevedo et al., 2013).

Figure 1.6. Employment composition by economic class

Panel A: Employment by economic class (thousands)



Panel B: Share of developed middle class and above (above 13 USD) in employment, selected countries (percentages)



Note: Data for 2015 are preliminary (p).

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

Substantial reductions in inequality, although the trend decline has recently stalled

The reductions in poverty levels achieved in the region have been partially due to improvements in income distribution. In particular, it has been estimated that the reduction in income inequality in LAC accounted for around one-third of the reduction in extreme poverty experienced during the 2000s – the remaining two-thirds was related to economic growth (Lustig et al., 2013; ILO, 2015b).

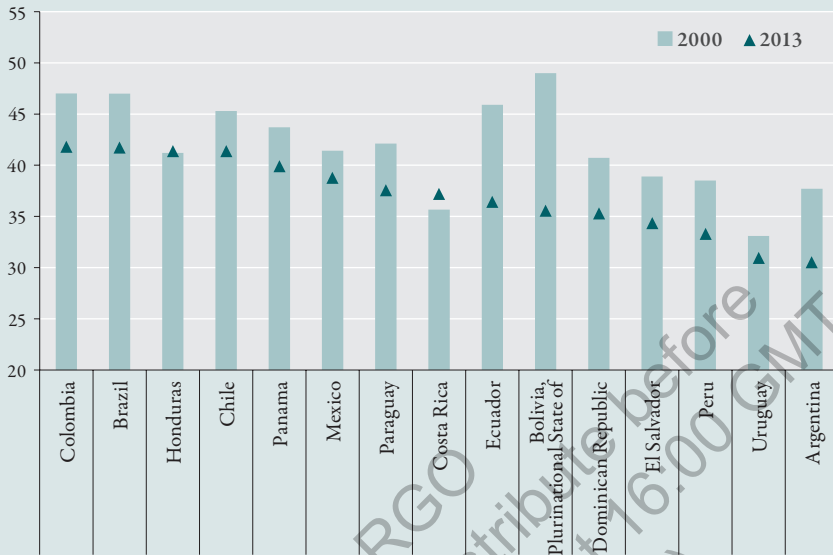
The share of income held by the richest 10 per cent of the population has fallen since the beginning of the 2000s in almost all countries in LAC. The decline was particularly substantial in Bolivia (from 49 to 33.6 per cent of total income) and Ecuador (from 45.9 to 36.5 per cent). Countries such as Argentina, Brazil, Colombia, Dominican Republic and Peru registered a decrease in the income share held by the top decile of around 5 percentage points. The only countries that experienced an increase in the share of income held by the richest 10 per cent have been Costa Rica (from 35.7 to 37.3 per cent) and Honduras (from 41.2 to 41.5 per cent) (Figure 1.7, panel A). This has translated into a trend decline in the Gini index, which fell between 2000 and 2013 in all LAC countries with the exception of Costa Rica, Guatemala and Honduras. The decrease has been particularly significant in countries that started from very high levels of inequality, such as Bolivia (from 0.64 to 0.47), Brazil (from 0.64 to 0.55) and Ecuador (from 0.56 to 0.47).¹⁵ However, inequality in LAC remains high in comparative terms. In particular, the median Gini coefficient in LAC is 0.45; compared with a median of 0.30 for developing countries and values of 0.42 in Sub-Saharan Africa, 0.37 in Eastern Asia, 0.36 in Southern Asia and in the Arab States and Northern Africa and 0.34 in Eastern Europe and Central and Western Asia (Figure 1.7, panel B).

Despite these improvements, there is evidence that the recent economic slowdown has already translated into a slowdown (in some cases a reversal) in the pace of improvements in social indicators. In particular, in nine out of 14 countries for which information is available, the share of income held by the richest 10 per cent of the population increased between 2012 and

¹⁵ Data refer to the latest available year.

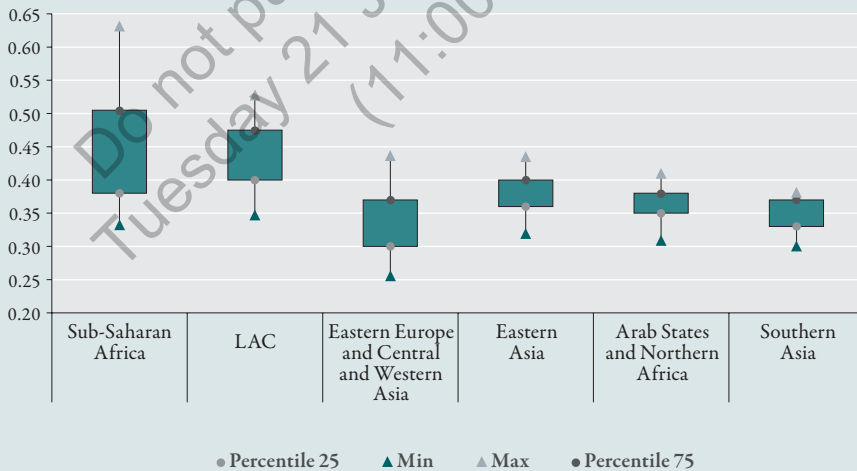
Figure 1.7. Income inequality

Panel A: Share of income held by the richest decile in the income distribution (percentages)



Note: Data for Mexico refer to 2012.
 Source: ILO calculations based on World Bank Poverty and Equity Database.

Panel B: Distribution of Gini index by geographic region, 2010



Note: The minimum (maximum) point represents the countries with the lowest (highest) Gini index in each specific region. The green area indicates the interquartile range of Gini indexes by region.
 Source: ILO calculations based on Alvaredo and Gasparini (2013).

2013.¹⁶ Over the same period, the Gini coefficient increased in eight out of 13 countries with available information – the first widespread increase in the Gini index since the beginning of the 2000s. These trends are partially the result of less dynamic growth of wages in the region. Indeed, after a moderate rebound following the global financial crisis, the growth rate for real wages slowed considerably – to 0.8 per cent in 2013.¹⁷ This was well below the global average of 1.8 per cent in 2013 and also the lowest value among emerging and developing regions.¹⁸ Only advanced economies experienced lower wage growth than countries in LAC – at 0.2 per cent in 2013 – partially as a reflection of fiscal consolidation measures in the euro area (ILO, 2014c).

Informal employment is still predominant in the labour market

Another factor significantly holding back the achievement of further economic and social improvements is the relatively low quality of the jobs available in the labour market. In particular, the persistence of informal employment represents one of the main concerns in the region.¹⁹ In 2013 informal employment represented almost half (46.8 per cent) of total non-agricultural employment.²⁰ The bulk of informal employment comprises informal employment in the informal sector – at 30.5 per cent of total non-agricultural employment. Informal employment in the formal sector represents another 11.4 per cent of total non-agricultural employment, and domestic workers represent an additional 4.9 per cent of total employment (ILO, 2014d).

In terms of developments over time, historical data are limited, but the evidence shows that the share of informal employment increased in the first half of the 2000s, reaching 52 per cent of total non-agricultural

¹⁶ Data for Mexico are not available for 2013.

¹⁷ Preliminary data for 2014 suggest even further wage contraction, with an annual growth rate in average wages equal to 0.3 per cent (ILO, 2015c).

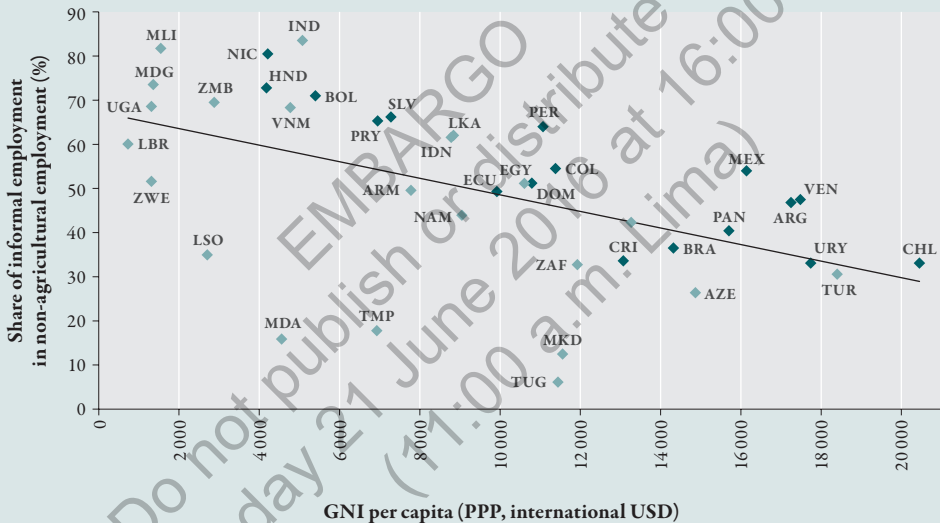
¹⁸ Indeed, real wages in 2013 increased by 0.9 per cent in Africa, 3.9 per cent in the Arab States, 5.1 per cent in Asia and the Pacific and 5.8 per cent in Central and Eastern Europe.

¹⁹ According to the 17th International Conference of Labour Statisticians (ILO, 2003), informal employment includes the “total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households”. This definition includes as workers in informal employment: (i) workers in the informal sector, and (ii) workers employed in the formal sector that are not subject to national labour legislation, income taxation, social protection or entitlement to certain benefits. See ILO (2013a) for further details.

²⁰ Regional trends on informal employment are based on data for 14 countries.

employment in 2005, before gradually declining to its current levels (ILO, 2013a). As a result and despite recent improvements, most countries in LAC still have a higher share of informal employment than do countries with similar income levels in other geographical regions (Figure 1.8). However, marked differences persist across countries even within LAC. In particular, the share of informal employment in the non-agricultural labour force ranges from 80.5 per cent in Nicaragua to 33.6 per cent in Costa Rica.

Figure 1.8. Informality and GNI per capita, latest available year



Note: Countries in Latin America and the Caribbean are marked in darker green. Share of informal employment corresponds to the latest available year.

Source: ILO calculations based on ILO Key Indicators of the Labour Market (KILM) and ILO (2014d) (share of informal employment in non-agricultural employment) and the World Bank World Development Indicators (GNI per capita).

Informal employment disproportionately affects certain categories of workers. In particular, informal employment in LAC is more common among women than men – 49.7 per cent of female employment and 44.5 per cent of male employment.²¹ Similarly, youth are more likely to be in informal

²¹ In 2009, the share of female informal employment was 53.8 per cent, while the share of male informal employment was 47.2 per cent.

employment than adults – 55.7 per cent of total youth employment and 44.9 per cent of total adult employment, respectively. Moreover, informal employment is more common among low-educated individuals – 64.4 per cent of workers with primary education or no schooling are in informal employment – and poor households – 72.5 per cent of workers in the bottom income quintile have informal jobs. Informal employment is particularly prevalent in the construction sector (68.6 per cent), in trade, restaurant and hotels (55.7 per cent) and in the transport, storage and communication sector (49.7 per cent) (ILO, 2014d).

Partially as a result of the widespread diffusion of informality, vulnerable employment remains high in LAC.²² In particular, the share of vulnerable employment in total employment stood at 31 per cent in 2015 – down from 35.6 per cent in 2000.²³ This compares with values of 18 per cent in the Arab States, 32.6 per cent in Central and Western Asia and 11.2 per cent in Eastern Europe; while in many Asian economies the share of vulnerable employment is still above 50 per cent. Finally, the incidence of underemployment has declined during the past decade, but it remains a concern in the region.²⁴ In particular, the share of employees in time-related underemployment remains high in countries such as Argentina (15.2 per cent in 2012), Colombia (12.4 per cent in 2012) and Nicaragua (22.2 per cent in 2013). These values are relatively high compared with countries in other regions for which data are available. For instance, underemployment affects 3.1 per cent of the labour force in Mongolia and 2.9 per cent in South Africa.²⁵ Higher levels of underemployment are found in some Southern Asian countries – in Bangladesh affects 20.3 per cent of employees (ILO, 2013b).

²² Vulnerable employment is defined as the share of own-account and contributing family workers.

²³ There is no significant difference in the share of vulnerable employment between sexes, as this affects 31.2 per cent of men and 30.7 per cent of women.

²⁴ Underemployment refers to a situation in which the number of working hours in the reference period is insufficient with respect to a more desirable employment situation. Persons in time-related underemployment need to satisfy the following three criteria: (i) they are willing to work additional hours; (ii) they are available to work additional hours; and (iii) they are working fewer hours than the nationally defined threshold.

²⁵ ILO KILM database, 8th edition.

C ROLE OF PUBLIC SPENDING AND POLICY INNOVATIONS

There has been progress in social security coverage, although some gaps remain

Improvements in labour market performance and poverty rates have been supported by governments efforts to tackle social challenges and promote employment quality. One important set of public interventions in this domain has concerned the extension of national social security systems – the development of which has been facilitated by increasing participation in the labour market, as discussed above. In particular, the share of the working-age population legally covered by an old-age pension increased from 69.1 per cent in 2000 to 94.7 per cent in 2013. This represents a rate similar to those found in developed economies and above those in most emerging and developing economies, such as the Arab States and Northern Africa (40.8 per cent) and Sub-Saharan Africa (35.1 per cent).²⁶ Moreover, the majority of the working-age population in LAC is legally covered by contributory compulsory schemes (60.9 per cent of the working-age population), while non-contributory and contributory voluntary schemes play a more limited role – legally covering 19.1 per cent and 14.8 per cent of the population, respectively (ILO, 2015b).

However, effective social security coverage – measured as the proportion of people of working age (for pensions) or in the labour force (for unemployment) who are covered by national social security legislation – is found to be significantly lower than the legal coverage of social protection – and the levels are substantially below those registered in many advanced economies. In particular, the share of people aged from 15 to 64 years effectively contributing to a pension scheme in LAC increased only from 24.4 per cent in 1990 to 27.8 per cent in 2013.²⁷ Effective

²⁶ The ILO regional classification has slightly changed and the text above refers to the old regional grouping. Please refer to ILO (2015a) for the full list of old regions and to ILO (2016b) for the full list of new regions.

²⁷ These gaps have been compensated by the extension of non-contributory schemes. In 2013, 66 per cent of men and 57.1 per cent of women above retirement age receive a pension – compared to 46 per cent in 2000 (ILO, 2016a; 2015b; 2014b).

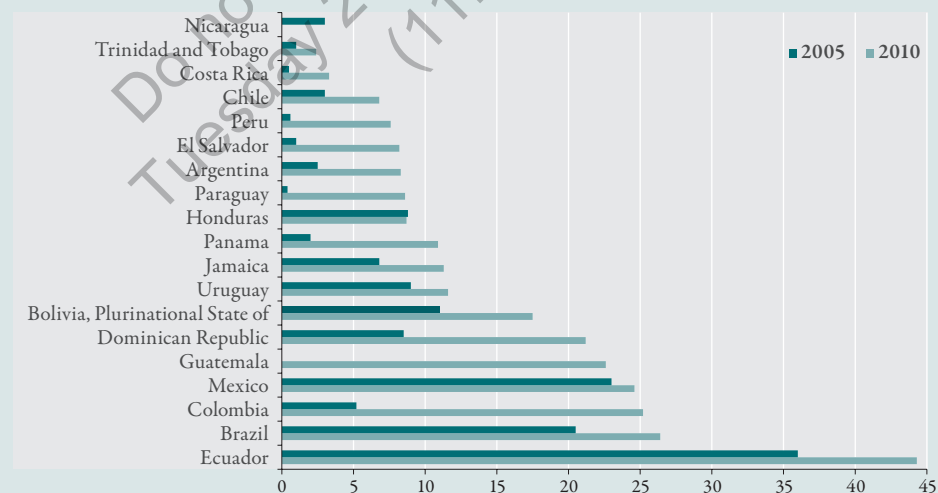
coverage is generally lower than legal coverage due to governance problems in implementing the legal provisions and/or due to gaps in funding, individuals' contributory capacities and lack of awareness of entitlements. For instance, the rate of legal coverage against workplace injury is 56.5 per cent in Brazil and 32.1 per cent in Paraguay; but the effective coverage rates are 42.4 per cent and 21.7 per cent, respectively. With respect to maternity benefits, countries such as Argentina, Chile and Paraguay have legal coverage rates of between 30 and 60 per cent of the population, but effective coverage rates are between 10 and 30 per cent. At the same time, countries such as Brazil and Peru, where legal coverage for maternity care is above 70 per cent, have effective coverage of between 30 and 60 per cent (ILO, 2014b).

Moreover, there continue to be gaps in legal and effective coverage of social security across different occupational statuses and/or societal groups. In particular, wage and salaried workers are almost twice as likely to have legal access to old-age pension and/or health coverage than non-wage and salaried workers – with legal coverage at 84.9 per cent and 45.7 per cent, respectively. Among wage and salaried workers, public sector employees are the most likely to be covered by social security (96.1 per cent have pension and/or health coverage); while in the private sector, social security coverage for employees increases with firm size – at 57.4 per cent in firms with fewer than six employees and 88.6 per cent in firms above this threshold. Among non-wage and salaried workers, legal health and/or pension coverage is relatively high among employers (73.4 per cent), while comparatively lower levels are registered among domestic workers (43.8 per cent) and contributing family workers (41.8 per cent) (ILO, 2014e). Moreover, legal coverage of unemployment benefits is still very low and mostly limited to dependent employees – 38.7 per cent of whom are covered, compared with 4.8 per cent of own-account workers (ILO, 2015b). Additionally, in many countries the share of unemployed who actually receive unemployment benefits is substantially below what is legally mandated – either due to strict administrative requirements, conditionality or gaps in public funding. These gaps in social security coverage have been partially compensated by the development of non-contributory social assistance schemes aimed at reaching the most vulnerable groups in the society, such as conditional and unconditional cash transfers.

Conditional cash transfers have reached the most vulnerable groups

Conditional cash transfers (CCTs) constitute an important element of the policy strategy that has been adopted by governments in the region to improve the living conditions of the population. They have also constituted important sources of social protection for those not covered by contributory schemes, as mentioned above. These schemes differ across countries, but they are all characterized by offering payments to the poorest families in return for those families meeting specific conditions – such as school attendance or health controls for children. CCTs account for only a limited share of the region's total government budget – equal to 0.1 per cent of GDP in 2000 and 0.4 in 2013 – but they reach a significant proportion of the population. Indeed, 21.5 per cent of the population in the region received conditional cash transfers in 2013 – up from 5.7 per cent of the population in 2000 (Cecchini and Vargas, 2015). The magnitudes of these programmes differ greatly across countries. In Brazil, Colombia, Ecuador and Mexico, coverage rates are all above 25 per cent and notable progress has been made in the past decade to increase the scope of these schemes. Conversely, CCT programmes are little used in countries such as Costa Rica, Chile and Peru – where coverage rates are below 10 per cent – and are completely absent in Nicaragua (Figure 1.9).

Figure 1.9. Share of the population covered by conditional cash transfers (percentages)



Source: ILO calculations based on Cecchini and Madariaga (2011).

Box 1.2. Conditional cash transfers and workfare programmes²⁸

CCTs are demand-side programmes aimed at breaking the intergenerational transfer of poverty by providing public transfers to poor households, who, in exchange, are required to undertake certain actions (e.g. enrolment in education, and medical controls of children) that will enhance their living conditions in the longer term. CCTs have been one of the most prominent anti-poverty programmes in LAC during the past two decades – and they have rapidly expanded. Great efforts have been made to assess their effectiveness in reducing poverty and enhancing living standards, with the evaluations generally showing positive results.²⁹ One of the first CCTs was *Progresá*, implemented in the 1990s in Mexico, which linked money transfers for food with scholarships to keep children in school and incentives to seek health care. Partially thanks to its success, CCTs have spread to most LAC countries. For example, Brazil's *Bolsa Escola* programme, created in April 2001, generalized at the federal level programmes that had begun in 1995. The programme provided the equivalent of half of the minimum wage to households with an income per capita below 90 BRL, provided that children attend school regularly. Although being principally implemented in LAC countries, CCTs have also been introduced (or are being piloted) in other developing and emerging economies, such as Egypt (*Minhet El-Osra*), Bangladesh (Female Secondary School Assistance Project) and Turkey (*Şarhı Nakit Transferi*).

The concept of workfare programmes was first introduced at the end of the 1960s in the United States and then conceptualized by Lawrence Mead at New York University. One of the first workfare interventions was also implemented in the United States through the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), which introduced mandatory work requirements for obtaining welfare transfers. When compared with CCTs, workfare programmes are schemes that specifically provide incentives to work – generally targeting unemployed or unskilled workers. These incentives are often a combination of measures that are aimed to improve participants' employability, such as training, rehabilitation and work experience. In the LAC region, workfare programmes were initially implemented in the 1990s in response to the economic crisis and the increasingly high unemployment rates. Workfare programmes in the region have traditionally been designed to alleviate poverty by providing state-subsidized temporary jobs. Thus the difference between a workfare programme and a typical public works programme (see Chapter 2) is that within a workfare programme income support is typically provided on a more permanent basis (i.e. as opposed to a one-off type programme) or combined with components that can allow participants to find more permanent employment when the public programme ends (e.g. employability enhancing components). One example of a workfare programme is the Argentinian *Plan Jefes y Jefas de Hogar* programme. This programme consisted of a cash payment to individuals in exchange of 20 hours of community work, training activity or employment in a private company with a wage subsidy programme (see Chapter 4 for further details). Another example is the *Plan Nacional de Empleo de Emergencia* (PLANE), which was implemented in Bolivia between 2002 and 2005. The programme targeted poor people aged between 25 and 55 and offered employment for seven hours a day for a period of up to 10 weeks. Unskilled workers received around 480 BOB per month (slightly less than the minimum wage), while skilled workers received 1,600 BOB per month.

²⁸ See OECD (2013).

²⁹ See for instance Neri et al. (2013) for Brazil; Bertranou and Maurizio (2012) for Argentina and CONEVAL (2009) for Mexico.

The increasing role of active labour market policies

While social protection systems and CCTs have played a central role in governments' strategies to reduce poverty and inequality in LAC, active labour market policies (ALMPs) have gained relevance in selected countries in the region during the past decade as a means to address a wide range of labour market challenges. Importantly, while the main aim of CCTs is to reduce poverty, ALMPs are, among other things, intended to improve – either directly or indirectly – job quantity and quality (see Box 1.2 for a discussion on the differences between CCTs and workfare programmes, as specific types of ALMP). Indeed, spending on ALMPs increased between 2000 and 2010 in all countries for which information is available. In particular, it increased from 0.16 to 0.57 per cent of GDP in Brazil; from 0.2 to 0.45 per cent in Chile; and from 0.05 to 0.43 per cent in Argentina – all of which are countries with a level of spending comparable with an average advanced economy.³⁰ In these countries, spending on ALMPs has also increased as share of spending in all labour market programmes (i.e. active and passive interventions). Indeed, spending on active interventions as a share of total labour market programmes increased from 34 to 91 per cent in Argentina and from 33 to 52 per cent in Brazil and it remained around 70 per cent in Chile. ALMPs also represent a non-negligible portion of the government budget in Colombia (0.32 per cent of GDP) and Honduras (0.2 per cent); and while the role of ALMPs has increased, it remains more limited in comparative terms in Mexico (0.07 per cent of GDP), Peru (0.05 per cent) and Ecuador (0.03 per cent) (Cerutti et al., 2014) (see Figure 1.10, panel A).

When looking at the share of expenditure by type of active intervention, it can be seen that training programmes are among the most widespread ALMPs in LAC.³¹ Spending on training constitutes 68 per cent of total ALMP spending in Chile, 87 per cent in Colombia, 85 per cent in

³⁰ Average spending on ALMPs in the OECD was 0.56 per cent of GDP in 2013, with rates of 0.11 per cent in the United States, 0.23 per cent in Canada and Australia, 0.41 per cent in Italy and 1.82 per cent in Denmark. However, data on spending on ALMPs are not strictly comparable between OECD countries and LAC. In particular, in the former group, the costs of benefit administration (e.g. unemployment benefits) are in some cases counted as part of ALMPs spending – although they relate to passive interventions.

³¹ Importantly, ALMPs in LAC are rarely defined under a clear-cut category. This means, for instance, that training schemes could be included in public works programmes. Data on public spending by type of intervention should therefore not be interpreted as being strictly mutually exclusive. For the purpose of the present discussion, this chapter uses the classification of ALMPs by type of intervention proposed in Chapter 2 of this report.

Ecuador, 100 per cent in Honduras and 71 per cent in Peru. The majority of spending on ALMPs goes to financing public works schemes in Argentina (76 per cent) and self-employment and micro-enterprise creation in Brazil (56 per cent) and Mexico (55 per cent). Labour market services³² generally take a limited share of government budgets compared with other active interventions – with the exception of Peru (28 per cent) and Colombia (11 per cent) – while spending on employment subsidies is significant only in Brazil (42 per cent) and Chile (29 per cent). Within each category, evidence shows how spending tends to be fragmented across a multitude of relatively small-scale programmes (Cerutti et al., 2014).

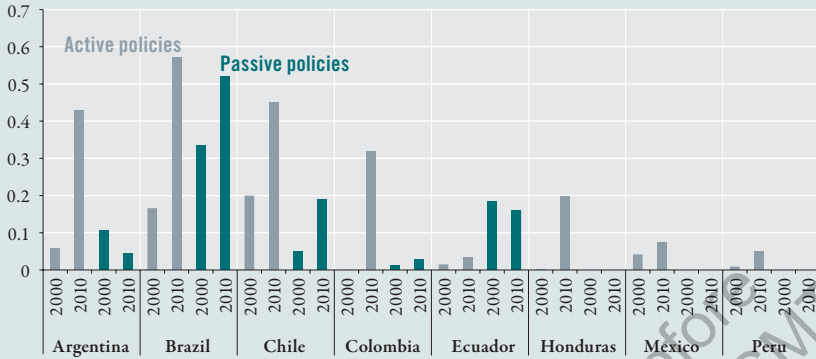
These spending profiles generally differ from those registered in advanced economies, where labour market services and employment subsidies play a relatively more significant role at the expense of training and public works programmes (Figure 1.10, panel B). These differences mostly reflect the different stages of economic development, which entail different needs for government interventions in the labour market. Additionally, differences in the nature and role of ALMPs in LAC compared with OECD countries relate to the more limited institutional capacities in the former group of countries.³³ This limits the effectiveness of government programmes in general, including that of ALMPs, as they usually require large public implementation capacities. Moreover, this also contributes to the definition of some particular institutional characteristics of ALMPs in LAC, such as the generally high degree of centralization required to manage them (see Chapter 2 for more on this issue).

³² Labour market services refer to the employment services provided by the Public Employment Services or as additional policy interventions. See Box 2.2 for more details on the definition.

³³ When discussing ALMPs, the traditional classification of countries as developed, emerging and developing is of limited practical use, as often ALMP experiences between developed economies have been broadly different (e.g. between EU member states and developed countries in LAC). For this reason, when discussing ALMPs this report refers to either OECD countries (to refer to a particular subset of developed economies that share similar experiences with respect to ALMPs), emerging and developing countries (to refer to the rest of the countries), or LAC (when referring particularly to countries in the region). This classification is, of course, not totally exhaustive: two particular exceptions are Chile and Mexico, which, despite being OECD member states, share similar ALMP experiences to many other LAC countries.

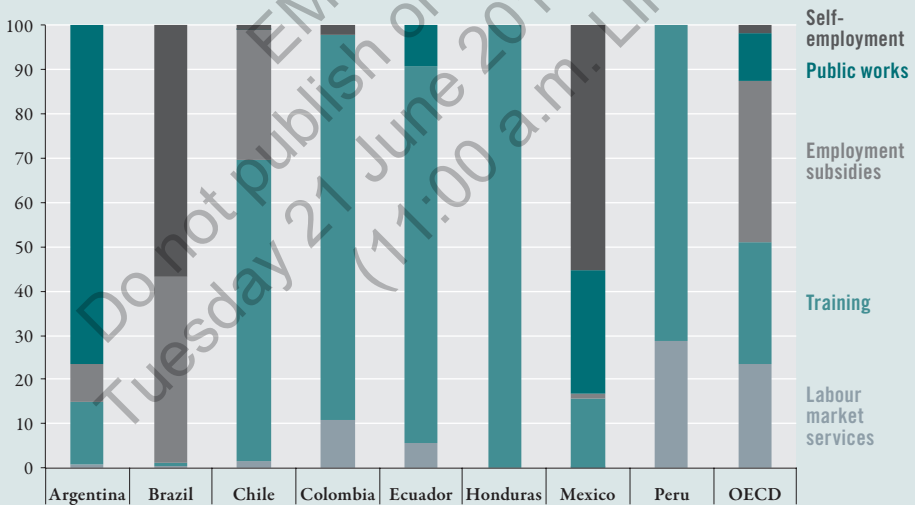
Figure 1.10. Public expenditure on labour market policies

Panel A: Public expenditure on active and passive labour market policies as a percentage of GDP, selected countries



Note: Values for ALMPs for 2000 refer to 2001 for Mexico, 2003 for Honduras, 2004 for Chile and 2005 for Brazil. Values for passive policies for 2000 refer to 2004 for Colombia and Chile and to 2005 for Brazil.

Panel B: Share of expenditure on ALMPs by type of programme (percentages)



Note: The figure illustrates the share of each component in total public spending on ALMPs. Data have been grouped following the categorization of ALMPs introduced in Chapter 2 of this report. For this purpose, training includes "Institutional training", "Workplace training", "Alternate training" and "Special support for apprenticeship". Employment subsidies include "Recruitment incentives", "Employment maintenance incentives" and "Supported employment". Public works includes "Direct job creation". Self-employment should read as "Self-employment and micro-enterprise creation" and includes "Start-up incentives". Data for individual countries refer to 2010; while the OECD average draws from the latest available information from 2013.

Source: ILO calculations based on the World Bank LAC Social Protection Database and OECD.

D CONCLUSIONS AND PRESENTATION OF THE REPORT

The role of ALMPs in the region going forward

As seen in this chapter, countries in LAC have experienced substantial labour market and social progress in the past 15 years. Unemployment rates have declined and labour force participation and employment rates have increased. As a result of better job opportunities, both poverty and inequality have fallen and the middle class has expanded considerably. Public policies have played an important role in these developments, sustaining living standards and increasing social protection coverage. This has been facilitated and supported by a range of public interventions – notably the expansion of social protection systems, including non-contributory schemes, as well as increased support for measures aimed at improving employability, such as ALMPs. These innovations have played an important role in tackling poverty and inequality and improving employment outcomes.

However, the region is confronted by a marked slowdown in economic growth and the consequent deterioration in labour market performance. Moreover, the shift towards a more knowledge-based and formal economy remains incomplete and some of the weaknesses in the process of structural transformation that accumulated in the 2000s have been brought to the fore in the context of the slowdown. In the coming years, GDP growth rates are set to remain well below the average values registered in LAC during the 2000s. As a result, the gains obtained in recent years in terms of employment quality (i.e. reduction in informal employment) risk being reversed rapidly, leaving incomplete the transition towards a more modern and inclusive labour market. Adverse consequences of this recession are already emerging – the pace of poverty reduction has slowed considerably and inequality has begun to rise in a number of countries for the first time since the early 2000s.

In this context, a reorientation of policy strategies is needed to prevent the current slowdown from translating into structural stagnation for

the region. The potential economic gains from increased labour market participation (i.e. extensive margin) have likely reached a plateau, while traditional sources of growth for the region (e.g. commodities exports) have generated some macroeconomic volatility. As such, it is likely that future labour market and social improvements will critically rely on shifting the economy towards more competitive specializations and higher productivity growth – and the presence of public policies to encourage this shift. With this in mind, the new policy approach to sustain productivity will need to complement interventions purely aimed at sustaining incomes and living standards (such as CCTs, typically implemented during previous crises) with ALMPs that are able to increase and improve the quantity and quality of the demand and the supply of labour either directly (e.g. employment creation) or indirectly (e.g. training).

Presentation of the report

The aim of this report is therefore to present the first systematic analysis of ALMPs in LAC and to assess the effectiveness of those policies in improving labour market and social indicators.³⁴ Across the following chapters, the report defines, describes, analyses and evaluates their scope, size, role and ability to improve social and labour market performances in the region. In particular, Chapter 2 reviews the different concepts relevant to understanding ALMPs in a non-OECD country context and presents the results of a unique compendium of all ALMPs implemented in selected countries in the region since the 1990s. Chapter 3 reviews both qualitatively and through a meta-analysis the empirical economic literature on impact evaluation of ALMPs, paying particular attention to the studies conducted in LAC. It sheds light on the current state of knowledge regarding the effectiveness of ALMPs and identifies the gaps in the literature in order to suggest possible avenues for future research and interventions. Based on the assessment of the literature and the identification of research gaps, Chapter 4 presents the results of three microeconomic evaluations conducted on selected ALMPs in the region for the purpose of this report, including an impact evaluation of a multi-approach activation

³⁴ Effectiveness in this report is understood as the success of policies and programmes in producing the desired result and related labour market and social outcomes, without considering the costs associated with their implementation. As such, the analysis in this report does not include observations regarding the cost-effectiveness of policies.

programme in Argentina, the provision of public employment services in Colombia and a workfare programme in Peru. It discusses the effects of these policies on improving the labour market outcomes and the living conditions of participants, while suggesting future policy considerations for improving their design and implementation as the region enters a new growth period.

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APPENDIX: MAIN LABOUR MARKET INDICATORS

Table 1.1. Main labour market indicators for LAC, 2015 (percentages)

	Unemployment rate			Employment rate			Labour force participation rate		
	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women
LAC	6.5	5.4	8.1	61.0	74.0	48.3	65.2	78.4	52.6
Argentina	6.7	5.6	8.2	56.9	44.4	70.3	61.0	48.4	74.5
Bahamas	14.4	13.9	15.0	63.5	59.0	68.2	74.1	69.4	79.1
Barbados	12.3	11.9	12.6	58.2	54.5	62.3	66.3	62.4	70.7
Belize	11.8	7.1	18.6	61.6	45.8	77.7	69.8	56.3	83.6
Bolivia, Plurinational State of	3.6	2.9	4.5	70.5	61.0	80.1	73.1	63.9	82.5
Brazil	7.2	5.6	9.2	62.3	51.1	74.1	67.1	56.3	78.5
Chile	6.4	5.7	7.3	58.4	47.0	70.4	62.4	50.7	74.6
Colombia	10.0	7.6	13.0	61.7	50.4	73.8	68.6	57.9	79.8
Costa Rica	8.6	7.4	10.7	56.3	41.8	70.9	61.6	46.8	76.6
Cuba	3.0	2.7	3.5	53.9	41.1	66.8	55.6	42.6	68.6
Dominican Republic	14.4	9.1	22.3	55.9	40.6	71.6	65.3	52.3	78.7
Ecuador	4.3	3.5	5.6	61.4	46.2	76.9	64.2	49.0	79.7
El Salvador	6.4	7.8	4.5	58.7	46.9	73.0	62.8	49.1	79.2
French Guiana	23.8	20.1	28.3	41.7	48.4	35.0	54.7	60.7	48.9
Guadeloupe	26.2	24.0	28.4	40.1	36.4	44.6	54.4	50.9	58.7
Guatemala	2.7	2.5	3.2	59.8	39.9	81.5	61.5	41.3	83.6
Guyana	11.2	9.0	15.3	52.9	35.4	70.2	59.5	41.8	77.2
Haiti	6.9	6.0	8.0	61.7	56.6	67.1	66.3	61.5	71.4

Table 1.1. Main labour market indicators for LAC, 2015 (percentages) (cont.)

	Unemployment rate			Employment rate			Labour force participation rate		
	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women
Honduras	3.9	3.3	4.9	63.1	44.9	81.6	65.6	47.2	84.4
Jamaica	13.7	10.1	18.2	56.0	47.2	64.9	64.8	57.7	72.2
Martinique	23.2	22.2	24.0	39.3	39.0	39.7	51.2	51.3	51.0
Mexico	4.3	4.2	4.5	59.5	43.4	76.2	62.2	45.4	79.5
Nicaragua	6.0	5.9	6.1	60.4	46.1	75.6	64.2	49.1	80.3
Panama	5.2	4.3	6.6	62.0	47.2	77.0	65.4	50.5	80.5
Paraguay	4.9	4.0	6.4	68.0	54.3	81.2	71.5	58.1	84.6
Peru	3.5	3.2	4.0	71.5	63.1	80.0	74.1	65.7	82.6
Puerto Rico	13.6	15.0	11.7	36.6	30.2	43.8	42.4	34.2	51.5
Saint Lucia	20.1	14.8	26.2	55.6	46.5	65.2	69.6	63.1	76.5
Saint Vincent	20.0	20.5	19.2	53.5	45.5	61.3	66.8	56.3	77.2
Suriname	7.8	4.7	13.0	50.2	35.3	65.4	54.5	40.5	68.6
Trinidad and Tobago	3.8	3.3	4.6	60.5	50.2	71.2	62.9	52.6	73.6
United States Virgin Islands	9.1	7.9	10.6	56.0	47.5	65.7	61.7	53.1	71.3
Uruguay	7.3	6.0	9.1	60.6	50.4	71.8	65.3	55.4	76.3
Venezuela, Bolivarian Republic of	8.0	7.4	8.9	59.5	46.9	72.6	64.7	51.4	78.4

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

Table 1.2 Share of employment by status in LAC, 2015 (percentages)

	Wage and salaried workers			Employers			Own-account workers			Contributing family workers		
	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women
LAC	64.8	63.6	66.6	4.2	5.2	2.7	26.1	27.8	23.5	5.0	3.4	7.2
Argentina	75.4	71.4	81.3	4.3	5.4	2.7	19.6	22.8	14.8	0.7	0.4	1.2
Bahamas	83.1	78.0	88.6	2.4	3.4	1.4	14.2	18.4	9.7	0.3	0.3	0.4
Barbados	83.1	78.5	87.8	0.9	1.1	0.6	15.9	20.4	11.4	0.1	0.0	0.3
Belize	67.4	64.3	72.6	7.9	10.3	3.9	20.3	20.2	20.4	4.4	5.2	3.2
Bolivia, Plurinational State of	40.1	43.6	35.7	5.7	7.5	3.3	39.5	42.6	35.5	14.7	6.3	25.5
Brazil	72.2	68.2	77.7	3.9	4.7	2.8	21.2	25.4	15.5	2.7	1.7	4.0
Chile	73.5	74.6	71.9	4.5	5.4	3.1	20.6	19.2	22.6	1.5	0.9	2.4
Colombia	47.7	47.4	48.1	4.6	5.7	3.1	42.6	43.7	41.0	5.2	3.3	7.8
Costa Rica	75.5	73.8	78.4	3.9	4.8	2.3	19.5	20.4	17.9	1.1	1.0	1.4
Cuba	77.2	71.5	86.4	3.3	4.1	1.9	18.4	24.2	9.0	1.2	0.2	2.7
Dominican Republic	54.9	46.8	68.8	3.8	4.4	2.7	39.7	47.4	26.3	1.7	1.4	2.1
Ecuador	57.9	62.6	50.3	3.0	3.8	1.7	30.1	29.0	31.8	9.0	4.6	16.2
El Salvador	55.1	62.9	45.2	4.6	5.4	3.6	31.7	24.4	41.1	8.6	7.3	10.2
Guadeloupe	72.7	69.8	75.6	3.4	4.8	2.0	21.3	24.6	18.0	2.6	0.9	4.3
Guatemala	44.9	44.0	46.7	2.9	3.2	2.4	30.7	28.4	35.1	21.4	24.4	15.8
Guyana	51.5	53.0	48.5	7.6	10.0	3.0	31.3	27.6	38.6	9.6	9.4	10.0
Haiti	41.6	46.8	35.7	3.3	4.5	1.9	34.8	36.0	33.5	20.3	12.7	28.8
Honduras	44.3	46.2	41.0	2.5	2.7	2.0	40.2	38.0	44.2	13.0	13.1	12.8

Table 1.2 Share of employment by status in LAC, 2015 (percentages) (cont.)

	Wage and salaried workers			Employers			Own-account workers			Contributing family workers		
	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women	Overall	Men	Women
Jamaica	59.3	53.4	67.2	3.1	3.8	2.3	36.6	42.3	29.0	1.0	0.6	1.5
Martinique	73.0	69.8	75.6	3.3	4.8	2.0	21.0	24.6	18.0	2.8	0.9	4.3
Mexico	67.1	67.7	66.0	4.5	5.7	2.4	22.6	22.4	22.9	5.8	4.1	8.7
Nicaragua	53.2	52.4	54.5	4.0	5.5	1.7	35.9	33.3	39.8	6.9	8.8	4.0
Panama	68.3	66.5	71.3	2.5	3.2	1.3	24.9	27.7	20.4	4.3	2.5	7.1
Paraguay	57.6	57.4	57.9	6.1	7.3	4.8	31.0	30.5	31.8	5.3	4.8	6.1
Peru	47.9	54.1	40.2	5.0	6.3	3.4	34.8	34.0	35.9	12.3	5.6	20.6
Puerto Rico	77.7	67.7	90.7	8.1	13.5	1.2	14.1	18.8	8.1	0.0	0.0	0.0
Saint Lucia	67.7	68.5	66.7	3.9	4.2	3.5	20.5	25.7	13.6	7.9	1.6	16.3
Saint Vincent	70.4	68.1	73.4	3.6	4.3	2.5	22.6	26.3	17.5	3.5	1.2	6.6
Suriname	80.6	77.3	86.8	2.9	4.0	0.9	16.0	18.3	11.9	0.4	0.5	0.4
Trinidad and Tobago	79.1	74.9	84.9	5.4	6.5	4.0	14.7	18.5	9.6	0.7	0.1	1.5
United States Virgin Islands	71.8	68.9	75.4	3.9	5.0	2.6	22.3	25.6	18.3	2.0	0.5	3.8
Uruguay	72.7	70.2	75.8	5.0	6.5	3.0	21.3	22.7	19.5	1.1	0.5	1.7
Venezuela, Bolivarian Republic of	63.5	61.7	66.2	3.9	5.3	1.9	31.9	32.6	30.8	0.7	0.5	1.0

Note: Data on employment by status for French Guiana are not available.

Source: ILO calculations based on the ILO Research Department's *Trends Econometric Models*, November 2015 update.

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CHAPTER 2

ROLE AND EVOLUTION OF ALMPs IN LATIN AMERICA AND THE CARIBBEAN

INTRODUCTION

As demonstrated in Chapter 1, public policies and social spending have played an important role in shaping economic and social developments in Latin America and the Caribbean (LAC). Consequently, considerable attention has been given in the region to mapping and assessing social programmes – in particular anti-poverty programmes (Grosh, 1994). However, comparatively less is known about the sizes and scopes of active labour market policies (ALMPs) implemented in the region – particularly for some types of active policies, such as labour market services or employment subsidies. This gap can be partially explained by the fact that in LAC, ALMPs are a relatively new development. Prior to recent innovations, the few programmes that did exist, such as conditional cash transfers (CCTs) that included an employment component, were typically considered as part of other social security or anti-poverty interventions. Another explanation for this gap is the lack of a common framework by which to categorize and analyse ALMPs in emerging and developing countries. As a result, little is known about the extent to which ALMPs exist and even less about their evolution and characteristics, particularly in LAC countries.

The aim of this chapter therefore is to address this gap by: (i) providing a framework within which to review ALMPs in LAC; and then (ii) documenting the extent and composition of ALMPs implemented in selected countries since the 1990s. In particular, Section A provides an introduction to the concept of ALMPs and proposes a categorization of these interventions that can be applied to emerging and developing as well as developed economies. Section B introduces the ILO Compendium of labour market policies (both past and current) developed expressly for the purpose of this study.³⁵ Section C summarizes the findings of this chapter.

³⁵ The Compendium can be consulted and downloaded separately at: www.ilo.org/almpp-americas. The authors would like to thank Josep Espasa Reig for helpful research assistance during the first stages of the preparation of the Compendium.

A ACTIVE LABOUR MARKET POLICIES: DEFINITIONS AND CLASSIFICATION

Labour market policies have been traditionally categorized into active and passive interventions.³⁶ Passive labour market policies (PLMPs) are intended to provide replacement income during times of joblessness. In contrast, ALMPs have traditionally aimed to reduce unemployment by: (i) matching jobseekers with current vacancies through direct job-search assistance or information provision; (ii) upgrading and adapting the skills of current jobseekers in order to improve their employability; (iii) providing incentives to individuals or firms to take up certain jobs or hire certain categories of workers; and (iv) creating jobs either in the form of public sector employment or the provision of subsidies for private sector work.³⁷ Historically, ALMPs sought to reduce unemployment through these means, but in recent years they have taken on a broader range of employment and social objectives. Consequently, while the beneficiaries of PLMPs are generally unemployed individuals, ALMPs are in most instances open to the unemployed, but can also target underemployed, employed who are looking for better jobs or youths in school-to-work transition. Over time, the division between active and passive programmes has become more nuanced; for instance, recipients of unemployment benefits (PLMPs) are increasingly also beneficiaries of ALMPs (e.g. concept of mutual obligation), and ALMPs (especially in emerging and developing countries) often provide some form of income support (see Box 2.1).

Multiple objectives of ALMPs and different scopes

Originally, ALMPs aimed to keep people active in the labour market, enhance labour market reintegration and counteract rigidities. However, over time ALMPs have developed in a manner that goes beyond the strict objective of reducing unemployment. In practice, ALMPs have multiple functions deriving from their increasingly diverse nature. For example,

³⁶ This chapter follows the definitions and classifications of ALMPs developed by Auer et al. (2005), unless otherwise specified.

³⁷ See Calmfors (1994) and Bonoli (2010) for an extended discussion on the definition and historical origins of ALMPs.

Box 2.1. Active and passive labour market policies³⁸

The debate on how active and passive labour market interventions can be used to enhance labour market and social outcomes has continuously evolved over recent decades. Although such policies have principally been developed for and applied in OECD countries, the lessons learned from their use can be relevant for emerging and developing economies alike.³⁹

In most OECD economies ALMPs have increased significantly in importance since the 1990s. At that time, unemployment had increased dramatically, especially in the European Union (EU).⁴⁰ Moreover, high youth unemployment and long-term unemployment suggested there had been a change in the structural nature of unemployment and that there would be a persistent mismatch between the supply and demand for labour. In this context, increased emphasis on ALMPs was seen as an important means to increase labour market efficiency and reduce unemployment rates.⁴¹ As a result, a number of OECD countries shifted resources from passive to active measures on the understanding that passive measures alone cannot solve unemployment and improve the quality of the labour supply (OECD, 1993).

In recent years, however, the notion that active and passive labour market interventions can act in a complementary way – even reinforcing one another – has been increasingly supported. The topic was first raised theoretically (Coe and Snower, 1997) and then acquired empirical support in a number of studies (Bassanini and Duval, 2006 and 2009; Elmeskov et al., 1998). All these contributions have stressed the importance of the role of the complementarity between ALMPs and passive support in improving labour market performance and sustaining living standards. Simply relying on the activation component does not provide for a viable solution for individuals with little or no income or for some categories of unemployed workers – e.g. low-skilled youth – who are not job ready.⁴² Similarly, providing income support in isolation may not lead to an improved employment or social situation where there is a rapidly changing job market or when the individual is facing a barrier to re-employment (Martin, 2015).⁴³

they can include support that helps workers transition from one sector to another, or they can comprise various types of programmes intended to maintain individuals' incomes during recessionary times or top-up vulnerable groups' wages with the aim of reducing poverty or inequalities.

³⁸ This box is based on Bellmann and Jackman (1996); Layard et al. (1991); and Auer et al. (2005).

³⁹ Weishaupt (2011) provides a detailed analysis of the evolution of this debate.

⁴⁰ See Blanchard (2006) for a review and assessment of the literature on unemployment trends in OECD countries between the 1970s and the 1990s.

⁴¹ This view has shaped policy-making, as shown for instance by the European Employment Guidelines adopted at the Amsterdam Summit in 1997. *The OECD Jobs Study: Facts, analyses, strategies* (OECD, 1994) was among the most influential studies on the topic.

⁴² There is a similar debate over whether it is appropriate to change the composition of ALMPs (e.g. from job matching to training) during periods of economic downturn. See for instance Forslund et al. (2011) and Norlund (2009).

⁴³ See for instance OECD (2006; 2014) on the shift in policy orientation, as well as recent employment guidelines of the European Union (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32010D0707>).

The following objectives of ALMPs can be identified – which apply to developed, emerging and developing economies alike:⁴⁴

- *Increasing employment:* The primary role of ALMPs is to reduce labour market imbalances and counteract rigidities with a view to reducing unemployment and increasing employment levels. In a perfectly competitive labour market, jobseekers would be autonomously reallocated to the expanding and generally more productive part of the economy, where jobs are being created. In reality, there are various obstacles that might hinder this from taking place. For instance, there may not be enough available jobs in the economy at certain times, or the new jobs might be in different sectors, occupations or locations relative to those that were previously created. Moreover, employers might look for people with different skills and competences than those available in the labour force. Additionally, workers and enterprises might lack the necessary information to conclude a job match.

In the face of these obstacles, ALMPs can contribute to increasing employment levels by: (i) directly and indirectly creating jobs; (ii) helping individuals find jobs that match their skills and needs through job-search assistance and other support; and (iii) upgrading the skills of individuals such that they match those in demand.

- *Improving equity:* ALMPs can improve equity by targeting disadvantaged groups that face specific barriers in the labour market – for instance due to vulnerabilities associated with lower income levels, lack of basic skills or even discrimination.⁴⁵ In these situations, ALMPs may improve the employability of disadvantaged groups by providing: (i) incentives to remain active or join the labour force (e.g. employment subsidies for some categories of workers)⁴⁶; (ii) means for these workers to overcome skill deficits and other challenges (e.g. training courses reserved for

⁴⁴ Different categorizations of the effects of ALMPs can be chosen. The one presented here covers both social and economic effects and borrows from Auer et al. (2005); while a different categorization that focuses solely on labour market effects can be found in Calmfors (1994).

⁴⁵ This can be taste-based or statistical discrimination. The former refers to an irrational distaste for particular societal groups (e.g. minorities); while the latter uses observable characteristics (e.g. age, sex) to make inferences on unobservable characteristics (e.g. productivity).

⁴⁶ See Layard et al. (1991) for a discussion on the functions of the ALMPs.

specific groups such as low-qualified individuals⁴⁷; or (iii) incentives for firms to hire these vulnerable groups.

ALMPs can thus have an important redistributive effect. As such, these programmes are of paramount importance in countries characterized by sharp differences in individuals' characteristics and employment opportunities across different societal groups in terms of age, sex, ethnicity or local community. In these situations, strict targeting can be justified economically and socially, given the potential of ALMPs to affect specific groups, even if the aggregate effects of ALMPs may be low (Escudero, 2015). Importantly, although ALMPs that focus on marginal groups can be particularly effective, there are also risks associated with these policies. For example, advantages for particular groups may be accompanied by substitution and displacement effects.⁴⁸ Moreover, in the absence of specific components aimed at raising employability (e.g. training), these policies could have detrimental effects on vulnerable groups, due to stigma and lock-in effects during participation (Hujer et al., 2004).

- *Enhancing employment mobility and job quality*: Technological progress, international trade and the increasing role of the financial markets have contributed to increasing the pace at which skill requirements are changing and jobs are destroyed and re-created. These developments have also resulted in the emergence of new forms of employment, characterized by unconventional work patterns, work arrangements and places of work (ILO, 2015). Recent literature has documented how, in developed economies, the structural and technological change has widened the wage gap between high- and low-skilled workers, and how this skill-biased technological change does not benefit the labour force equally (Autor, 2014; Acemoglu and Autor, 2011). Others assert that structural change can lead to a shift away from low-paid manufacturing jobs and towards service sector jobs, which are on average better paid and require higher levels of education, thus increasing the quality of work (Stehr et al., 2009).

⁴⁷ For instance, the Youth Employment Network (YEN) – a joint initiative of the United Nations, the World Bank and the International Labour Organization – conducts research and provides technical support for improving youth employment opportunities.

⁴⁸ There is a risk that advantages for vulnerable groups (e.g. availability of jobs) would occur even in the absence of the policy (deadweight effects) or at the detriment of other categories of workers (substitution effect) or other jobs (displacement effects).

This raises concerns about whether structural transformations lead not only to increases in productivity and growth, but how and to what extent they will also affect the quality of work. In this context, ALMPs can have the twofold objective of favouring the transitions of workers from declining to emerging sectors, occupations and locations, while also enhancing job quality. For technological innovations to translate into better employment opportunities, policies should be in place to provide workers with the set of skills needed to take up these innovations. For instance, training, job-search assistance and supported employment measures could ensure the desired effects will be achieved by adjusting the qualifications of jobseekers (particularly the low skilled) to match the structure of demand and by providing jobseekers with incentives to work in new sectors, thereby fostering mobility and reducing “structuralization” (Schmid et al., 2001).

- *Reducing poverty:* Since the mid-1980s, employment has been increasingly recognized as a fundamental driver for reducing poverty (Todaro, 1989). As a result, policy actions that work towards that goal have also increased in importance. Although macroeconomic relations and a range of institutional settings are central in defining the employment–poverty link, ALMPs have the potential to contribute to poverty reduction by enhancing employment and incomes. Additionally, by raising human capital through the accumulation of skills, ALMPs can also raise lifetime earning potentials, with likely positive intergenerational effects. For instance, the income earned from the enrolment in a public works programme helps alleviate immediate poverty, while at the same time the infrastructure improvements financed by the programme help to enhance living conditions.

In both OECD⁴⁹ countries and emerging and developing ones, ALMPs are implemented alongside unemployment benefits and evidence has

⁴⁹ When discussing ALMPs, the traditional classification of countries as developed, emerging and developing is of limited practical use, as often ALMP experiences between developed economies have been broadly different (e.g. between EU member states and developed countries in LAC). For this reason, when discussing ALMPs this report refers to either OECD countries (to refer to a particular sub-set of developed economies that share similar experiences with respect to ALMPs), emerging and developing countries (to refer to the rest of the countries), or LAC (when referring particularly to countries in the region). This classification is, of course, not totally exhaustive: two particular exceptions are Chile and Mexico, which, despite being OECD member states, share similar ALMP experiences to many other LAC countries.

shown that the complementarity between these policy tools does indeed have the potential to alleviate poverty (Martin, 2015). In emerging and developing countries, the effect on poverty can be stronger because the poverty alleviation function of ALMPs is generally directed towards the most vulnerable segments of the population (e.g. working poor in the informal economy) rather than strictly to the unemployed, as in OECD countries. Moreover, in these countries poverty reduction is usually one of the intended objectives of policies, particularly with workfare programmes and CCTs.

Importantly, these measures may also have unintended positive effects. First, they can increase aggregate demand through consumption smoothing (e.g. public works programmes in times of recession) and have positive spillover effects (e.g. resulting from the provision of public infrastructure). Second, they can have positive spillover effects on job creation (i.e. individuals hired by participants of programmes assisting self-employment and micro-enterprise creation). Third, ALMPs can have an effect on the wage structure.⁵⁰ Fourth, ALMPs, via skills upgrading, can have positive effects on productivity, either through their direct impact on participants or through positive externalities. Finally, ALMPs can ensure a minimum level of labour supply by providing incentives to certain groups to remain active or join the labour force (Layard et al., 1991).

The role of ALMPs in OECD countries compared with emerging and developing countries

Since the 1990s, there has been an increased acceptance in OECD countries of the need for ALMPs to strengthen the link between social protection, labour market policies and employment. As a result, expenditure on ALMPs is sizeable in most OECD economies and continues to increase. In contrast, in many emerging and developing countries the importance of ALMPs has only emerged in the past decade and therefore their use and weight in government budgets is less prominent, although it has been increasing over time.

⁵⁰ ALMPs can reduce reservation wages by increasing competition in the labour market or push downwards the wage structure by decreasing labour costs for firms. Alternatively, ALMPs can increase reservation wages, therefore slowing down transition to regular jobs. For a complete discussion about this, see Calmfors and Skedinger (1995) and Johnson and Layard (1986).

For instance in Central and South-Eastern Europe and the Commonwealth of Independent States, ALMPs were introduced for the first time in the 1990s in an effort to manage the transition towards market economies and address the related official emergence of unemployment. The designs of ALMPs in this region resemble those in developed economies, but public expenditures remain low (Auer et al., 2005).

In East Asia, ALMPs became important only after the financial crisis of 1997 and the consequent rapid increase in unemployment. In these countries, ALMPs aim to counteract the general absence of unemployment benefits and often aim to promote the shift towards formal employment (the share of informal employment in the region is among the highest worldwide). In Africa, the role of ALMPs is relatively limited and information on participants and spending is still scarce. In both regions, the effectiveness of ALMPs is constrained by limited employment growth in the formal sector and the inadequate administrative capacity of governments to implement these types of intervention on a large scale (Auer et al., 2005). In contrast, the incidence of ALMPs in LAC indicates that in only a few decades they have become a prominent labour market tool, mostly, but not strictly, aimed at compensating for the lack of labour demand in the formal sector.

Moreover, important differences remain between OECD and emerging and developing countries in terms of focus, scope and configuration of these policies, owing to their particular priorities (e.g. different social challenges) and to their rather dissimilar labour market functioning. In terms of the operation of the labour market, two main differences have affected the functioning of ALMPs. First, unlike in OECD countries, labour markets in emerging and developing countries are typically characterized by a growing labour force, high levels of labour force participation, low levels of unemployment (albeit high levels of underemployment) and higher rates of informal employment (see Chapter 1). Second, labour market and social institutions often have relatively weak capacity to implement programmes compared with those in OECD countries. This may limit the effectiveness of government programmes in general, including that of ALMPs, which usually require large public implementation capacity.

Owing to these differences, three main points are worth noting in terms of the particular role played by ALMPs in OECD and in emerging and developing countries. These help to explain how ALMPs are conceived in emerging and developing countries and why they are referred to by different names in different countries, depending on the context (such as social protection policies):

- ALMPs in emerging and developing countries aim to *address multiple objectives*, which often include tackling some longer-term challenges. One of the objectives will usually be economic (e.g. to increase the probability that the unemployed will find jobs or that particular groups will increase their earnings), as in OECD countries; but, in addition, emerging and developing countries often stress the importance of providing some sort of income support through these policies, which often even contributes to the social protection floor of the country (e.g. Argentina⁵¹). Importantly, longer-term social goals are also frequently part of the strategic objective motivating ALMPs in emerging and developing countries, such as reducing poverty or extreme poverty among participants or fostering community-level development.
- Given the aim of addressing multiple objectives, ALMPs in these countries *can rarely be defined under a clear-cut category*, as they often comprise various types of measures aiming to address diverse challenges. This is the case for workfare programmes, for example, which combine public works with other types of assistance (e.g. training) to enhance the employability of participants and improve their employment prospects after participation in the programme; and the case for CCTs with labour provisions, which aim to improve the employability and earnings of workers, independently of whether they receive the (passive) income transfer. It is important to note that given the income support provided by workfare programmes and CCTs, both these measures are also considered to be social protection policies,⁵² even if they have significant ALMP components.⁵³

⁵¹ See for example, Bertranou and Vezza (2010).

⁵² See the Social Protection Floors Recommendation, 2012 (No. 202).

⁵³ See discussion in Box 1.2 (Chapter 1).

- In emerging and developing countries, ALMPs may *lack the independent role* that is granted to them in OECD economies as they are often intended to fill gaps in public services provided by governments. For instance, training programmes might be implemented to compensate for deficiencies in the educational system or public works programmes and so fill deficits in community-level public infrastructure. Similarly, some emerging and developing countries lack the institutional capacity to support fully-fledged ALMPs, such as the Public Employment Service (PES).

In this context, a question emerges as to whether existing knowledge from OECD economies can be applied to emerging and developing economies. This question is relevant because empirically not enough is known on the specific or overall effects of ALMPs in emerging and developing countries (see Chapter 3). It is also important given that there is no framework by which to categorize and analyse ALMPs in emerging and developing countries. ALMPs have been implemented in OECD countries for a long time and there is now a well-established classification of these policies. As such, comparative analyses by type of ALMP can be easily undertaken for OECD countries because definitions are clear and comparative data are gathered regularly. The opposite is true for developing and emerging countries, where the lack of an agreed framework means that ALMPs cannot be classified according to the countries' realities and particular contexts; but the use of a categorization that is not fully applicable, risks hindering an improved understanding of these policies.

To fill this gap, the remainder of this section introduces a classification of ALMPs that is applicable to emerging developing countries – building upon research carried out by the ILO, particularly by Auer et al. (2005). This classification does not contradict the one generally used for OECD countries (as developed by the OECD and Eurostat⁵⁴), but has been expanded to take into account the particularities of ALMPs in developing and emerging countries in terms of focus, scope and configuration, as discussed above (see Table 2.1 for a summary table on the definition and role of ALMPs and their differences across OECD versus emerging and developing economies).

⁵⁴ Other classifications can be found in Bonoli (2010), Torfing (1999) and Taylor-Gooby (2004).

**Table 2.1. Summary table on ALMPs in emerging and developing economies:
Types of interventions, objectives and differences**



Classification of ALMPs

The classification put forward here differs from that for OECD countries in that the number of main categories of ALMPs (types of intervention) has been reduced from six to five, and that some adjustments have been made to the categories:⁵⁵

- *Training*: Labour market training represents an important component of policy strategies that aim to improve the employability of individuals and thus enhance their future career paths (e.g. higher earnings or improved job quality) with positive aggregate spillover effects (e.g. increased productivity). Training often targets certain labour market groups – including youth, women, disabled or older workers. In OECD countries, a difference is made between on-the-job and off-the-job training; the latter is usually targeted at unemployed individuals, but can also be used for the employed. In these countries, training represents the main item of expenditure within ALMPs. In emerging and developing countries, although training also represents the most common type of activity, it is generally accompanied by other labour market

⁵⁵ In particular, the OECD classification of ALMPs comprises: (i) training, (ii) direct job creation, (iii) employment incentives, (iv) start-up incentives, (v) public employment services and administration and (vi) sheltered and supported employment and rehabilitation.

interventions (e.g. as part of a broader strategy or within a public works programme) and can include some form of income support (see the case studies on Argentina and Peru in Chapter 4). Moreover, in these countries training is often of rather short duration and focused on the acquisition of basic skills.

- *Public works:* The main aim of public works programmes is to compensate for shortcomings in job creation by the private sector. As such, jobs created aim to complement existing ones and, as a general rule, public works programmes are part of public or public/private projects with a particular benefit for the society. In OECD countries, they aim to help unemployed individuals to remain attached to the labour market and are thus of particular importance during slow recovery periods (e.g. they keep workers active in the expectation that hiring will pick up). However, in these countries, the role of public works programmes has diminished considerably in recent decades after being widely used during the 1970s and 1980s. In emerging and developing countries, public works programmes are mostly regarded as poverty alleviation and community development measures, but they also have additional aims, such as providing a source of social protection for people not covered by contributory schemes or income support as an insurance against economic shocks. Another difference with respect to OECD countries is that in emerging and developing countries public works are more often implemented as workfare programmes, which means that many are aimed at assisting participants on a more permanent basis (e.g. *Construyendo Perú*⁵⁶) or are combined with other programmes (e.g. training) to secure the return of participants to non-subsidized employment once the programme concludes (e.g. see the case study on Peru in Chapter 4). During the past 10 to 15 years, large numbers of public works programmes have been implemented in these countries with the aim of assisting vulnerable populations (Subbarao et al., 2013).⁵⁷

⁵⁶ A programme whose action was not limited to a recessionary event and whose aim was to address employability issues in addition to providing income support (see Chapter 4).

⁵⁷ Such as the Productive Safety Net Program (PSNP) in Ethiopia, which within five years helped around 7.6 million households withstand the impacts of food crises; the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in India, the largest public works programme to date, currently available to approximately 56 million households; and the Argentinian *Jefes y Jefas de Hogar* programme, which expanded *Trabajar*, providing direct income support to poor families all over the country (Subbarao et al., 2013).

-
- *Employment subsidies:* These programmes include all initiatives aimed at providing incentives to hiring or maintaining jobs by reducing labour costs. On the demand side (i.e. subsidies directed towards employers), these measures are expected to encourage employers to employ or retain a certain group (e.g. long-term unemployed or young workers) to which the subsidy applies. On the supply side (i.e. when directed towards workers), they encourage members of the target group to re-enter the labour market by lowering their reservation wage. Employment subsidies in OECD countries are mainly designed to provide support of limited duration to vulnerable groups facing particular challenges, and often their use is intensified during periods of slack demand. In emerging and developing countries these subsidies are also intended to improve employment outcomes for workers who have chronic labour market integration difficulties (e.g. female heads of household, members of low-income households, youth unemployed and school-leavers) and therefore are used less during economic recessions. In fact, employment subsidies in emerging and developing countries (particularly in the LAC region) are often aimed at getting employers to hire participants of CCT programmes.
 - *Self-employment and micro-enterprise creation:* These measures aim to provide both financial and logistical support to unemployed or inactive individuals who are willing to start an economic activity, either through self-employment or as micro-entrepreneurs. In OECD countries, these policies tend to be directed to young and higher-skilled individuals because empirical evidence has shown that these types of interventions are effective when targeted specifically at unemployed who are job ready (Martin, 2000). In emerging and developing countries these policies play an important role in promoting employment creation in both the formal and informal economies, which means that in these countries the target group is wider than in OECD countries. Another difference relates to the degree of service integration provided to programme participants, which still suffers from substantial obstacles to their full development in emerging and developing countries – notably, the limited access to credit in the informal sector.

- *Labour market services*: Labour market services aim to connect jobseekers with employers. This is achieved through a range of services, including career advice, labour market orientation, job-search assistance and referral to other reintegration measures, such as training. These services can be provided by the PES entity of the country (Box 2.2) – either through a purely public provision or in partnership with private actors – or can alternatively be included in other types of ALMPs (e.g. training, public works). In OECD countries, the PESs and labour market services provided are central for a complete and effective provision and delivery of ALMPs. In emerging and developing countries, the role of PESs and labour market services is generally more limited – and public resources allocated to them relatively scarce. Nevertheless, efforts exist in these countries, which often focus on enhancing employability and fostering job readiness with a view to supporting the transition into formal

Box 2.2. Definition of PES and labour market services according to the ILO

According to the Employment Service Convention, 1948 (No. 88), the PES is a government entity, usually part of a ministry of labour, which plans and executes a variety of functions focused mainly on the promotion of employment and protection of workers during labour market adjustments and economic transitions (ILO, 2009).

To achieve this, PESs have different means of action, including: (i) providing labour market information; (ii) offering job-search assistance and placement services; (iii) providing counselling during periods of unemployment; (iv) managing various labour market programmes; and (v) administering unemployment insurance benefits.

PES models vary between countries, but the major functions and features are relatively consistent. In this context, a common discussion arises in relation to the distinction between the PES as an institution and labour market services as a category of ALMPs. The latter concept refers to all interventions aimed at supporting labour exchange, counselling and job-search activity (the first three points outlined above), whether provided by the PES or via any other policy intervention implemented in the country.

Considering this discussion and consistent with Convention No. 88, in this report a PES is understood as the governmental institution that executes a host of both active and passive programmes. The term “labour market services” is used to refer to the employment services as outlined above.

employment (see the case of Colombia in Chapter 4). However, while a number of reforms have been undertaken in these countries (particularly in LAC), they have mostly centred on strengthening and improving the efficiency of labour market services provided (e.g. through the introduction of new technologies), rather than creating new institutional frameworks or linking active with passive policies, as has been the case in OECD countries.⁵⁸

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⁵⁸ See Mazza (2013) for a review of reforms of PESs in LAC.

B ALMPS IN LATIN AMERICA: FINDINGS FROM THE ILO COMPENDIUM OF LABOUR MARKET POLICIES

While the nature and characteristics of ALMPs in OECD economies have been extensively analysed, relatively less evidence is available on the role they have played in emerging and developing economies. This is associated with their generally lower relevance as policy tools for addressing labour market and social challenges – as compared with OECD economies – and consequently the more limited resources that are devoted to them.

Yet, public expenditure on ALMPs has increased in most countries in the region, as discussed in Chapter 1,⁵⁹ reaching levels higher than in most non-OECD economies, although they remain below the OECD average (Auer et al., 2005). Moreover, in most of the countries in LAC, expenditure on ALMPs largely outpaces public spending on unemployment benefits. This reflects the increasing motivation to complement traditional interventions targeted towards providing social protection and supporting poverty reduction (e.g. CCTs) with policies aimed at increasing the employability of the labour force. However, still not enough is known about the nature and characteristics of ALMPs in the region or the impacts of these interventions on both employment quality and quantity⁶⁰; this raises questions about the effectiveness of these public investments. This section uses the categorization of ALMPs specified above to present the results of the ILO Compendium of labour market policies (compiled for the purpose of this study), which summarizes all ALMP interventions that have been implemented in selected countries in LAC since the 1990s (see Box 2.3 for details on the methodology used to construct the Compendium).⁶¹

⁵⁹ Please note that the breakdown of spending by type of intervention presented in Chapter 1 already takes into account the categories presented in this chapter.

⁶⁰ See Chapter 3 for a review of the evidence to date.

⁶¹ ILO (2013) has conducted a similar mapping exercise for Central America and the Dominican Republic.

Box 2.3. ILO Compendium of labour market policies: ALMPs in Latin America

The ILO Compendium of labour market policies provides information on all ALMP interventions implemented since 1990 in Argentina, Brazil, Colombia, Ecuador, Peru and Uruguay. To gather this information, a comprehensive review of existing evidence on ALMPs in this selected group of Latin American countries was conducted (e.g. official documents, legislation, research papers, etc.). For each policy intervention identified in this way, the Compendium includes the following information: (i) the start and end years; (ii) a description of the policy, including the target group, eligibility criteria and the services that are provided as part of the policy; (iii) the presence of either a monitoring report or an impact evaluation study; and, in some cases, (iv) coverage and expenditure on these policies. Both policies implemented nationwide and those with a more limited coverage (e.g. region, district) are included. The Compendium also includes some information regarding passive interventions – where such information is available. The entire policy Compendium can be accessed online (www.ilo.org/almpp-americas), where it is possible to sort and download information according to its main characteristics (e.g. country, type of intervention, target group).⁶²

The rest of this section presents trends in ALMPs that have been identified from the Compendium. Some caveats should be borne in mind when analysing these trends. These are mostly related to the use of count data (i.e. data that result from counting the number of observations), which only give partial information on the nature of the interventions that are analysed. For example, each policy is given equal weight regardless of its coverage, expenditure and duration – although some information on these aspects has been collected. The analysis of these trends has therefore been complemented with more qualitative information on the nature, scope and development of these policies (see Table 2.3 for selected country examples including this information). These examples have been chosen based on the availability of information on the main aspects of the policies (e.g. coverage, duration and budget) and the existence of impact evaluations assessing their effectiveness (as discussed in Chapter 3).

The main findings that can be drawn from the Compendium are as follows:

- The number of labour market policies implemented each year has increased with time. In particular, in the countries analysed, only six policies were implemented before the beginning of the 1990s. In comparison, 24 policies were implemented in the 1990s, 111 policies in the 2000s and 45 from 2010 to 2015.⁶³ As a result, the majority of all the

⁶² The information has been shared with the relevant ILO regional, subregional and country offices and with numerous government experts to ensure accuracy. In particular, comments were received from the ILO Regional Office for Latin America and the Caribbean (Lima), the ILO Country Office for the Andean Countries (Lima), the ILO Country Office for Argentina (Buenos Aires), the ILO Country Office for Brazil (Brasilia), and the Inter-American Centre for Knowledge Development in Vocational Training (ILO-CINTERFOR, Montevideo).

⁶³ Data for 2015 are preliminary.

interventions reported in the Compendium (i.e. since the 1990s) are still in operation (132 policies out of 189, equal to 69.8 per cent).

- t Training policies are the most popular form of ALMP in the countries analysed (44 per cent of the total), followed by policies to foster self-employment and micro-enterprise creation (28 per cent), labour market services (12 per cent), public works (11 per cent) and employment subsidies (5 per cent).^{64, 65} These trends are generally common to all the different countries analysed – although some country specificities clearly emerge (Table 2.2, panel A).
- t Interventions most frequently target youth (24 per cent of the interventions), followed by unemployed (19 per cent), vulnerable individuals (15 per cent), active population (14 per cent) and employers and small and medium enterprises (SMEs) (together accounting for 12 per cent) – see Table 2.2, panel B.⁶⁶
- t Colombia is the country that has implemented the greatest number of policies (26 per cent of the total number of policies collected in the Compendium); followed by Uruguay (23 per cent), Argentina (16 per cent), Brazil (15 per cent), Peru (14 per cent) and Ecuador (7 per cent).
- t In terms of the implementation of ALMPs, the analysis reveals that there appears to be a high level of interaction between the public and private sectors in the design and implementation of training and self-employment and micro-enterprise creation programmes. Two additional trends emerge with regard to public works programmes, notably: (i) their financial decentralization to local or regional governments; and (ii) that implementation is often undertaken by civil society non-profit organizations, such as NGOs and cooperatives. Although it is difficult to quantify the occurrence of these patterns in the Compendium, they are consistent

⁶⁴ An additional 1.5 per cent of the policies in the Compendium are so-called passive policies with an activation component (see Section A for a definition), which are not included in this analysis.

⁶⁵ Importantly, policies with more than one component (e.g. training and public works) are counted twice in the computation of these trends (to avoid the need to assess which component is predominant). This means that data should read as the percentage of programmes that have (at least) one specific component (e.g. training) – although it might not be the only component of the policy.

⁶⁶ Policies might have more than one target group (e.g. youth and women). These interventions are counted twice, which implies that data should read as the percentage of interventions that have (at least) one specific group as their target population – although it might not be the only target group of the policy.

Table 2.2. Results from the ILO Compendium of labour market policies

Panel A: Share of ALMPs by country and type of intervention (percentages)

	Argentina	Brazil	Colombia	Ecuador	Peru	Uruguay	Total
Training	36	48	40	60	62	40	44
Public works	16	10	5	0	19	11	11
Employment subsidies	16	5	5	0	0	3	5
Self-employment	28	29	40	30	10	23	28
Labour market services	4	10	10	10	10	23	12

Panel B: Main target group of policies by type of intervention (percentages)

	Training	Public works	Employment subsidies	Self-employment	Labour market services	Total
Vulnerable individuals	11	33	13	19	0	15
Active population	20	0	0	0	47	14
Unemployed	16	33	25	8	40	19
Employers/SMEs	0	0	0	43	0	12
Youth	38	0	25	16	13	24
Other	16	33	38	14	0	17

Note: "Self-employment" refers to the category "self-employment and micro-enterprise creation" discussed in Section A. Policies with more than one component (e.g. public works and training) are counted twice for the purpose of this table. This means that the table should read as, for example, 44 per cent of total ALMPs implemented in the selected countries have (at least) a training component. Target groups are those specified in each of the policies, therefore their definition is national and categories may overlap (e.g. youth can be vulnerable individuals).

Source: ILO (2016).

with existing qualitative analysis regarding the implementation of such policies (Castillo et al., 2014; Subbarao et al., 2013; Samaniego, 2002).

- *Training*: Training, either as part of a broader policy (e.g. workfare programmes when combined with public works) or on its own, is the most common type of ALMP implemented in Latin America (and consistently

so across the countries analysed). In particular, the share of training programmes in total ALMPs ranges from 36 per cent in Argentina to 62 per cent in Peru. With respect to their main target groups, a substantial share of training programmes (around 38 per cent) target youth (e.g. *Jóvenes en Acción* in Colombia), while 20 per cent have been more generally directed towards the active population and 16 per cent target the unemployed (an example is the *Programa de Capacitación Laboral* in Uruguay – see Table 2.3 for details).

- *Public works*: Public works programmes in Latin America have in some cases been introduced during crises and subsequently phased out, as in Uruguay (*Trabajo por Uruguay*), and at other times they have been implemented as workfare programmes, as in Argentina (*Plan Jefes y Jefas de Hogar Desocupados*). The vast majority of public works programmes are open to the unemployed (33 per cent) and vulnerable groups⁶⁷ (33 per cent), while some have been specifically implemented in urban areas (13 per cent). The outcomes of some of these programmes (see Chapter 3) have been evaluated and a brief description of one of them (*Empleo en Acción* in Colombia) is provided in Table 2.3.
- *Employment subsidies*: A quarter of the employment subsidy interventions in the policy compendium target the unemployed, another quarter target youth and a quarter target persons with disabilities (included in the “other” category in Table 2.2, panel B). The relative importance of employment subsidies differs across Latin American countries – from a maximum of 16 per cent of the ALMPs implemented in Argentina to no such programme in Ecuador and Peru. An example of this type of intervention is the *Programa Nacional de Estímulo ao Primeiro Emprego* in Brazil – see Table 2.3 for details.
- *Self-employment and micro-enterprise creation*: These interventions have been particularly popular in LAC, partially due to the high share of informal employment. They range from 40 per cent of the ALMPs

⁶⁷ The definition of vulnerable groups is country specific, but most often refers to individuals living in poverty and extreme poverty, individuals in informal employment or to particular groups, such as female heads of household, individuals with disabilities or indigenous populations. However, as explained in the notes to Table 2.2, target groups are not exclusive and some categories may include more than one group (e.g. certain youths can be part of the vulnerable group).

implemented in Colombia to 10 per cent of those in Peru – while the average for the region is 28 per cent, as shown in Table 2.2. Among their main target groups, 43 per cent of these interventions target employers and small and medium-sized enterprises, while another 19 per cent target the vulnerable population and 16 per cent target youth. Finally, most of these programmes aim at creating new businesses, while others aim at expanding already existing enterprises – see Table 2.3 for the example of the *Microemprendimientos Productivos* programme in Argentina.

- *Labour market services*: As a share of ALMPs implemented in Latin America, labour market services range from 4 per cent in Argentina to 23 per cent in Uruguay. These interventions generally correspond to: (i) the labour market services provided by the PES; or (ii) the labour market services provided within broader policies (e.g. training).⁶⁸ As a result, only a minority of these policies have a specific target group explicitly identified. In particular, 47 per cent of the policies are broadly targeted towards the active population, while 40 per cent are targeted at the unemployed. Only 13 per cent of labour market services have a specific reference to youth as their target group. An example of a labour market service in Peru is included in Table 2.3.

⁶⁸ For these reasons, it is possible that the Compendium underestimates the relative importance of labour market services in the countries analysed. In particular and differently from other types of ALMPs (e.g. training), when the PES entities are constituted or the employment services implemented they operate on a permanent basis – but they are counted only once in the Compendium. However, data on the duration of the efforts is available in the Compendium.

Table 2.3. Selected examples of ALMPs from the ILO Compendium of labour market policies

Training	<p>The <i>Programa de Capacitación Laboral</i> (PROCAL) was a training programme instituted in Uruguay in 1994 with the objective of providing recipients of unemployment benefits with access to job counselling and training courses according to their occupational profiles, their expertise and demands in the labour market. At a later stage, the programme was extended to include employed individuals willing to enhance their employability. For a long time the programme was one of the main activation policies implemented in Uruguay – and the main item of public spending on ALMPs in the second half of the 1990s. Indeed, between 1994 and 2007 the number of beneficiaries had reached 45,318. This corresponded to 20 per cent of unemployment benefit recipients and 28 per cent of ALMPs participants. However, a number of problems emerged in the implementation phase, including the high degree of centralization of the programme and the high cost of its implementation – estimated at 250 USD per participant per month.</p>
Public works	<p>The public work programme <i>Empleo en Acción</i> was implemented in Colombia between 2002 and 2004 in order to mitigate the effects of the economic crisis that hit the country at the end of the 1990s. In particular, the programme aimed to create temporary jobs for low-skilled individuals in the construction and maintenance of public infrastructures sectors in low-income areas of the country. The programme financed both wage costs for the employed individuals and the costs of the materials needed to undertake the projects. Eligibility requirements were strictly identified: individuals needed to be unemployed, above the age of 18, not be enrolled in an educational programme and be classified in either of the two lowest categories of the National System of Social Security Benefits (SISBEN). The programme assigned a maximum of 180,000 COP per month to each beneficiary (around 200 USD, PPP), and the maximum length of participation was five months for part-time workers. A total of 3,724 projects were funded through this programme.</p>
Employment subsidies	<p>The <i>Programa Nacional de Estimulo ao Primeiro Emprego</i> (PNPE) has been implemented in Brazil since 2003. PNPE aims to create incentives for enterprises to hire young workers. Participating enterprises need to comply with all relevant labour legislation covering newly hired employees and they also have to commit to maintain previous employment levels – to avoid substitution effects within firms. Moreover, the share of workers hired through the PNPE cannot exceed a maximum of 20 per cent. Eligible individuals should be young unemployed between the ages of 16 and 24 at their first working experience. Moreover, they have to be part of a household with an income per capita below half of the minimum wage. Finally, they have to be enrolled in primary or secondary education or on a training course. Participating youths cannot be hired as domestic workers or with “experience contracts” (<i>Contrato de experiência</i>); fixed-term contracts can be used provided that the employment relation lasts for a minimum of 12 months. The amount of the subsidy is equal to six bimonthly instalments worth 250 BRL (around 168 USD, PPP).</p>

Table 2.3. Selected examples of ALMPs from the ILO Compendium of labour market policies
(cont.)

<p>Self-employment and micro-enterprise creation</p>	<p><i>Microemprendimientos Productivos</i> (MEP) is a programme that has been implemented in Argentina since 2004. It replaced a larger programme that provided cash transfers during the first years of the crisis that erupted in 2001 – the <i>Plan Jefes y Jefas de Hogar Desocupados</i> (<i>Plan Jefes</i>) – which was phased out. The main aim of MEP was to facilitate the transition of <i>Plan Jefes</i> beneficiaries to this new scheme, where participants are provided with two types of support to start a self-employment activity. First, it provides grants to finance inputs and equipment. These grants are substantial in amount (equal to a maximum of 30 months of the benefit received through <i>Plan Jefes</i> by three people), last for a period of six months and are provided in-kind – with the local authorities actually purchasing the equipment on behalf of the beneficiaries. Moreover, the programme provides technical assistance on the institution of the self-employment activity, through periodic visits by tutors. This assistance covers areas of general management and business, and also more technical advice, depending on the specific sector of the activity.</p>
<p>Labour market services</p>	<p><i>The Red CIL – ProEmpleo</i> is a decentralized system of labour market services that has been implemented in Peru since 1996. It aims to improve labour market efficiency by promoting better job matching (e.g. screening of vacancies, CV preparation). In addition to this service, the programme provides enterprises and jobseekers with information related to the skills and occupations in demand in a particular labour market. Finally, the programme provides job-search assistance to jobseekers through counselling activities. The programme is targeted towards employers and unemployed individuals – with a specific priority given to individuals with low-educational attainment. The programme is centrally administered by the Ministry of Labour, but it relies on local authorities and non-governmental organizations (e.g. churches) for its implementation. In 2006, 23,642 jobseekers found a job through the job-search assistance of <i>Red CIL – ProEmpleo</i>. This corresponded to 28 per cent of the jobseekers registered in the programme and 68 per cent of the vacancies posted.</p>

Source: ILO (2016).

C CONCLUDING REMARKS

ALMPs can be powerful policy instrument, having great potential at both the individual and national levels. At the individual level, ALMPs have the capacity to provide new job opportunities, keep people active in the labour market and enhance employability, thereby improving not only the labour market performance of participants in a sustainable manner, but also their living conditions and those of their families. At the country level, a comprehensive set of ALMPs can contribute to reducing poverty and improving equity, while also enhancing employment mobility and job quality, thereby raising economic potential more generally.

While ALMPs have been a central pillar of labour market policy-making in OECD economies for several decades, they have only recently garnered attention in emerging and developing economies. In the case of LAC, ALMPs have only become important over recent years. In the countries analysed, 189 programmes have been introduced since 1990s – the vast majority of which are still operational. Public expenditure on these interventions has also increased in virtually all countries for which information is available, often outpacing public spending on other types of labour market policy (e.g. unemployment assistance).

One of the main findings arising from this chapter is that among the Latin American countries for which detailed information is available, training policies have been the most popular form of ALMP. The majority of spending on ALMPs has been devoted to training (e.g. around 87 per cent of public spending on ALMPs in Colombia and Ecuador) and 44 per cent of total ALMPs implemented in the countries analysed have either been training policies or policies that have a training component. Another interesting finding is that policies aimed at self-employment and micro-enterprise creation have also been popular, but not nearly as much as training, with 28 per cent of all ALMPs implemented having a self-employment and micro-enterprise creation component. Finally, the majority of the interventions in the region have targeted youth (24 per

cent), followed by policies directed towards the unemployed (19 per cent) and the most vulnerable (15 per cent).

Despite this increasing importance of ALMPs in LAC, very little is known about their effectiveness in improving participants' employment outcomes, both in the short and medium terms. And given the potential role that ALMPs can play in addressing the emerging challenges in the region, more research is needed on the effectiveness of these programmes and what lessons can be learned, to ensure that policy-makers are best placed to make informed decisions about how best to leverage ALMPs.

The remainder of this report aims to fill this gap. In particular, Chapter 3 presents a narrative literature review and the results from a meta-analysis conducted to provide general conclusions about "what works" in terms of ALMPs in the region and under what circumstances. Chapter 4 then presents the results of three impact evaluations conducted for the purpose of this project: a multi-approach activation programme in Argentina, the Colombian PES and a workfare programme in Peru.

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CHAPTER 3

EVIDENCE TO DATE: A REVIEW AND ANALYSIS OF THE ALMP LITERATURE

INTRODUCTION

As detailed in Chapter 2, active labour market policies (ALMPs) have been increasingly implemented in Latin America and the Caribbean (LAC) over the past few decades. A number of these measures were implemented during economic downturns and many have targeted specific groups. Impact evaluations provide a useful means of assessing the scale of a programme and its impact and transferability to the wider society. In the case of ALMPs, it is important to assess the impact of participation on outcomes such as employment, earnings and quality of work in order to gain a comprehensive view of their effectiveness.

A rich literature on impact evaluations of ALMPs is available globally, but it primarily relates to findings in OECD countries, which are often not applicable to the context of LAC (for reasons discussed in Chapter 2). However, a number of individual impact evaluations conducted on ALMPs in LAC have been carried out, although to date little effort has been made to categorize the results by type of policy and country. In light of this comparatively limited literature, a systematic analysis of the results would help to consolidate findings and generate useful additional evidence. In this context, the aim of this chapter is to identify some trends and commonalities arising from recent impact evaluation studies, to draw some conclusions on what is known about the effectiveness of ALMPs in the region and to highlight shortfalls in those areas in need of further research.

Accordingly, the chapter takes a three-pronged approach to reviewing the evidence: (i) Section A provides a description of the studies and their distribution across LAC countries; (ii) Section B presents a narrative literature review; and (iii) Section C comprises a meta-analysis based on

the study by Kluge (2016). In particular, Section A gives a broad overview of how the studies were selected and presents findings on their distribution over time, across countries and by type of policy. The narrative literature review of Section B analyses impacts at the individual level against their theoretical expectations, while the meta-analysis of Section C allows a systematic decomposition and analysis of individual impacts, placing them within a broader context and taking into account additional factors, such as the macroeconomic environment. Finally, Section D concludes by bringing together the findings from the narrative literature and the meta-analysis while drawing a number of policy conclusions that arise from this comparison.

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A AN OVERVIEW OF IMPACT EVALUATIONS ON ALMPS IN LATIN AMERICA AND THE CARIBBEAN

The set of impact evaluation studies reviewed in this chapter is the result of a detailed and careful process of selection, which included the following steps. First, an initial search of articles was undertaken systematically, using the following sources: (i) studies identified during the process of compiling the ILO Compendium of labour market policies (see Chapter 2); (ii) works undertaken by researchers in IZA's programme evaluation and NBER's labour studies networks; (iii) papers referenced in literature reviews conducted by Ibararán and Rosas-Shady (2009), Sanz (2012) and Vezza (2014); (iv) studies by international banks on impact evaluations, such as 3ie's Register of Impact Evaluation Published Studies (RIEPS) and the Inter-American Development Bank (IADB); and (v) articles citing the meta-analyses of Card et al. (2010) and Kluyve (2010).

Second, all studies originating from these sources were screened according to chosen criteria (see Table 3.1). More specifically, the studies selected were those that assessed the effects of particular programmes at the individual level in comparison to non-participation, and controlled for selection into treatment and control groups. In addition, only papers in English or Spanish were included. Subsequently, a number of articles were rejected as information on standard errors was not provided. As a result, the final sample consists of 44 impact evaluation studies, which are discussed, examined and analysed in a number of different ways in the following sections of this chapter.⁶⁹

In geographical terms, a significant number of the programmes covered by the studies selected were implemented in Argentina and Peru. In fact, of the 52 programmes evaluated by the 44 studies included in the review, 18 were undertaken in these two countries alone (Figure 3.1). Chile and Colombia also showed significant coverage with a total of seven impact evaluations carried out in each country. In contrast, Brazil and Mexico

⁶⁹ Despite efforts to comprehensively screen all sources that might contain impact evaluation studies relevant to the analysis of this chapter, some suitable studies may not have been identified for inclusion in this review.

Table 3.1. Sources and selection criteria of impact evaluation studies reviewed

		Sources	
Global	<ul style="list-style-type: none"> – Source material based on sampling approach by Card et al. (2015) 	<ul style="list-style-type: none"> – IZA programme evaluation network – NBER labour studies network – 3ie's Register of Impact Evaluation Published Studies (RIEPS) – Ibarrarán and Rosas-Shady (2009) – Studies citing Card et al. (2010) and Kluge (2010) 	
LAC	<ul style="list-style-type: none"> – Source material added to the 18 LAC studies of Card et al. (2015) 	<ul style="list-style-type: none"> – Studies identified while creating the ILO Compendium of labour market policies – Sanz (2012) and Vezza (2014) – Website of the Office of Evaluation and Oversight of the IADB 	
		Inclusion	Exclusion
Methodology	<ul style="list-style-type: none"> – Treatment effects assessed at the individual level – Control for selection bias into treatment and comparison groups – Effects estimated relative to non-participation 	<ul style="list-style-type: none"> – Comparison of effectiveness of different ALMPs – Standard errors not reported 	
Programmes examined	<ul style="list-style-type: none"> – Evaluation of one particular programme 	<ul style="list-style-type: none"> – Examination of ALMPs on a broader scale – Other forms of labour market policies 	
Language	<ul style="list-style-type: none"> – English and Spanish 	<ul style="list-style-type: none"> – Other languages 	

Source: ILO based on Kluge (2016).

show relatively limited participation in terms of the total number of documented impact evaluations, while there were even fewer studies for Bolivia, El Salvador, Guatemala, Nicaragua, Panama and Uruguay. Coverage of studies in Caribbean countries is somewhat scarce, with the exception of Dominican Republic, which has four impact evaluations of the *Juventud y Empleo* programme.

In terms of coverage over time, the number of studies peaked at the beginning of the 2000s (Figure 3.2). As the dates reported correspond to the year in which the programme evaluation started, the high number of papers in the early 2000s is composed largely of impact evaluations of the *Jóvenes* programmes, a prototypical model

Figure 3.1. Number of impact evaluation studies reviewed by country



Note: The 44 studies selected evaluate a total of 52 programmes as some studies analyse more than one programme, notably Ibarrañ and Rosas-Shady (2009) and Klinger and Schündeln (2011). The studies reviewed evaluate programmes between 1981 and 2014 (Figure 3.2). Source: ILO calculations based on Klüve (2016).

of intervention aimed at improving youth employability and implemented across Latin American countries throughout the 1990s. Since then, there has been a generally upward trend, with an increase in the number of impact evaluations in 2005 and 2009. The small number of papers from 2011 onwards is largely a reflection of the fact that the programmes were implemented only a few years ago, so any evaluations would be ongoing.

Regarding the methodological approach, the majority of studies use quasi-experimental designs (see Box 3.1 for a description of evaluation techniques). Indeed, 75 per cent of impact evaluations are based on quasi-experimental methods, out of which 42 per cent use tools to correct for selection bias into participation based on both observable (e.g. age,

Box 3.1. An introduction to impact evaluation

Impact evaluation is an estimation strategy that specifies one or more outcomes of interest and estimates the impact of the treatment (e.g. a youth training programme) on these outcome variables (e.g. earnings). Impact evaluation thus differs from other techniques of evaluation, such as monitoring (i.e. the exercise of tracking the evolution of certain variables over the course of a programme) or operational evaluation (i.e. the analysis of the development of the implementation of a programme). Impact evaluation can use either qualitative or quantitative methods (as is the case for all the studies discussed in this chapter) and it can analyse the impact of the treatment at either the individual or the collective level (e.g. for a community).

In all cases, however, impact evaluation is concerned with the construction of a counterfactual (i.e. what would have happened to participants in the absence of the programme) and its comparison with the outcome of interest as observed in the data (i.e. what happened to participants considering that the programme took place). The estimation problem then derives from the fact that we cannot observe individuals simultaneously in the two states (i.e. inside and outside the programme). Rather, one of the two states will need to be constructed artificially. The various techniques of impact evaluation (as presented below) differ depending on the strategy followed to solve this estimation problem. There is no single method that is preferable in all circumstances. Therefore, the choice between the different methods will depend on: (i) data availability; (ii) the nature of the programme; and (iii) how selection into treatment occurs.

The different evaluation designs can be grouped as experimental or quasi-experimental methods. Randomized controlled trials (RCTs) belong to the former category, while quasi-experimental methods include: (i) regression discontinuity design (RDD); (ii) instrumental variable (IV); (iii) differences-in-differences (DID); and (iv) propensity score matching (PSM).

- RCTs are generally considered the benchmark in impact evaluation and are characterized by the fact that participants and non-participants are allocated to the programme randomly in such a way that the only differences between the two groups will be determined by their participation in the programme. This does not occur in quasi-experimental methods, which attempt to account for selection bias in different ways.
- RDD is an estimation strategy that takes advantage of a programme's assignment rule, according to which the probability of participation differs significantly for individuals that are otherwise comparable (e.g. participation in a training programme which targets people under 25 years old). Any difference in the outcome variables between people above and below the threshold set by the programme's assignment rule (i.e. between people aged 24 and 26 years) can therefore be attributed to differences in their probabilities of participation (see Section C of Chapter 4 for a case study using this method).
- IV techniques use the fact that, in certain circumstances, the probability of participation is closely correlated with an exogenous factor (the instrument) which is otherwise unrelated to the outcomes of the programme. In these circumstances, differences in the outcome of interest (e.g. earnings) can be attributed to differences in the value of the instrument (e.g. distance from the location of training provision in a decentralized programme) but only through its relationship to participation for otherwise comparable individuals.

Box 3.1. An introduction to impact evaluation (cont.)

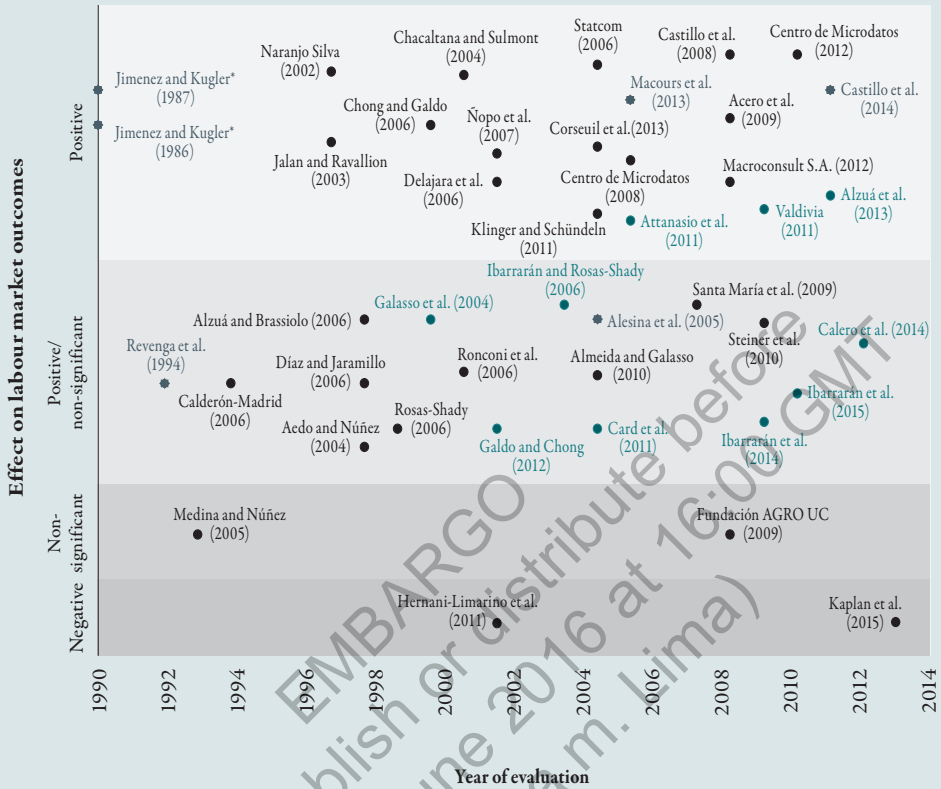
- DID methods assume the existence of time-invariant unobserved heterogeneity and use the availability of data on participants and non-participants before and after participation in the programme. If these two groups were exhibiting a parallel trend in the outcome of interest, for instance, earnings before the implementation of the programme, any change in differences in the trends after participation can be attributed to the programme (see Section A of Chapter 4 for a case study using this method).
- Finally, matching methods (such as PSM) are based on the assumption that differences between participants and non-participants that jointly determine: (i) their decision to participate; and (ii) the outcome of interest are all observable in the data. Matching therefore results in comparing participants with non-participants, giving more weight to the non-participants that are most similar to participants (see Section B of Chapter 4 for a case study using this method).

sex, etc.) and unobservable (e.g. motivation, skills, etc.) characteristics, while the remaining 58 per cent use methods based purely on observables. A growing trend in the use of experimental methods has been observed since the mid-2000s, and particularly recently: five of the nine studies from 2010 onwards use randomized designs. It is worth noting that estimated impacts derived from randomized controlled trials do not differ widely from quasi-experimental designs in terms of statistical significance. Moreover, impact estimates do not show any particular trend over time and, therefore, technical developments in evaluation methods do not seem to have any specific effect on the sign or statistical significance of programme impacts (Figure 3.2).

In terms of coverage by type of ALMP, training programmes are the most commonly evaluated intervention in the region – accounting for 67 per cent of the 52 programmes evaluated by the 44 studies examined. This is not surprising since, as noted in Chapter 2, training programmes are also the most popular intervention in the LAC countries analysed, but it is still disproportionate in relation to the findings of the Compendium.⁷⁰ Moreover, most of these training programmes consist of measures that aim to support the entry of young people into the labour market (also consistent with the distribution of policies implemented in the region, detailed in Chapter 2). This is in accordance with the significant investment that

⁷⁰ According to the ILO Compendium of labour market policies, 44 per cent of the total of ALMPs implemented in the countries covered by the Compendium are either training policies or policies that have a training component.

Figure 3.2. Mapping of studies reviewed by year of evaluation, impact significance and method used



Notes: Dates reported correspond to the year in which the programme evaluation started. * Jimenez and Kugler (1986, 1987) evaluate the effects of the job training component of Colombia's *Servicio Nacional de Aprendizaje* (SENA) in 1981. The Ibarrarán and Rosas-Shady (2009) study has not been included in the figure because it analyses seven programmes implemented in seven different countries and whose evaluations started in different years.

Effects are categorized as positive if the programme has a statistically significant positive impact on all outcome variables; positive/not significant if the impact is positive and statistically significant on at least one but not all outcome variables; not significant if the programme does not show any statistically significant impact on outcome variables; and negative if the programme has a statistically significant negative impact on outcome variables.

Darker green stars correspond to studies using regression-based methods; black to quasi-experimental methods (RDD, DID and PSM, mainly) and light green to experimental designs (randomized control trials).

Source: ILO calculations based on Kluge (2016).

the region has made in youth labour market policies over the past two decades. Other relatively prevalent categories include interventions to promote self-employment and micro-enterprise creation, public works and employment subsidies. In contrast, only two impact evaluations for labour market services have been reviewed.

There is a degree of heterogeneity in the distribution of interventions evaluated across countries in the region. While studies on Caribbean and South American countries have focused on the evaluation of training programmes, Central American countries are oriented more towards self-employment and micro-enterprise creation programmes. Moreover, most of the studies on public works, employment subsidies and labour market services have been carried out in high-income countries in the region, such as Argentina, Chile and Uruguay (Table 3.2).

Table 3.2. Number of studies by country and type of programme evaluated

	Training	Public works	Employment subsidies	Self-employment and micro-enterprise creation	Labour market services	%
Argentina	5	2	2	1		19.2
Bolivia, Plurinational State of		1				1.9
Brazil	2					3.8
Chile	4		2		1	13.5
Colombia	6			1		13.5
Dominican Republic	4					7.7
El Salvador				1		1.9
Guatemala				1		1.9
Mexico	4					7.7
Nicaragua				2		3.8
Panama	2					3.8
Peru	6	1			1	15.4
Uruguay	2			1		5.8
%	67.3	7.7	7.7	13.5	3.8	100

Note: The 44 studies selected evaluate a total of 52 programmes as some studies analyse more than one programme, namely Ibararán and Rosas-Shady (2009) and Klinger and Schündeln (2011). Specifically, Klinger and Schündeln (2011) analyse the effectiveness of the programme “Business Plan Competitions” implemented by the NGO TechnoServe in El Salvador, Guatemala and Nicaragua.

Source: ILO calculations based on Kluge (2016).

Disadvantaged groups are the focus of the majority of impact evaluations that meet the criteria for inclusion in the review, consisting of around 90 per cent of all estimates – with the remaining 10 per cent of the studies focusing on recipients of unemployment insurance. In contrast, there was no coverage of the long-term unemployed – which was the focus of a significant number of impact evaluations in OECD economies, as shown in Kluge (2010) and Card et al. (2010, 2015). This is not surprising, since long-term unemployment is typically a problem experienced in developed countries.

In addition, many studies analyse whether programme effectiveness varies according to the socio-economic characteristics of the beneficiaries. Thus, about 40 per cent of the estimates look at the impact of the programme by sex and 20 per cent are specifically oriented towards the effectiveness of interventions on the labour market outcomes of women. Youth interventions appear to be the main type of programme evaluated by studies in the sample, with policies targeting those aged 15 to 24 accounting for around 70 per cent of the total number of estimates, while around 25 per cent are specifically aimed at those aged 25 and over and the remaining 5 per cent at no specific age group. Finally, there is a lack of empirical studies on the effectiveness of programmes for disabled people and individuals from ethnic or minority groups, although these groups are often the target of ALMPs in LAC, as discussed in Chapter 2.

B THE EFFECTIVENESS OF ALMPs IN LAC: A NARRATIVE LITERATURE REVIEW

This section attempts to identify commonalities and trends in the 44 individual impact evaluations discussed above. The review focuses on three main variables of ALMP effectiveness; namely, the impact on beneficiaries in terms of: (i) employment, either paid, formal or otherwise; (ii) earnings, either regular wages or net income; and (iii) other factors, including transitions between informal and formal employment, hours worked, etc. Each of these variables is disaggregated, where possible, by age group (youth and adult) and sex. The remainder of this section examines the literature according to the type of ALMP; specifically, training programmes, public works, employment subsidies, self-employment and micro-enterprise creation programmes and labour market services. It also reviews the literature on impact evaluations of PESS.

Training programmes

Taking a closer look at the 29 studies that assess the effectiveness of training, most of the literature stresses the positive role of vocational training and other skill development measures in fostering more successful labour market trajectories. In fact, training programmes generally have a positive impact on increasing the employment chances of beneficiaries. Of the 23 studies examined that analyse the impact of training on employment outcomes, 15 find favourable effects on the future employment opportunities of participants in the short or medium term (Table 3.3).

The impact evaluations reviewed suggest that labour market outcomes are strongly influenced by the design of the programme. In this regard, the chances of success appear to be enhanced when an on-the-job training component is included (such as in apprenticeships and internships). Some examples of this trend are *ProJoven* in Peru (Ñopo et al., 2007) and the *Opción Joven* and *Pro-Joven* programmes in Uruguay (Naranjo Silva, 2002).⁷¹ In addition, programmes that include input from private institu-

⁷¹ This finding is consistent with the reviews by Ibararán and Rosas-Shady (2009) and Vezza (2014).

tions⁷² as well as training schemes where providers are selected through a bidding process are found to have greater impacts on employability than those that do not include these elements (Medina and Núñez, 2005). One explanation for this could be that communication and social dialogue with the private sector allows training providers to improve the relevance and quality of the training offered and, therefore, develops workers' skills to match the requirements of employers.

The impact of training on earnings is also fairly positive, with the majority of studies recording significantly positive impacts (21 out of the 27 studies that analyse the impact of training on earnings). Interpreting the impact on earnings, however, is not always straightforward, and a number of studies provide caveats regarding the interpretation of their findings. For instance, the earnings impact of the Argentinian *Programa Joven* could have been influenced by different labour market conditions that participants faced rather than programme-specific effects (Aedo and Núñez, 2004). While a number of studies find universally positive outcomes on earnings – such as Ñopo et al. (2007) on *ProJoven* in Peru – others obtain positive impacts only for specific groups or programme components. For instance, some heterogeneity is observed in the earnings impacts according to the level of educational attainment. Indeed, some studies find that the earnings impact is considerably lower once educational attainment is controlled for (Jimenez and Kugler, 1987).⁷³ In other cases, the impact on earnings seems to be related to the institution responsible for the training, with some studies finding weaker earnings impacts for public sector training than for private training (Medina and Núñez, 2005; Chong and Galdo, 2006).

Fewer studies have measured the effect of training programmes on employment quality than their effects on employability or earnings potential.⁷⁴ Nevertheless, a significant number of studies analyse the impact of this

⁷² *Jóvenes* programmes are a clear example of initiatives that involve the private sector in their design, as detailed by Ibararán and Rosas-Shady (2009).

⁷³ This is in contrast to the findings of Sanz (2012), which examined critical success factors of 42 evaluations and programmes for youth employment in LAC, concluding that there appears to be little evidence of the impacts of training programmes being closely associated with the level of educational attainment.

⁷⁴ In their cross-country analysis, Ibararán and Rosas-Shady (2009) found a number of positive impacts in terms of employment quality, which is gauged by formality, contractual conditions and benefits.

kind of programme on issues such as the probability of obtaining formal employment or the number of hours worked (16 and 6 studies in the review sample, respectively). Regarding the effect on formality, the vast majority of studies find that training programmes have a positive effect on formal employment. Some particularly interesting examples are the *Juventud y Empleo* in the Dominican Republic, which showed persistent long-term effects on the formality of employment, although not on overall employment (Ibarrarán et al., 2015), and *Jóvenes en Acción* in Colombia which, despite negligible overall employability impacts for males, had significant effects on the chances of obtaining a formal contract (Attanasio et al., 2011). The only two exceptions to this general trend are the programmes *PROIMUJER* in Uruguay (Alesina et al., 2005) and *Galpão* in Brazil (Calero et al., 2014), as both were found to have a negligible impact on formal employment.

In contrast, empirical evidence on the impact of training programmes on hours worked is somewhat mixed. Indeed, only the programmes *Programa de Formación en Oficios para Jóvenes de Escasos Recursos* in Chile (Centro de Microdatos, 2008) and *ProJoven* in Peru (Ñopo et al., 2007) were found to have a universally positive effect on the number of hours worked. The remaining studies either do not find any effect – for example, the programme *PROIMUJER* in Uruguay (Alesina et al., 2005) – or the positive impact is confined solely to women – such as in the case of *PROCAJOVEN* in Panama (Ibarrarán and Rosas-Shady, 2006). Elsewhere, other benefits associated with training programmes were identified, such as improved access to credit and improvements in non-cognitive skills, as in the case of *Entra 21* in Argentina (Alzúa et al., 2013) and *Galpão* in Brazil (Calero et al., 2014), respectively – irrespective of whether these positive impacts actually improved labour market outcomes.

In terms of differences across groups of participants, one of the most interesting findings is that training programmes that specifically target youth are more likely to have positive impacts. The clear majority of studies on youth training programmes find a positive impact on labour market performance (e.g. increased employment opportunities and participation

in the labour market or a fall in unemployment) of participants (16 out of 18 studies). Only studies on the programmes *Proyecto Joven* in Argentina (Alzuá and Brassiolo, 2006) and *PROCAJOVEN* in Panama (Ibarrarán and Rosas-Shady, 2006) documented negligible effects. This persistent finding differs notably from the empirical evidence for OECD countries, which concludes that youth represents a target group that is particularly difficult to assist effectively (Betcherman et al., 2004; Kluve, 2016).

Two main hypotheses address this interesting finding. First, there may be differences in human capital between youth programme participants in OECD countries and other regions. On average, young people in OECD countries have fairly high levels of skills and, therefore, the youths targeted by training programmes in these countries often constitute a disadvantaged group that is hard to assist. In emerging and developing countries, where the skills intensity of the labour demand is lower, training interventions may target a more heterogeneous group, in which a large fraction of participants have a higher potential to succeed in the labour market (Puerto, 2007; Kluve, 2016). Second, certain specific characteristics of youth training programmes in LAC may help to make them more successful. For example, most of the training initiatives implemented in the region correspond to the *Jóvenes* programme model,⁷⁵ which is characterized by very particular features, such as: (i) the provision of training by specialized institutions that balance the needs of employers with skills supply; (ii) a comprehensive training offer, which includes several components (e.g. basic skills, soft skills, job-search assistance, counselling and information provision), and combines an initial classroom-based training phase with a subsequent job experience phase in firms; and (iii) the presence of financial incentives to both employers (hiring subsidies) and beneficiaries (daily stipends) to encourage participation (Puerto, 2007; Kluve, 2016).

In addition, the impact of training programmes on employment and earnings are overall higher among women than men. While some studies find that the impact on earnings and/or employment is significant only for women (Aedo and Núñez, 2004; Attanasio et al., 2011), others find a

⁷⁵ Since its first implementation in 1991, the *Jóvenes* programmes have consisted of a comprehensive intervention that aims to upgrade skills and improve employability of young people in LAC countries. See Ibarrarán and Rosas-Shady (2009) for a detailed description of these programmes.

Table 3.3. Findings on the impact of training programmes by study, outcome variable and target group

Study	Employment			Earnings			Hours worked			Formal employment			Notes and other estimates
	Overall	Women	Men	Overall	Women	Men	Youth	Women	Men	Overall	Women	Men	
Acdo and Núñez (2004)		+	ns	ns	+	ns	ns/+						Results on earnings are statistically significant only for young males and adult females. Treatment group: individuals aged 16 to 35. Youth refers to people under 21.
Alesina et al. (2005)		+		ns	ns			ns			ns		No significant effect on job retention. Treatment group: women.
Alzúa and Brasiolo (2006)	ns	ns	ns	ns	ns	ns				+			Treatment group: youth aged 16 to 35.
Alzúa et al. (2013)	+	ns	+	+	+								Treatment group: individuals aged 18 to 30. Youth refers to people under 25.
Atanasio et al. (2011)		+	ns	+	+	+					+	+	Negative effect on job retention. Treatment group: youth aged 18 to 25.
Calderón-Madrid (2006)		+	ns										Positive effects on job retention.
Calero et al. (2014)	+			+						ns			Positive effects appear after five months. Treatment group: individuals aged under 29.
Card et al. (2011)	ns	ns	ns	+	ns	ns	+	ns	ns	ns	+	+	Treatment group: individuals aged 18 to 29. Youth refers to people aged 17 to 19.
Castillo et al. (2014)										+	+	+	Treatment group: individuals aged 18 or over.
Centro de Microdatos (2008)	+			+				+			+		Positive effects on job tenure, social protection coverage and other job-quality measures. Treatment group: youth aged 20 to 30.

Table 3.3. Findings on the impact of training programmes by study, outcome variable and target group (cont.)

Study	Employment				Earnings				Hours worked			Formal employment			Notes and other estimates
	Overall	Women	Men	Youth	Overall	Women	Men	Youth	Overall	Women	Men	Overall	Women	Men	
Chong and Galdo (2006)					+	+	+/ns								Larger effects on earnings in the medium term than in the short term. Male participants show positive effects in the short term and no effects in the medium term. Treatment group: youth aged 16 to 25.
Corseuil et al. (2013)	+				+							+			Treatment group: youth aged 17.
Delajara et al. (2006)	+	+	+	+	+	+	+								Larger effects on employment and earnings for women with higher education.
Díaz and Jaramillo (2006)	ns	+	-	+	+	+	+		ns	ns	ns	+	+	+	Women and youth aged 16 to 20 benefit more from the programme. Positive effects on working hours for youth. Treatment group: youth aged 16 to 24.
Galdo and Chong (2012)	ns	+	ns		+	+	+					+	+	+	Larger effects on earnings and formality for participants of high-quality training schemes. Treatment group: youth aged 16 to 25.
Ibarraán and Rosas-Shady (2006)	ns	+	ns	ns	ns	+	ns	ns	+	+	ns	+	+	+	Treatment group: individuals aged 18 to 33. Youth refers to people under 25.
Ibarraán and Rosas-Shady (2009)	ns	+	ns	+	+	+	+					+	+	+	Summarizes the findings of seven impact evaluations.
Ibarraán et al. (2014)	ns	ns	ns	ns	+	+	ns					+	ns	+	Impact on earnings is found only in the formal sector. Treatment group: youth aged 16 to 29.

Table 3.3. Findings on the impact of training programmes by study, outcome variable and target group (cont.)

Study	Employment			Earnings			Hours worked			Formal employment			Notes and other estimates
	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men	
Ibarra ra n et al. (2015)	ns	ns	ns	ns	ns	ns	ns	ns	ns	+	ns	+	Results correspond to long-term estimates. Treatment group: individuals aged 16 to 29. Youth refers to people under 22.
Jimenez and Kagler (1986)				+		+							Larger effects on earnings are found for long training courses.
Jimenez and Kagler (1987)				+									Non-significant effects of short training courses on earnings.
Kaplan et al. (2015)	-			-									Positive effects on overall job retention.
Medina and Nu ne z (2005)				ns	ns	ns	ns	ns	ns				
Naranjo Silva (2002)	+			+						+			
Ñ opo et al. (2007)	+	+		+	+	+	+	+	+	+			Larger effects on employment for women. Treatment group: youth aged 16 to 25.
Revenge et al. (1994)		+	+		ns	+							Larger effects on earnings for the more highly educated.
Rosas-Shady (2006)				+						+			Treatment group: youth aged 16 to 24.
Santa Mar ia et al. (2009)	+			+	+					ns	+		Treatment group: youth aged 16 to 29.
Statcom (2006)	+			+						+			Positive effects on overall job retention. Treatment group: youth aged 16 to 21.

Notes: The estimated effects are classified as: positive and statistically significant (+), negative and statistically significant (-) and not statistically significant (ns). Specific target populations are defined in the notes column. All estimates correspond to short-term effects, unless otherwise specified.

positive impact for both sexes, but longer lasting for women (Delajara et al., 2006). Interestingly, impact evaluations of Peru's *ProJoven* programme suggest that this intervention helped to provide avenues by which women could be drawn into male-dominated industries, and thus achieved a pro-female impact (Ñopo et al., 2007).

Public works

To date, much of the empirical evidence on the impact of public works programmes has focused on their role as an anti-poverty strategy and very little is known about the employment outcomes of these programmes. This is not surprising since, in emerging and developing countries, these programmes have traditionally focused on local development (through the provision of infrastructure and community services) and poverty reduction (by offering temporary employment to vulnerable families).

Unfortunately, there is limited coverage of public works studies in the sample analysed (only four). All four studies assess the income effects on beneficiaries during participation; while two of the evaluations analyse whether participation improves future employment prospects (Table 3.4). According to the reviewed studies, public works provide effective income support, which reinforces the "pro-poor" nature of this type of programmes. In particular, the programmes *Trabajar* (Jalan and Ravallion, 2003) and *Plan Jefes* (Ronconi et al., 2006), implemented during different economic crises in Argentina, as well as the Peruvian programme *Construyendo Perú* (Macroconsult S.A., 2012) and the Bolivian *PLANE* (Hernani-Limarino et al., 2011) have, according to the studies, been successful in their anti-poverty objective. This success may be partly attributable to the fact that workfare participants were already receiving relatively low wages – below the wage offered by the public works programme – which itself was probably below the reservation wage for the non-poor population (Jalan and Ravallion, 2003).

The four studies reveal that the public works programmes are found to benefit different groups to varying degrees. While female participants in

the Argentinian *Plan Jefes* were found to exhibit the greatest earning gains (Ronconi et al., 2006), younger beneficiaries of the programme *Trabajar* showed a higher positive impact (Jalan and Ravallion, 2003). This may be due to the fact that younger workers have lower reservation wages and wage expectations than their older counterparts, and thus were more likely to experience improvements from the public works programme.

However, findings from the few available studies are less conclusive with respect to the countercyclical role of public works programmes. Indeed, the positive effects associated with participation in the programme *Construyendo Perú* were not found to be higher in recessionary times, thus undermining the strength of the programme as a countercyclical tool (Macroconsult S.A., 2012).

In the two studies that examined employment prospects, the results are less positive. For instance, the evaluation of the programme *PLANE* implemented in Bolivia shows that, within the context of high labour market rigidity in which the programme took place, there was no impact on the probability of employment post-intervention. The study noted that this does not detract from the pro-poor nature of the programme, as it did help with consumption smoothing; however, it was not effective at improving labour market outcomes (Hernani-Limarino et al., 2011).

Employment subsidies

Employment and wage subsidies take several forms, including payment of a proportion of the worker's salary – such as the Argentina *Proempleo* programme (Galasso et al., 2004) – or offering reductions in social security contributions over a specified period of time – as in the case of *Programa de Bonificación a la Contratación de Mano de Obra* in Chile (Fundación AGRO UC, 2009). In LAC countries, subsidies usually target vulnerable groups, such as beneficiaries of conditional cash transfers (CCTs) and young people. Of the four studies on employment and wage subsidies covered in this review, all look at the impact on employment, while two

Table 3.4. Findings on the impact of other ALMPs by study, outcome variable and target group

Study	Employment			Earnings			Hours worked			Formal employment			Notes and other estimates
	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men	
	Youth	Youth	Youth	Youth	Youth	Youth	Youth	Youth	Youth	Youth	Youth	Youth	
Public works													
Hernani-Limarino et al. (2011)	-												
Jalan and Ravallion (2003)				+	+	+			+				Estimated effects only during participation.
Macroconsult S.A. (2012)				+	+	+							Estimated effects only during participation.
Ronconi et al. (2006)	ns			+	+	+							Positive effects on employment and earnings only during participation. Larger effects on women's earnings.
Employment subsidies													
Castillo et al. (2008)	+												Effects are estimated at the firm level.
Centro de Microdatos (2012)	+	+	+										Treatment group: youths aged 18 to 25.
Fundación AGRO UC (2009)	ns						ns						Larger effects on employment for women, youth and highly educated individuals.
Galasso et al. (2004)	+	+	+				ns						

Table 3.4. Findings on the impact of other ALMPs by study, outcome variable and target group (cont.)

Study	Employment			Earnings			Hours worked			Formal employment			Notes and other estimates	
	Overall	Women	Men	Youth	Overall	Women	Men	Overall	Women	Men	Overall	Women		Men
	Self-employment and micro-enterprise creation													
Almeida and Galasso (2010)			ns		ns			+						Positive effects on earnings for highly educated individuals.
Klinger and Schündeln (2011)	+				+									Employment refers to opening a business.
Macours et al. (2013)	+				+									
Steiner et al. (2010)	+				+				ns					Formality is just one variable in the "job-quality index". Treatment group: youths aged 16 to 25.
Valdivia (2011)					+									Results refer to improvements in business sales and profits. Treatment group: women with family business.
Labour market services and the PESs														
Acero et al. (2009)	+				+									No significant effects on job retention. Treatment group: youth aged 18 to 29.
Chacaltana and Sulmont (2004)	+				+									Positive effects on job retention. Treatment group: youth aged 16 to 25.

Notes: The estimated effects are classified as: positive and statistically significant (+), negative and statistically significant (-) and not statistically significant (ns). Specific target populations are defined in the notes column. All estimates correspond to short-term effects unless otherwise specified.

evaluations also analyse the effects on earnings (Table 3.4).⁷⁶ Three of the four studies report a positive impact on the employability of participants, with indiscriminate impacts on men and women, where analysed – as in the case of *Proempleo* in Argentina (Galasso et al., 2004) and *Subsidio al Empleo Joven* in Chile (Centro de Microdatos, 2012), with the former also documenting positive impacts on youth. Only one impact evaluation of *Programa de Bonificación a la Contratación de Mano de Obra* in Chile found a negligible employment impact (Fundación AGRO UC, 2009). The explanation given in the study was that the programme design allowed employers to select those workers who were most employable, and therefore did not benefit less employable candidates.

The available studies illustrate that wage subsidies can boost employment probabilities, particularly when they are provided directly to individuals as a supplement to their earnings. For instance, an evaluation of the programme *Subsidio al Empleo Joven* in Chile finds that this intervention has been successful in increasing the employment opportunities of vulnerable youth (Centro de Microdatos, 2012).

Self-employment and micro-enterprise creation

It is usually the case that self-employment and micro-enterprise creation programmes include technical services, such as counselling, training and assistance with business planning, in addition to the financial assistance. This trend is observed among the five programme evaluations included in this review, as all of them incorporated a training element (Table 3.4). For instance, *Jóvenes Rurales Emprendedores*, implemented in Colombia to promote independent work among poor young people in rural areas (including remote areas) of the country, includes training courses oriented towards different economic sectors (e.g. agriculture, manufacturing, tourism), whose content and structure is agreed in consultation with the private sector and after taking local labour market needs and recent trends into consideration (Steiner et al., 2010).

⁷⁶ The two studies that examined the impact on earnings found negligible effects (Fundación AGRO UC, 2009; Galasso et al., 2004).

Among the five self-employment and micro-enterprise creation studies, the three that evaluated employment impacts all found positive effects. Similar results were evident with respect to raising earnings or profits, when measured (Table 3.4). In particular, *Microemprendimientos Productivos* in Argentina (Almeida and Galasso, 2010), *TechnoServe* in Central America (Klinger and Schündeln, 2011) and *Atención a Crisis* in Nicaragua (Macours et al., 2013) were successful in helping beneficiaries to start a business or become self-employed. In addition, positive effects on earnings were observed in the case of the programmes *TechnoServe* in Central America (Klinger and Schündeln, 2011), *Jóvenes Rurales Emprendedores* in Colombia (Steiner et al., 2010), *Atención a Crisis* in Nicaragua (Macours et al., 2013) and the business training programme for female micro-entrepreneurs implemented in Peru (Valdivia, 2011), with programme beneficiaries reporting gains in terms of hourly wages or profits. However, the overall earnings impact was negligible in the Argentinian programme *Microemprendimientos Productivos* (Almeida and Galasso, 2010), although it was higher for the better educated participants. This is consistent with previous literature, which found that self-employment programmes are strongly influenced by levels of educational attainment (Sanz, 2012).

The empirical evidence of three of the studies suggests that programmes which combine technical assistance with financial support increased the likelihood of starting a business, thus supporting the hypothesis that capital constraints are a major impediment to would-be entrepreneurs in these countries (see Chapter 2). Accordingly, seed capital and business grants were able to facilitate those with “entrepreneurial” ambitions and, for those who were already moving towards self-employment, helped to overcome the major obstacle of the initial sunk costs.

Despite the positive effects of self-employment and micro-enterprise creation programmes on labour market outcomes, some debate exists concerning the role of these initiatives as a local development strategy. Some studies stressed the pro-poor nature of this type of programmes when targeting rural communities. For instance, in Nicaragua, the programme *Atención a Crisis* led to increased participation in non-agricultural

self-employment and higher income from related activities, which therefore contributed to the structural development of some rural areas (Macours et al., 2013). However, given the strong correlation between self-employment and informality and the fact that many micro-enterprises and small firms operate in the informal sector with low levels of productivity, programmes promoting independent work could be considered to be incentives to engage in informal employment (OAS/ECLAC/ILO, 2010).⁷⁷

Labour market services and the PESs

There is a shortage of impact evaluation studies on the role of labour market services and public employment services (PESs) in LAC, which may reflect the limited use of the programmes compared with other ALMPs in the region. Evaluations of the *ProEmpleo* programme in Peru (Chacaltana and Sulmont, 2004) and *Programa Jóvenes al Bicentenario* in Chile (Acero et al., 2009) find that the effects were positive, for both employment and earnings. More specifically, employment impacts of *ProEmpleo* were found to be both significant and lasting, with the effects after six months persisting for 12–18 months. The impact on earnings was positive for those who had worked previously – an increase in hourly wages of around 7 to 10 per cent following the programme compared with their wages before participating (Chacaltana and Sulmont, 2004). Meanwhile, *Programa Jóvenes al Bicentenario* in Chile presented more modest impacts, but did improve the employability of participants (Acero et al., 2009).

Finally, the lack of impact evaluations on PESs and labour market services suggests that more research is needed to estimate the effectiveness of these programmes in a context of high informality and where hiring usually takes place through informal means. Moreover, the relatively weaker capacity of labour market and social institutions to implement programmes in many LAC countries (as discussed in Chapter 2) might also have an effect on the efficacy of job-search assistance programmes in these countries. In this regard, the impact evaluation of the Colombian PES (*Agencia Pública de Empleo*) aims to fill in this void (see Section B of Chapter 4).

⁷⁷ See Section C of Chapter 4 for a discussion of this problem within the context of the case study of Peru.

It is important to bear in mind several limitations of the narrative literature review carried out in this section. First, although there are a number of potential negative indirect effects associated with these policies (such as substitution or deadweight effects),⁷⁸ there have been no attempts to evaluate the indirect effects of these programmes within the literature reviewed, and therefore no conclusion can be drawn regarding the magnitude of these effects. Second, in several of the ALMP categories, the number of studies is rather limited. Third, all the individual evaluation results described in this section are subject to factors beyond the control of the programme evaluation (e.g. macroeconomic conditions), which can skew both results and interpretation. This issue is partly addressed in Section C. Indeed, the meta-analysis allows for a decomposition and synthesis of the 44 impact evaluations reviewed in this section, taking into account the macroeconomic context of respective interventions. Moreover, this meta-analysis allows general conclusions to be drawn regarding what works in the region, and under which circumstances.

⁷⁸ Substitution effects refer to the effect of “substituting” subsidized workers for non-subsidized ones, whereas deadweight effects relate to hiring a subsidized worker who would have been hired even in the absence of the programme.

C ASSESSMENT OF ALMPs IN LAC: RESULTS FROM A META-ANALYSIS

This section attempts to address a number of the gaps that were revealed in the discussion of the narrative literature review in Section B. In particular, the meta-analysis presented here combines information on programme impact, programme characteristics and country context to synthesize the results from all 44 individual impact evaluations reviewed in this chapter and, therefore, adds an additional level of depth to the findings with regard to “what works” in LAC. As such, it provides generalizations on whether programmes are universally effective across different time horizons and population groups, or regarding the groups that are more likely to experience greater impact and under what conditions. The section is based on Kluge (2016), which is the most unique study of its type on ALMPs in LAC.

Many of the 44 studies contain multiple assessment breakdowns; for instance, looking at both short-term and medium-term effects or analysing the impact on participant subgroups, such as by sex and age (see Box 3.2). By disaggregating the estimates within each study by programme effects or participation groups, a total of 152 individual impact estimates have been compiled.⁷⁹ Owing to the high number of training programmes in the total LAC sample (accounting for approximately 126 of the 152 impact estimates), the meta-analysis was conducted on training programmes as a subsample,⁸⁰ thus allowing for the introduction of additional variables in the meta-analytical regression (e.g. number of components included in training programmes).

A number of interesting findings arise from the meta-analysis (both from the full and the training subsample of impact estimates), notably with respect to: type of programme, impact duration, target group, programme details, evaluation design and economic and country contextual factors (Table 3.5):

⁷⁹ Table 3.7 in the appendix to this chapter presents a distribution of these estimates according to different characteristics of the impact evaluation study.

⁸⁰ Findings regarding training programmes are based on the subsample, while overall findings are based on the full sample.

Box 3.2. Meta-analysis methodology

The underlying reasoning behind a meta-analysis is that, among studies addressing issues that are conceptually similar, a degree of consensus on the subject matter and findings exists. A meta-analysis formalizes this approach by identifying common patterns among a group of studies using statistical analysis to derive a pooled estimate from all studies in a given sample.

The data set for the meta-analysis was constructed using information from the 44 impact evaluation studies selected according to the criteria described in Section A. The key data extracted from each study included: year of programme operation, country, programme type, target group, participant groups by sex and age, programme duration, estimation method, identification strategy and outcome variable. Based on this information, multiple observations per impact evaluation were generated, where the study provided separate impact estimates, for the following dimensions: short, medium and long term, programme component and participant subgroup (age and sex). The resulting data set consisted of 152 individual impact estimates.

The next step was to apply a measure of the estimated programme effects, which were grouped according to whether they were (i) statistically significant positive or (ii) non-positive. Importantly, the statistically significant negative and not statistically significant categories were combined into a non-positive category due to the fact that only a very small number of the available estimates were negative and statistically significant.

Contextual information was compiled and integrated into meta-analytical regression specifications. Namely, information on unemployment rates and GDP growth was collected from the ILO, World Bank and OECD economic indicators databases.

The analysis uses a linear probability model to estimate the likelihood that a specific programme yields a positive and statistically significant effect on the labour market outcomes of participants. Meta-analytical regressions were run using five specifications: (i) the first (the basic specification) contained covariates for programme type, impact duration, target group, evaluation design and programme details; (ii) the second, augmenting the basic specification, incorporated country dummies; (iii) the third included interaction terms (training interacted with impact duration, age group and programme duration, respectively); (iv) the fourth included both the interaction and contextual factors listed above; and (v) the fifth was a full specification with all covariates.

It is worth noting that this approach relies heavily on the quality of the studies included because the model is susceptible to publication biases. Therefore, the meta-analysis is reliant on the selection procedure of the existing literature (see Table 3.1).

Source: ILO based on Kluve (2016).

- Regarding programme type, results show that there are no significant differences between programme types in terms of their impact on labour market outcomes. Thus, although training programmes represent the most common ALMP in LAC, this intervention is not more successful than other types of programmes implemented in the region.⁸¹
- As the economic theory and most recent empirical evidence suggest, labour market effects relating to participation in training programmes might materialize in the long run, due to human capital accumulation (Card et al., 2010; Lechner et al., 2011). However, results from the meta-analysis show that the effectiveness of training programmes does not become more marked over time. This may be influenced by the fact that nearly all of the studies examined assessed the impact of training programmes only in the short or medium term. The only long-term evaluation available finds that the effects of the programme *Juventud y Empleo* implemented in Dominican Republic were sustained over an extensive period and, most importantly, the impact increased over time (Ibarrarán et al., 2015).
- The effectiveness of a training programme does not seem to be driven by the number of its components.⁸² In comparison with one-component interventions, participants in two- or three-component training programmes do not have higher probabilities of succeeding in the labour market. Indeed, programmes with two components are more likely to have a negative impact on labour market outcomes.
- Among programme characteristics, duration seems to be the key driver of programme effectiveness. Programmes with a short duration (four months or less) are significantly less likely to have a positive impact on labour market outcomes – this result holds also when training programmes are analysed in isolation.

⁸¹ The unclear pattern of success across types of programmes was also found by Heckman et al. (1999) and Puerto (2007).

⁸² Training components include: (i) classroom training; (ii) on-the-job training or internship; (iii) a job insertion or life skills component; and (iv) entrepreneurship training.

- In terms of the programmes' orientation towards certain groups, women are more likely to succeed in the labour market than men as a result of participating in an activation programme.⁸³ Regarding age, programmes targeting youth do not perform significantly better than programmes without this specific target. A focus on particular groups, such as low-income individuals, does not affect the outcomes of the programmes.
- Economic and country contextual factors have a highly significant impact on the effectiveness of ALMPs in LAC. Specifically, programmes are more effective during economic booms.⁸⁴ In this regard, country-specific variables also play a role, as shown by differences in the effectiveness of programmes across countries.
- Finally, in terms of the methodology, the meta-analysis confirms that the method used to evaluate the programme does not affect the significance of the results obtained. Importantly, it finds that the estimated impacts derived from randomized controlled trials do not differ widely, on average, from the quasi-experimental estimates.

Overall, the findings of the meta-analysis on LAC are broadly consistent with the global study conducted by Card et al. (2015); however, there were a number of areas with contrasting findings (Table 3.6). Most notable was the difference in impact durations, where impacts tended to be greatest in the short term in the LAC sample, with significantly positive impacts being less likely in the medium and longer terms (although this may be related to the lack of long-term estimates, as explained above). This was in contrast to the global study, which documented an improving pattern of effects over time. Second, training programmes were more effective than other types of programme in the global sample, but this was not found to be the case in the LAC sample. Third, there was no significant difference in impacts by age group in the LAC sample, but this difference was present in the global sample. Finally, programmes in LAC appeared more effective during economic booms in comparison with the global sample.

⁸³ The coefficients are consistently negative for males and consistently positive for females, though not statistically significant at conventional levels.

⁸⁴ The annual GDP growth rate shows a significantly positive correlation with programme effectiveness, and the unemployment rate a significantly negative correlation.

Table 3.5. Estimation results from the meta-analysis

	Full sample		Training sub-sample	
	Without contextual factors	Full estimation	Without contextual factors	Full estimation
Programme type and impact duration				
Training programme				
Two-component training programme				
Three-component training programme				
Effect in the medium term				
Interaction: training and medium term				
Target group				
Youth (25 or under)				
Adult (over 25)				
Interaction: training and youth				
Men				
Women				
Programme targeting the poor				
Programme targeting youth (25 under)				
Evaluation design and programme details				
Experimental evaluation				
Year of implementation				
Short duration (four months or less)				
Medium duration (five to nine months)				
Interaction: one component and short duration				
Interaction: training and medium duration				
Country indicators				
Argentina				
Chile				
Colombia				
Panama				
Peru				
Contextual factors				
GDP growth rate				
Unemployment rate				

Notes: Dark green cells correspond to statistically significant negative effects, black cells to statistically significant positive effects, and light green cells to not statistically significant effects. Grey cells show variables not included in a certain model. Significance is measured at the 5 per cent level with respect to the reference categories. Reference categories include: training programme (base: other programmes); two and three-component training programme (base: one-component training programme); estimated effect in the medium term (base: short term); youth and adult (base: pooled age); men and women (base: pooled sex); experimental evaluation (base: quasi-experimental); short and medium duration (base: missing or unknown duration); and country indicators (base: other countries not included in the table).

Source: ILO calculations based on Kluge (2016).

Table 3.6. Contrasting the meta-analysis findings of the LAC and global samples

	LAC sample	Global sample	Comments
Impact duration			
Short term	+	ns	
Medium/long term	ns	+	
Programme duration			
Short programme duration (four months or less)	-		Not examined in the global sample
Programme type			
Training programmes	ns	+	Higher impacts of training programmes observed in the global sample which could not be confirmed in the LAC sample
Target group			
Women	+	+	
Youth	ns	-	
Contextual factors			
Good economic situation	+	-	Countercyclical effects found in the global sample that could not be confirmed in the LAC sample

Note: Results are classified as: (+) when the variable has a statistically significant positive effect on the effectiveness of the programme; (-) when the effect is negative and statistically significant; and (ns) when the effect is not statistically significant.

Source: ILO based on Kluge (2016) and Card et al. (2015).

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D CONCLUDING REMARKS

This chapter summarizes the main findings arising from a narrative review and a meta-analysis carried out on a sample of 44 impact evaluations of ALMPs in the region. This sample was gathered following an exhaustive search of available studies and finalized after applying a systematic selection procedure to control for quality and scope of the impact evaluations. Two sets of conclusions arise from the analysis: one, more qualitative, relating to the distribution of studies and the other, quantitative, linked to the effectiveness of the policies whose evaluations were included in the analysis.

In terms of the qualitative aspects, the first finding that arises from the analysis is that the number of studies is heavily skewed in relation to both country and programme coverage. Most studies analyse programmes in Peru and Argentina, which together account for almost 35 per cent of the sample, and 70 per cent of the studies analyse training programmes. Neither of these is representative of the diversity and coverage of ALMPs in the region, as illustrated in Chapter 2.

Second, there has been a clear upwards trend in the number of impact evaluations conducted, especially after 2005. Importantly, this has not changed the significance of impacts over time, meaning that the increased attention has had a greater influence on the number of studies than on the results of impact evaluations themselves. Third, 75 per cent of the sample consisted of quasi-experimental evaluation methods (mainly PSM and DID), whereas experimental approaches based on RCTs have become more widespread in recent years. However, the effects of experimental and quasi-experimental evaluations do not significantly differ in LAC. This is in line with findings from other meta-analyses and is reassuring with respect to the robustness of all the different evaluation strategies.

In terms of the second set of results regarding programme effectiveness, a number of findings are worth highlighting. First, training programmes have a positive impact, especially on increasing the employment opportunities

of beneficiaries, but also on improving their earnings and their chances of finding formal employment. Yet, once factors such as the duration of the programme, the target group and the economic and country conditions are controlled for, training programmes are not more effective than other ALMPs in raising the employment outcomes of participants in LAC. However, given the lack of impact evaluations of other types of programmes, it is not possible to conclude which type of ALMP is most effective in the region. Importantly, programmes of short duration (four months or less) are significantly less likely to show positive treatment effects.

Second, although the lack of abundant studies does not allow general conclusions to be drawn regarding the effectiveness of other types of ALMPs, a number of commonalities are nevertheless evident among those available ones. For instance, employment subsidies and self-employment and micro-enterprise creation programmes have shown mainly positive effects in terms of increasing the probability of employment (or starting a business), as well as raising earnings (when measured). In contrast, the four available public works studies are shown to be mainly effective at providing income support during participation, but the limited evidence is mixed regarding their impact on employment.

Third, in terms of target group, the meta-analysis shows that ALMPs are more effective among women. This is particularly interesting since these types of programme traditionally focus on men in the region, leaving CCTs for their female counterparts. Moreover, there is no significant difference in the effectiveness of the programmes across age groups, while in the existing literature from other regions such interventions are more effective for prime-age workers than for either youth or older participants.

Finally, and overall, the findings point towards the persistence of a number of gaps in the knowledge of what works. To contribute to filling this void, Chapter 4 presents the results of three additional impact evaluations conducted to assess a multi-approach activation programme in Argentina, the Colombian PES and a workfare programme in Peru.

APPENDIX: SUMMARY STATISTICS OF METADATA

Table 3.7. Summary statistics of metadata

	Programme estimates	
	Frequency	Share (percentages)
Impact duration		
Short term	91	59.9
Medium term	61	40.1
Target group		
Unemployment insurance recipients	14	9.2
Disadvantaged	138	90.8
Long-term unemployed	0	0.0
Type of programme		
Training	126	82.9
Job-search assistance	7	4.6
Private sector incentives	11	7.2
Public sector incentives	8	5.3
Programme duration		
Unknown or mixed	29	19.1
Four months or less	49	32.2
Five to nine months	74	48.7
Over nine months	0	0.0
Sex of programme group		
Pooled	35	23.0
Men only	58	38.2
Women only	59	38.8
Ages of programme group		
Pooled age	42	27.6
Youth	100	65.8
Adults	10	6.6
Basic methodology		
Cross-sectional	42	27.6
Duration models with comparison group	2	1.3
Experimental	24	15.8
Longitudinal with comparison group	84	55.3
Dependent variable		
Hazard off register	2	1.3
Probability of being employed	76	50
Earnings	74	48.7
Covariate adjustment method		
Regression	63	41.4
Matching	89	58.6

Note: The classification of impact evaluation methodologies followed in the meta-analysis does not correspond exactly with the methods described in Section A. In particular, quasi-experimental methods are classified into cross-sectional (PSM and RDD) and longitudinal with comparison group (DID).

Source: ILO based on Kluve (2016).

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CHAPTER 4

WHAT WORKS: IMPACT EVALUATIONS OF ALMPs IN LATIN AMERICA

INTRODUCTION

As discussed in Chapter 3, the impact evaluation of active labour market policies (ALMPs) in the Latin America and the Caribbean (LAC) region is very much in the nascent phase, therefore existing evidence suffers from a number of gaps. Notably, there are only limited evaluations of ALMPs outside the area of training programmes (e.g. public employment services (PESs) or public works programmes), a scarcity of information on effects for workers other than youth (e.g. prime-age women and men), a shortage of results related to the quality of employment and very few estimated effects for the medium to long term. Taking into consideration these gaps and the evidence to date, the purpose of this chapter is to contribute to enhancing the knowledge of the effects of ALMPs, particularly in LAC.

To this end, this chapter presents the findings of three impact evaluations undertaken on different ALMPs in three LAC countries.⁸⁵ The decisions concerning which countries and policies to include in the study were based – to different degrees in each of the three cases – on: (i) the availability of sufficient information and high-quality data; (ii) the strategic importance of the specific type of intervention in the overall employment policy strategy of the country; and (iii) the extent to which findings from the evaluation could contribute to filling the research voids outlined above. Lessons learned from these experiences, coupled with the existing knowledge on what works, as outlined in Chapter 3, can inform policies not only in the countries in question, but also in other countries in the region and other types of ALMPs. The chapter identifies these linkages and draws general conclusions when possible.

⁸⁵ The individual impact evaluations are available as separate working papers at: www.ilo.org/almp-americas.

The first impact evaluation has been undertaken in Argentina to assess the effects of a multi-approach activation programme in increasing employability and work quality of beneficiaries of a conditional cash transfer (CCT) programme (Section A). The second evaluates the role of the Colombian PES, in particular, the *Agencia Pública de Empleo* – part of the broader *Servicio Nacional de Aprendizaje* – in improving job quality (Section B). The third evaluates the medium-term effects of the Peruvian workfare programme *Construyendo Perú* on employment, job quality and working poverty (Section C).

Each section describes the labour market and social context in which the programmes operate as well as their main design features and characteristics, including targeting approaches and implementation strategies. In addition, each section presents the effects of the programmes as drawn from the impact evaluations, taking into account overall findings presented earlier in the report. Finally, the sections discuss a number of policy considerations in an effort to further improve the design and implementation of the programmes in an impactful way.

A ARGENTINA: COMBINING ACTIVE AND PASSIVE SUPPORT TO PROMOTE FORMAL EMPLOYMENT CREATION

Over the past two decades, non-contributory programmes, in particular CCTs, have become the primary means used to extend social protection to the uncovered population in LAC (including informal workers and their families) (OAS/ECLAC/ILO, 2010). Argentina is a case in point: after the economic crisis of 2001 the country prioritized the extension of social protection through a set of non-contributory programmes (Box 4.1).

In 2004, when the country was starting to recover from the economic crisis, non-contributory programmes provided support to almost 2 million beneficiaries (Figure 4.1).⁸⁶ However, as labour market conditions improved and more individuals moved into formal jobs, the number of beneficiaries decreased continuously (with the exception of the global crisis period, in 2008 and 2009). Subsequently, in 2014, more than 580,000 persons were beneficiaries of non-contributory programmes – 70 per cent fewer than in 2004. At the same time, the coverage of the social security system increased due to the rise in formal employment.

From a social emergency towards an inclusive social protection system

Despite significant improvements in recent years, the incidence of informal employment remains high – over 40 per cent of total employment (Bertranou and Casanova, 2015). As a consequence, significant gaps in the coverage of social security persist. One in every three employees in Argentina is not registered in the social security system and only 8 per cent of unemployed people are covered by the contributory unemployment insurance scheme. Argentina thus faces a number of challenges in the next phase of the move towards a universal social protection system, where a higher share of the working-age population is covered by contributory social security schemes whose benefits are connected to wage contributions.

⁸⁶ According to administrative data, the number of beneficiaries of *Plan Jefes* alone reached 2 million at its peak in May 2003 (Neffa and Brown, 2011).

Box 4.1. Evolution of labour market policies in Argentina since 2000

In 2001–02, Argentina suffered one of the most severe economic crises in its history. In addition to the detrimental macroeconomic effects, the crisis had a severe impact on social conditions. The unemployment rate increased by more than 6 percentage points in two years, to reach 21.5 per cent in 2002, while the employment rate decreased by more than 3 percentage points during the same period. Moreover, the share of people living below the poverty line increased from 37 per cent just prior to the crisis to 57 per cent in 2002 (Escudero, 2011; World Bank, 2003).

As a result, in April 2002, the Unemployed Heads of Household Plan (*Plan Jefes y Jefas de Hogar Desocupados*, or *Plan Jefes*) was launched as the main measure to offer income support to the high number of jobless households. The programme provided a monthly allowance of 150 ARS to unemployed heads of households with children under the age of 18 or disabled family members. *Plan Jefes* was targeted at more than 2 million people, most of whom were not entitled to unemployment insurance because they had been excluded from the contributory system. At its inception the plan was conditional only on households ensuring that children attend regular schooling and receive adequate health care, but a work requirement was also placed to all participants three months later to ensure that the benefits reached those individuals that were in most need (Galasso and Ravallion, 2004).

In 2004, the economic recovery started to take hold and the unemployment rate fell 9 percentage points, to reach 12.5 per cent. As a result of the greater fiscal space that came about from the improvement in macroeconomic and labour market conditions, the policy approach was reoriented to place increased emphasis on employability measures. In this context, *Plan Jefes* was reformulated and beneficiaries who had not moved to formal employment were transferred into *Plan Familias* (a traditional CCT programme) and *Seguro de Capacitación y Empleo* (a multi-approach activation programme) – descriptions of both programmes are included in the main text. Thus, while the number of *Plan Jefes* beneficiaries was reduced, there was an increase in the number of participants in employment programmes that combined income support with active labour market support.

As the incidence of informal employment decreased – the unregistered wage employment rate dropped by 11 percentage points from 2004, to reach 36.3 per cent in 2008 – programmes targeted at those groups facing the greatest challenges in entering formal employment started to gain relevance. For instance, the programme *Jóvenes con Más y Mejor Trabajo* (Young People with More and Better Work) was launched in June 2008 to create opportunities for labour inclusion for youth aged 18 to 24 who neither have a job nor receive social assistance, by offering them aid to complete their schooling and helping them to join the labour market.

Moreover, the international crisis of 2008 created the need to strengthen programmes that assist workers who are at risk of losing their job. As a result, the programme *Programa de Recuperación Productiva* (REPRO) was reinforced in late 2008 in an effort to maintain the level of employment. REPRO provides workers in enterprises facing a crisis situation with a monthly subsidy of up to 600 ARS (328 USD, PPP) for a maximum of 12 months.

Figure 4.1. Number of recipients of contributory and non-contributory employment programmes and unemployment rate in Argentina, 2004–14



Note: Contributory programmes refer to unemployment insurance. Non-contributory programmes include: *Plan Jefes*, *Seguro de Capacitación y Empleo*, *Jóvenes con Más y Mejor Trabajo*, *Programa de Empleo Comunitario*, *PROMOVER*, *Programa de Recuperación Productiva*, *Interzafra*, *Sostenimiento del Empleo*, *Fortalecimiento del Empleo (Madres de Plaza de Mayo)*, *Talleres Protegidos y Convenios Sectoriales*.

Source: ILO calculations based on Ministerio de Trabajo, Empleo y Seguridad Social (MTEySS), Argentina.

In an effort to promote formal job creation and improve coverage of social security via contributory mechanisms, Argentina introduced, among other programmes, the training and employment insurance scheme *Seguro de Capacitación y Empleo* (SCE). The purpose of the programme was to offer support in skills upgrading, vocational training and job-search and job-placement assistance to eligible beneficiaries of the non-contributory *Plan Jefes* (see Box 4.1) in order to provide them with the tools necessary to generate more autonomous and sustainable income generation through decent work (OAS/ECLAC/ILO, 2010). This would in essence achieve the objectives of: (i) promoting formal employment; and (ii) enabling individuals to then participate in contributory social security schemes.

As mentioned above, in practice the reform of *Plan Jefes* involved: (i) the implementation of two main programmes: *Plan Familias* and the SCE; and (ii) the transition process to one or other of these based on the labour

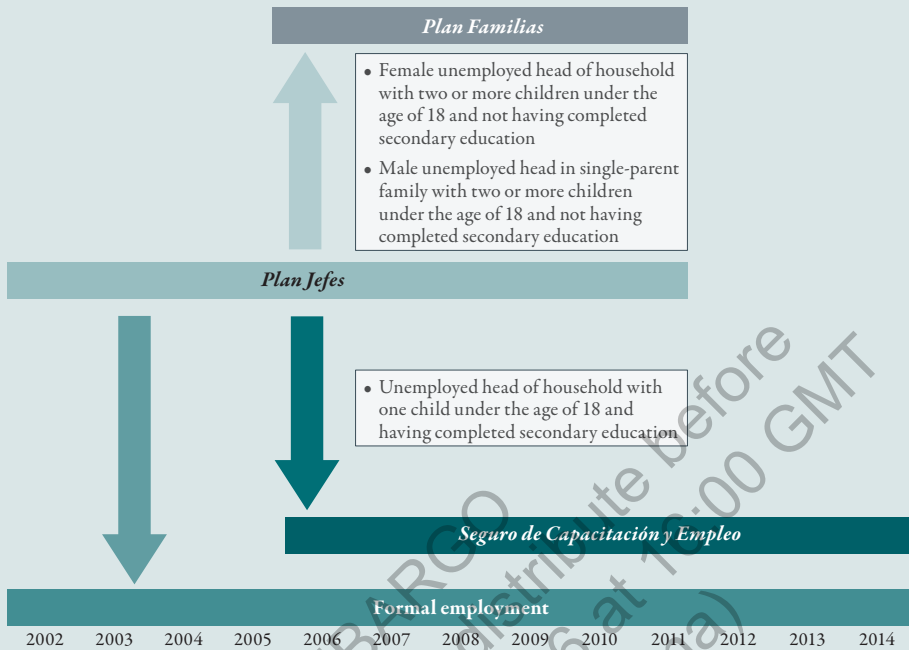
insertion profiles of *Plan Jefes*' beneficiaries. *Plan Familias* focused on more vulnerable individuals (i.e. female unemployed heads of household with two or more children under the age of 18 and not having completed secondary education; and male heads of household in the same situation in the case of a single-parent family) and was administered by the Ministry of Social Development. It conferred a benefit indefinitely, which was proportional to the number of children at home and conditional on basic health care and school attendance of these children. SCE, on the other hand, was aimed at *Plan Jefes*' participants with the best opportunities to enter the labour market (Figure 4.2).⁸⁷

Eligible *Plan Jefes* participants who opted to participate in SCE would receive a monthly stipend of 225 ARS (75 ARS more than the allowance provided by *Plan Jefes*) during the first 18 months and 200 ARS during the last six months for a maximum of two years. In addition, the programme aimed to support individuals through the following instruments: (i) support for the completion of primary and secondary education; (ii) vocational training and apprenticeships; (iii) labour intermediation services; (iv) indirect job creation measures (e.g. employment subsidies); and (v) promotion of self-employment and micro-enterprise creation. In exchange, individuals willing and eligible to participate had to commit to (i) attending regularly the PES office to develop a career plan; (ii) participating in training, apprenticeship or vocational orientation activities; and (iii) accepting job offers that were consistent with their profile and experience. In order to strengthen the institutional capacities of SCE, the Ministry of Labour created a network of PES offices at the municipal level. PES offices were in charge of providing job-search assistance and vocational counselling and improving the coverage and quality of training services. An IT system was also created to facilitate job-search support in 2006 (Neffa and Brown, 2011).

Unlike *Plan Jefes*, beneficiaries of SCE who get a job may continue to receive the benefit for a specific period of time (up to 12 months if the job is in the public sector and up to six months if it is in the private sector). Thus, the potential disincentive to labour market participation is reduced

⁸⁷ In 2009, SCE was opened to beneficiaries of other labour and social programmes (Neffa and Brown, 2011).

Figure 4.2. Structure of the transition stages from *Plan Jefes*



Source: ILO based on Bertranou et al. (2015).

because a beneficiary can accept a job offer without losing their benefit (Cruces and Gasparini, 2008). In terms of coverage, SCE has shown strong growth, increasing from 20,803 beneficiaries in 2006 to 124,112 beneficiaries in 2014.⁸⁸

Providing active support through CCT programmes improves job quality

Despite the trend for putting greater emphasis on activation, empirical evidence on the effectiveness of ALMPs as tools to increase the employability of beneficiaries of CCTs is actually rather scarce.⁸⁹ With the aim of filling this void, an impact evaluation has been undertaken to assess the

⁸⁸ Ministry of Labour, Employment and Social Security: www.trabajo.gov.ar

⁸⁹ Some exceptions include Galasso et al. (2004), which analysed whether providing a wage subsidy and specialized training to beneficiaries of the Argentinean welfare programme *Trabajar* was effective; and Almeida and Galasso (2010), which evaluated the effects of a self-employment programme offered to Argentina's *Plan Jefes* beneficiaries (see Chapter 3 for a discussion on the effectiveness of both programmes).

effectiveness of these instruments in increasing employability and work quality of former *Plan Jefes* participants, and in turn evaluate the effectiveness of these types of measures in promoting social security coverage via contributory schemes (i.e. as an exit strategy to more universal CCTs).

The analysis, which uses data from the Permanent Household Survey (*Encuesta Permanente de Hogares – EPH*), focuses on individuals under the age of 65 who were identified as beneficiaries of activation measures (mainly provided by SCE and, to a lesser extent, *Programa de Empleo Comunitario*; see López Mourelo and Escudero, 2016) in a reference week for the period between the second quarter of 2006 and the fourth quarter of 2010. In order to isolate the effects of the active labour market tools, it was crucial to identify a comparison group that had comparable characteristics to participants but had not benefited from the activation measures provided by SCE. As detailed above, the transfer from *Plan Jefes* to other programmes was gradual and therefore, between the second quarter of 2006 and the fourth quarter of 2010, there were participants in *Plan Jefes* who met the requirements to be beneficiaries of programmes with an activation component but had not yet been transferred. Hence, the comparison group for this evaluation consists of *Plan Jefes* participants who had not yet been transferred to other programmes during the period when *Plan Jefes* was active simultaneously with other interventions. The evaluation was carried out by means of a difference-in-difference approach combined with propensity score matching (Box 4.2).

The analysis finds that active labour market measures (from here on referred to as SCE, because these measures are mostly provided by this programme), at least in the short term (i.e. one year), have an impact on improving the job quality of beneficiaries. Estimates suggest that participation in SCE is associated with a decrease in the probability of having an informal job in the short term coupled with an increase in hourly wages. The findings also suggest that the programme is associated with a lower probability of working an excessive number of hours or being underemployed (Table 4.1).⁹⁰ Given that observed participants in this study are those transitioning from *Plan Jefes*, these positive effects on employment and job quality suggest that

⁹⁰ See Table 4.5 in the appendix to this chapter for the full set of results.

Box 4.2. Using DID and PSM to address selection bias

Exploiting the panel structure of the survey, this evaluation uses a difference-in-difference (DID) model to estimate the average impact effect of the programme. DID methods are based on the assumption that unobservable individual characteristics affecting participation are time invariant and therefore the dissimilarity between participants and non-participants can be eliminated by double differencing.

However, the underlying DID assumption that selection bias is time invariant can be less plausible if individuals are highly different according to observable characteristics. In these circumstances, it has been widely recommended that matching methods are used to remove potential time-varying selection bias attributable to pre-programme latent heterogeneity (Khandker et al., 2010). Given the richness of the EPH in terms of availability of sufficiently detailed information on participants and non-participants, this evaluation was able to carry out a propensity score matching (PSM) method for the baseline period.

As such, the analysis provides two sets of estimates, the first based on the DID estimator for the full sample and the second on the DID estimator computed on a sample of matched observations to correct for possible selection bias on observable characteristics. Importantly, the main findings are consistent across the two different approaches used, giving confidence in the robustness of the results (López Mourelo and Escudero, 2016).

Table 4.1. Effects of activation measures in a CCT programme on employment status and job quality

	Full sample	Matched sample
Employment status		
Employed informally	-	-
Unemployed	ns	ns
Inactive	+	+
Job quality		
Real hourly wages	+	+
Low-paid job	ns	ns
Number of hours worked	+	-
Excessive working time	-	-
Underemployment	-	-

Note: The estimated effects are classified as positive and statistically significant (+), negative and statistically significant (-) and not statistically significant (ns).

Source: ILO based on López Mourelo and Escudero (2016).

for certain groups, reducing dependency of more universal CCTs through programmes that are rich in activation components is feasible and positive for participants in terms of their labour market trajectories.

Despite these positive effects, the analysis also finds that the programme is associated with an increase in the probability of being inactive, at least in the short term. This might be related to the fact that while participants move into the formal labour market, they might sometimes fall into or remain in inactivity. For example, many participants might be in inactivity one year after starting participation in the programme because they are attending school, as one of the programme components is the completion of primary or secondary education.⁹¹ This finding raises a relevant question from the policy perspective: Are transitions from inactivity (and in particular from schooling) to formal employment easier and faster than transitions from informal to formal employment?

The role of ALMPs in easing the transition to formal employment and, therefore, to a universal social protection system

In Argentina, like in many other LAC countries, there has been an important focus on the design and implementation of non-contributory programmes, among which CCTs stand out. These programmes have played a crucial role in alleviating poverty by providing vulnerable groups with income security and access to essential services. In other words, non-contributory programmes have been key in the development of a social protection floor in the region. However, informal employment remains high and more efforts are needed to move up the next step of the social protection staircase – such that the social security scheme is better tied to wage employment (at least for those able to work) (ILO, 2010). The evaluation of the Argentinian case shows that an effective way of doing this is to provide beneficiaries of cash transfers with active labour market services, as the analysis finds that these measures improve the job quality of participants, while non-contributory programmes provide an outstanding channel for the articulation of these labour market programmes. Despite

⁹¹ While in education, these individuals would continue to be SCE participants, up to a maximum of two years of participating in the programme.

the success of this strategy, the evaluation of the programme suggests that a number of important improvements merit consideration, notably: (i) reorienting the incentives to participate in ALMPs; and (ii) ensuring equal participation opportunities.

Create an environment that encourages and maximizes participation in ALMPs

As described above, the transition from *Plan Jefes* to SCE was a gradual and slow process. Even though the SCE monthly allowance was 50 per cent higher than that under *Plan Jefes*,⁹² three years after the programme was implemented a significant number of *Plan Jefes* beneficiaries had not migrated to SCE (see Table 4.2) – either by choice or for reasons related to the implementation of SCE.

In supporting the move from a traditional CCT to a more labour market-oriented programme or ALMP, it is important to ensure that the incentives put in place encourage such a transition. In this regard, the following considerations should be borne in mind:

Table 4.2. Number of beneficiaries of *Plan Jefes*, SCE and *Plan Familias*, 2004–10 (thousands)

Year	<i>Plan Jefes</i>	SCE	<i>Plan Familias</i>
2004	1 772		
2005	1 576		
2006	1 322	21	371
2007	924	59	539
2008	625	82	620
2009	428	88	695
2010	29	118	

Source: ILO based on MTEySS, Argentina.

⁹² Moreover, there were other economic incentives related to complete successfully some of the components of SCE such as remedial education and vocational training. In particular, those beneficiaries of SCE who successfully complete remedial education and vocational training would receive 600 ARS and 900 ARS, respectively.

- *Reinforcing the incentives to participate in ALMPs:* For participants, the transition from *Plan Jefes* to SCE was voluntary, and so their incentives to transition depended largely on the different features of the two programmes. A number of factors might have affected this transition, such as the risk aversion of beneficiaries, their awareness of the cessation of *Plan Jefes*, their future employment prospects and their own assessment of the labour market services provided by SCE (Cruces and Gasparini, 2008). In this regard, moving to SCE might not have been perceived as advantageous by all *Plan Jefes* beneficiaries. Although the economic incentive (in terms of benefit amount) was marginally higher, and those who found a job could keep their benefits to top up their wages for a specified duration, SCE came with a number of conditions that if not met would result in loss of benefits. Most importantly, *Plan Jefes* conferred a benefit indefinitely, whereas benefits provided by SCE lasted for a maximum period of two years. Empirical evidence suggests that low-income groups consider the duration of the benefit to be a very important characteristic of cash transfer programmes (Cruces et al., 2007). Issues of this nature could be addressed through a number of potential options, or combination of options, including: (i) allowing individuals to keep their benefits for a longer period after a successful job search (assuming they keep the job); (ii) adjusting the criteria such that it is not overly burdensome to participate in the ALMP; and (iii) enhancing targeting of participants while broadening eligible population (see also below). It is important to note that, depending on the circumstances, such changes may require enhancing the institutional capacity of ALMPs.
- *Strengthening the institutional capacity of the programme:* In addition to the programme design features, issues related to the implementation of the programme might also affect participation. For instance, a few years after the implementation of SCE, a large group of *Plan Jefes* beneficiaries had not been given the option to join the new programme because SCE had not been fully deployed across the country (OAS/ECLAC/ILO, 2010). The Ministry of Labour put a network of PES offices into service at the municipal level, aimed at providing job-search

assistance and vocational counselling and improving the coverage and quality of the training services. However, this institutional capacity was not deployed to the same extent (both in terms of the number of offices and in time) in all areas of the country (Madoery, 2011). As a result, *Plan Jefes* participants who, in spite of meeting the requirements, took longer to move to SCE might have been influenced by the absence of, or distance from, a PES office that would have allowed them to complete the necessary procedures and receive information on the benefits of the new programme. Argentina's experience shows that in order to ensure a successful transition from a cash transfer programme to a programme with an activation component, sufficient institutional capacity is critical. PES offices are only one example; adequate training centres, for instance, are also needed.

- *Extending the supply of activation services to remote areas:* The locations where PES offices were established or expanded were mainly confined to urban areas. However, beneficiaries of CCT programmes (and potential participants in ALMPs) often live in remote areas, far away from major urban centres, with scarce and expensive means of communication, including public transport (Trujillo and Sarabia, 2011). Consequently, the allowance received for participating in an employment programme might not offset the costs that would be incurred in attending a PES office, training centre or workplace.⁹³ Therefore, it is crucial to extend the supply of training and other components embedded in ALMPs to remote areas of the country, which often are also the poorest and have the highest number of CCT beneficiaries. Of course, this will also entail ensuring that labour market institutions in these remote areas have the capacity to deliver such programmes.

Ensure equal opportunities for participation in labour market activation initiatives

As previously described, *Plan Jefes*' participants were transferred to two new programmes (*Plan Familias* and SCE) based on their labour insertion potential. In particular, *Plan Familias* focused on individuals who were considered to have a lower probability of finding a job, which, according

⁹³ This is also likely to have played a role in the low transition rates between *Plan Jefes* and SCE.

to programme authorities, comprised mainly low-skilled women with two or more children. This implies that the exit from *Plan Jefes* to the other two programmes was somehow segmented by sex (OAS/ECLAC/ILO, 2010). Most importantly, this segmentation in the design of the two new programmes risks determining very different future labour market trajectories for the participants of the different programmes due to disparities in the services provided. The way the two programmes have been designed discriminates against women, as they are given the role of caring for the family exclusively and are not granted equal opportunities for labour market insertion through participation in ALMPs.

Indeed, some concerns exist about the role of non-contributory programmes, and in particular CCTs, in deepening gender stereotypes in LAC (OAS/ECLAC/ILO, 2010). By making women the ones responsible for complying with the conditionalities embedded in traditional CCTs, these programmes might help to strengthen gender gaps in labour market insertion. This is especially worrisome when one takes into account that women in LAC have significantly lower labour force participation rates and higher probabilities of working in the informal sector. This also illustrates that there is an important gender dimension to the design of opportunities provided in the region (see Chapter 1).

In this context, some features of programme design could be improved to promote the inclusion of women in activation initiatives and, in turn, reduce the gender gap in labour market opportunities:

- *Building the space for women's empowerment in ALMPs:* In order to reduce the risk of non-participation or drop-out by women, it is crucial for remedial education programmes, and for vocational and on-the-job training programmes, to incorporate formats that enable the attendance of women. For instance, on many occasions the income support that participants receive does not compensate for the costs they incur in hiring a caregiver for their children during the time they attend programme activities. In this regard, the provision of childcare programmes or grants for females with dependent children to support their childcare

while they participate in education and training could improve their participation in labour market programmes.

- *Implementing reconciliation policies to promote a culture of co-responsibility in caregiving:* Associated with the above, there is a need for policies that aim to facilitate women's participation in labour market programmes. Some potential policies in this regard include implementing legislation for maternity and paternity leave, improving the access to subsidized day-care facilities for children and introducing a preferential tax treatment for hiring help in the house.

Although non-contributory programmes provide an outstanding channel for the implementation of ALMPs, the fact that these programmes would cover the same beneficiary population as CCTs implies that a significant proportion of families and individuals might remain without any cover from a social protection programme. These are mainly informal workers whose income is slightly above the minimum wage or self-employed and micro-entrepreneurs, all of whom are likely to be in working poverty. In this regard, it is important to stress the role of the Universal Child Allowance programme (*Asignación Universal por Hijo*), implemented in Argentina in 2009, in offering income support for families of unregistered workers earning less than the minimum wage, the unemployed, domestic workers and self-employed workers with very low incomes (ILO, 2011).

B COLOMBIA: QUALITY EMPLOYMENT AND THE ROLE OF THE PES

The Colombian labour market is characterized by high informality

Despite recent progress, a number of persistent challenges are hindering the creation of more and better quality jobs in Colombia. The share of informal employment, at 54.4 per cent of total non-agricultural employment in 2013, remains very high, well above the LAC average of 46.8 per cent (ILO, 2014).⁹⁴ Even during the past decade of strong economic growth (i.e. since 2004), the share of informal employment fell only 3.2 percentage points. In addition to being associated with poorer working conditions, informality increases the risk of working poverty, as informal jobs are often associated with lower wages.⁹⁵ Importantly, informal jobs often represent the first step for those who are entering or re-entering the labour market. For instance, evidence from the *Encuesta Longitudinal Colombiana de la Universidad de los Andes* (ELCA) shows that of those who were inactive in 2010, 19 per cent had moved to an informal job three years later – in comparison, only 12 per cent had moved to a formal job. In addition, there are some concerns regarding the transition from informal to formal jobs – that informal employment might not represent a stepping stone towards a career in the formal sector. In particular, of those who were in informal employment in 2010, only 44 per cent had moved to formal jobs three years later – according to ELCA (Figure 4.3).

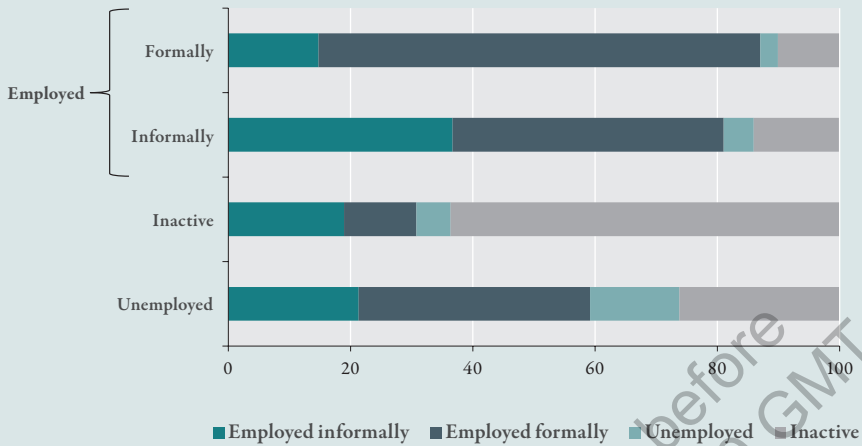
A comprehensive strategy is needed to promote the transition of the labour market towards formal employment. This strategy would include enhancing workers' employability (e.g. training), creating opportunities for firms to grow (e.g. access to credit) and providing an efficient network of public services (e.g. infrastructure).⁹⁶ The provision of public labour intermediation could represent a central component of this policy approach. Among the different causes of informality, recent evidence from Colombia shows that jobseekers tend to rely on the same job-search channels as their peers

⁹⁴ The definition of informal employment follows the directives adopted by the 17th International Conference of Labour Statisticians, see footnote 19 of Chapter 1 for details.

⁹⁵ This can be associated to both the (on average) lower skills' levels of workers in the informal sector as well as the existence of a wage penalty in the informal sector (Herrera et al., 2013).

⁹⁶ As stated in the ILO Recommendation 204 of 2015 concerning the Transition from the Informal to the Formal Economy, aiding the transition from an informal to a formal economy requires a comprehensive set of policies, encompassing employment, social protection and social dialogue.

Figure 4.3. Transition rates across employment status in Colombia between 2010 and 2013 (percentages)



Note: The figure shows the share of individuals in a specific status in the labour market in 2013 (employed formally, employed informally, unemployed or inactive) depending on their respective status in 2010. Due to data limitations, the definition of informal employment used in this context slightly differs from that used in the rest of the report. In particular, it defines formal employment using social security coverage for wage and salaried employees, while using the existence of business registration for those in self-employment (but domestic workers are always counted as informal).
 Source: ILO calculations based on the first two waves of the ELCA.

(i.e. in the same socio-economic group or neighbourhood), which potentially perpetuates the vicious cycle presented above regarding inactivity and informality (García and Nicodemo, 2015). Furthermore, international evidence has shown that PESs are effective in raising both the probability of participants finding a job and the quality of that job (Kluve, 2010). In this context, it is crucial to ensure that the PESs provide assistance – either online or through face-to-face counselling – to jobseekers who are either looking for a new job or are entering the labour market for the first time.

The state of public labour market services in Colombia

Since 1989, responsibility for providing free public labour market services in Colombia has lain with the *Servicio Nacional de Aprendizaje* (SENA), a public institution whose principal mandate since 1957 has been the provision of vocational training. Until recently, SENAs role in the provision of

labour market services was mainly limited to collecting information about demand and supply of labour (e.g. labour intermediation). A reform in 2004 expanded the institution's competencies in the area of labour market services, bringing within its remit the provision of guidance to jobseekers on available vacancies (Government of Colombia, 2004). In addition, an overhaul of SENA practices in 2006 has enabled labour intermediation to be offered either online through a well-developed web platform or face-to-face with councillors. Moreover, the most recent reform in 2013 instituted a new agency in charge of the public provision of labour market services within SENA (the *Agencia Pública de Empleo*, APE)⁹⁷ to join the newly constituted network of public and private providers of labour intermediation (the *Servicio Público de Empleo*). The new agency was created with the aim of expanding the coverage of PES in the country by fostering greater collaboration between the public and private sector (Box 4.3). As a provider of labour market services, APE's mandate is to: (i) provide labour intermediation; (ii) develop sectoral policies; (iii) assist jobseekers with respect to labour orientation; and (iv) promote the inclusion of migrant workers within the labour market (SENA, 2015a) (see Chapter 2 for a definition of PES and labour market services).

To register in the PES (either online or in APE centres), jobseekers are asked to enter identification and contact details, labour market history (i.e. unemployment duration), information on educational attainments, training programmes completed, previous work experience (including name of the enterprise, tasks undertaken and achievements), as well as details regarding professional competencies and preferences for the new job (including location). Following registration, the system automatically generates a CV for the jobseeker and produces a certificate of registration with the PES. Jobseekers can then apply online directly for those vacancies that match their profiles and/or seek advice from APE centres in order to generate an individualized path. In the first case, the software automatically lists all those vacancies in which the employer's requirements are met by the jobseeker. The jobseeker can consult the vacancy notice (including the number of candidates that have already applied) and apply directly, without the need to provide any additional specific information. If the

⁹⁷ The remainder of this chapter will refer to APE when discussing the labour market services provided at SENA – even when referring to dates prior to the constitution of APE.

Box 4.3. The 2013 reform of PES in Colombia

The new legislation passed in Colombia in 2013 has extensively reformed the institutional design of labour market services. The reform assigned responsibility for the provision of public labour market services to the newly instituted *Servicio Público de Empleo*, which comprises both the public provider of labour market services (APE) and a network of private or semi-private employment agencies (Government of Colombia, 2013a). This decree has empowered private providers of labour intermediation (in particular, private employment agencies and the *Cajas de Compensación*) to act as public providers of labour market services. These private institutions must be registered with the Ministry of Labour, comply with certain rights and duties (such as having a computerized system compatible with that used at APE) and provide basic services of labour intermediation free of charge, although they can charge for the provision of more complex labour market services (for example, training). A further decree introduced in 2013 mandated that all employers must register with the National Registry of Employers and publicize any vacancies with the *Servicio Público de Empleo* within ten working days of their becoming available – although they can choose which provider (private or public) to notify (Government of Colombia, 2013b).⁹⁸ Exceptions to this obligation extend only to senior management positions.

By these means, the Government aims to involve non-government actors in the provision of labour market services – a move towards quasi-market systems that can potentially increase both the effectiveness and flexibility of the services provided to jobseekers (Finn, 2011). Additionally, when fully operational this system could potentially increase the coverage of PES in both urban and rural areas – a critical issue, as discussed below. For instance, in Argentina, the Ministry of Labour has signed agreements with local municipalities in order to increase the reach of PES – as seen in Section A – while retaining the responsibility for quality checks. As a result, around 70 per cent of the total population in Argentina now has a PES office within close proximity (Bertranou et al., 2013). This is extremely important, especially since research has shown that, while the use of new technologies can be beneficial in extending the coverage of PESs, face-to-face services still represent the most effective way of providing labour counselling. For instance, in the United Kingdom, jobseekers receiving job-search assistance over the phone, rather than in person, have a higher incidence of prolonged claims (OECD, 2014).

employer (whose contact details remain undisclosed) is interested in taking their application further, the jobseeker will be contacted. Jobseekers who choose to receive individualized job-search assistance are encouraged to visit APE centres. At the first meeting, APE staff distinguish between: (i) those jobseekers who are employable and need only some form of labour intermediation (e.g. CV counselling, vacancy screening, preparation for interview); (ii) those who are not yet ready to (re-)enter the labour market

⁹⁸ Since this requirement was announced, legislation governing its conditions and enforcement is pending.

and who require more structured labour market orientation (e.g. career advice) and identification of possible training courses (also provided at SENA);⁹⁹ and (iii) those who are willing to start their own business, for which APE provides entrepreneurial support.¹⁰⁰ A jobseeker's profile is removed from the registry on failure to attend one or more interviews made available through APE or on failure to complete a recommended training course (Figure 4.4).

Enterprises undergo a similar registration process, specifying the main characteristics of the company (e.g. legal status), areas of operation and contact details. They can then post vacancies by detailing the professional and occupational status, the tasks required and the main characteristics of the job offer (e.g. salary, working hours, educational and professional requirements, type of contract), using the standard form available online.¹⁰¹ At that point, enterprises can decide either to wait for interested candidates to contact them or, alternatively, to search the system autonomously for suitable profiles.¹⁰² All these actions can either be taken online via APE software or by visiting APE centres. In the second case, APE staff, in consultation with the employer, checks the PES job bank to identify suitable candidates and, in certain circumstances, will also conduct semi-structured interviews with interested applicants to assess their competencies. Based on this screening exercise, an initial list of potential candidates is compiled, which is made available to the prospective employer. Alternatively, the employer can ask to see the entire list of jobseekers that have applied for their vacancy.¹⁰³ If a large number of vacancies is available in the same sector and region, recruiting events can be organized by APE. Alternatively, employers can ask to use specific areas within APE centres to conduct interviews (*microruedas*). In every instance, the prospective employer should notify APE, either electronically or by telephone, of the outcome for each applicant, whether selected or the reason for rejection. Failure to

⁹⁹ These can be either SENA vocational training courses or alternative courses (e.g. language training, interview preparation) organized by APE as part of its role in the provision of labour market services.

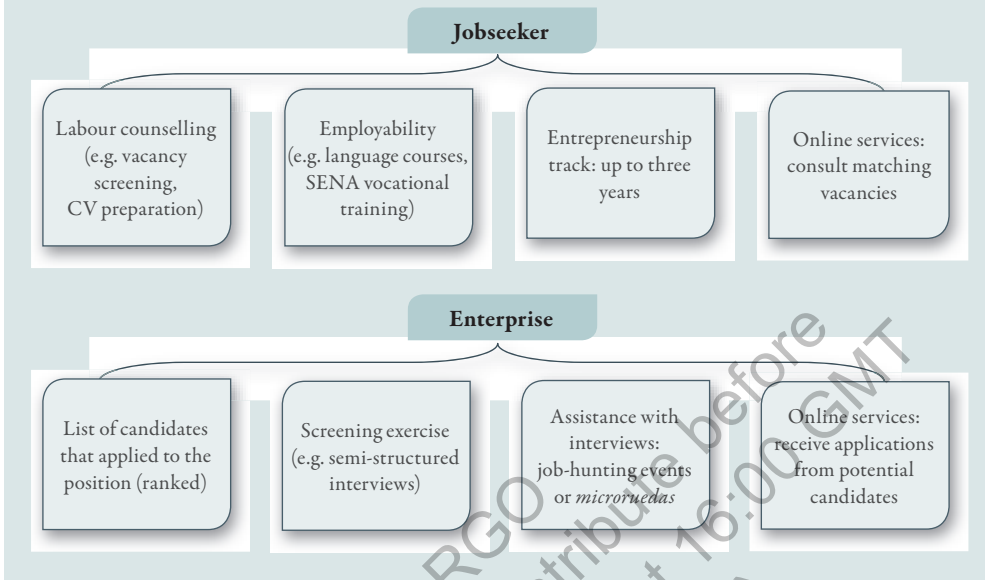
¹⁰⁰ This entrepreneurial support is free of charge for up to three years.

¹⁰¹ Alternatively, enterprises can post their vacancies in the system by contacting APE centres via telephone.

¹⁰² This option can only identify those jobseekers who have specified upon registration their willingness to be contacted directly by potential employers and who are actively using the system (i.e. have accessed the software within the last 45 days).

¹⁰³ In contrast to employees, who can screen all vacancies, employers can only see the profiles of those jobseekers who have applied for their vacancy or who have specified their intention to make their profile public to potential employers.

Figure 4.4. Overview of APE services for jobseekers and enterprises



comply with this reporting duty can result in the employer being prevented from posting further vacancies. Enterprises may be blocked from the registry if they fill three consecutive vacancies without selecting a candidate that has applied through APE. The purpose of this policy is to encourage employers to interact with APE centres in order to detail their vacancy announcements more accurately, which will result in a better match with available candidates in the system. If this clarification takes place, APE staff can unblock the profile of the enterprise in the software.

There are no specific eligibility requirements to take advantage of APE, as services are open to everyone (e.g. unemployed, underemployed, inactive, employed) and are free of charge. APE operates through the nationwide network of public centres – 33 principal offices (32 in each district and an additional one in Bogota), 40 satellite offices and four mobile offices.¹⁰⁴ In each centre, workspace is available for jobseekers and employers for

¹⁰⁴ Additionally, each of the 617 SENA training centres in Colombia has an employment centre that provides some basic services in the area of labour intermediation. However, these centres do not provide the full range of labour market services described in this section.

face-to-face counselling with APE staff. Ethnic minorities or individuals with specific needs (e.g. victims of terrorism) are assisted in a separate, dedicated space within the centre. Computers are also made available in the centres for jobseekers who prefer to update their profile independently. Rooms are available in each APE centre for classroom teaching (e.g. foreign language training) specifically targeting those jobseekers identified in the initial assessment as requiring training. Data for 2014 show that, over the course of the year, 994,902 jobseekers had registered their profiles with APE for job-search purposes, of which 529,148 had approached APE centres for individualized job-search assistance. Over the same period, 261,357 vacancies had been published by enterprises in the system and, as a result, 180,081 job matches had been made during the year (Government of Colombia, 2015).¹⁰⁵ This means that 18.1 per cent of the jobseekers who used APE to look for a job were successful in their search; while 68.9 per cent of the vacancies posted in the system were filled.

The ILO's evaluation reveals that APE does improve employment outcomes of jobseekers, but has mixed effects on wages

The impact of SENA training courses has been extensively evaluated since the 1970s, generally finding only minimal effects of participation on earnings and employment (see Medina and Núñez, 2005; and publications referred to therein). However, the effects of participation in the labour market services provided at APE have not yet been investigated, leaving unanswered questions about the effectiveness of labour market services in the country as a means of promoting more and better quality jobs.¹⁰⁶ This is particularly important, since (as seen in Chapter 1) publically provided labour market services represent the second item (after training) in terms of public spending for ALMPs in Colombia – corresponding to 10.8 per cent of spending in ALMPs (Cerutti et al., 2014).¹⁰⁷ In order to fill this gap, an evaluation has been conducted to assess the impact of participation in APE-provided labour market services on main employment outcomes

¹⁰⁵ Preliminary data for 2015 show an improvement, with 200,198 job matches by November.

¹⁰⁶ Only some qualitative studies have been conducted on the effectiveness of the labour market services provided by APE (Uribe and Gómez, 2006; and Tovar Suárez and Montaña Pachón, 2008, for youths).

¹⁰⁷ Training constitutes the main source of spending on ALMPs (86.9 per cent of the total), while other items of expenditure are self-employment and micro-enterprise creation (2.2 per cent) and public works (0.1 per cent).

– notably wage levels and the probability of having a formal (rather than informal) job. Data used in the analysis are drawn from the Colombian household survey (*Gran Encuesta Integrada de Hogares*, GEIH) between 2008 and 2014, which contains a wealth of information on household and personal characteristics as well as on both previous and current employment status.

The analysis compares the employment outcomes of individuals who found their job through APE with those of individuals who found employment through alternative channels; notably, by (i) posting or replying to a classified job advertisement; (ii) obtaining labour market services through private employment agencies; (iii) directly contacting and visiting employers; and (iv) making enquiries through family and friends. The analysis is conducted by propensity score matching, which represents a helpful and flexible technique that has been extensively used for the evaluation of PESs in both advanced and emerging economies (see Box 4.4 for details on the methodology).

The results of the analysis show that finding employment through APE increases the probability of being in a formal job, compared with similar individuals who found their jobs through other means (i.e. classified advertisements, directly contacting the employer or making enquiries through relatives and friends). Around two thirds of this effect is ascribed to the fact that APE participants are generally placed in bigger companies, which are characterized by a higher degree of formality. The effect of participation in formal employment is stronger for women and low-skilled jobseekers than for men and high-skilled individuals.¹⁰⁸ In addition, APE is as effective as private employment agencies in placing individuals in formal jobs. Analysis of the effect on wages of participating in APE's labour market services reveals that finding a job through APE has, on average, a negative effect on wages – which is always statistically significant, except when compared with individuals who found a job through relatives and friends (where the effect is positive). However, when disentangling the effects by

¹⁰⁸ Low-skilled individuals are defined as those that have obtained, at most, a high-school degree, while high-skilled individuals are those that have at least enrolled in a tertiary education degree (without necessarily completing the course), which can be either university or vocational training (provided the training is counted as formal education).

Box 4.4. The use of PSM: Steps for the estimation strategy

This box details the methodology used to conduct the impact evaluation of the effects of participation in the labour market services provided by APE (Pignatti, 2016). The analysis is conducted by means of propensity score matching (PSM), an estimation strategy that provides a helpful and flexible way to determine treatment effects, and has already been extensively used in the evaluation of PESs. PSM is based on the conditional independence assumption (CIA), according to which differences between participants and non-participants that jointly determine (i) their decision to participate; and (ii) the outcome of interest are all observable in the data. The strategy then consists of: (i) estimating the probability of participation in the programme (for both participants and non-participants); (ii) eliminating participants who have no corresponding non-participants because their probability of participation is too high (definition of the area of common support); and (iii) comparing the outcomes of interest between participants and non-participants, giving greater weight to non-participants who are more “similar” to participants (matching).

The first steps that need to be verified involve (i) checking the validity of the CIA; and (ii) identifying valid exclusion restrictions. Both these steps can only be discussed (rather than tested) based on the available data, the programme to be evaluated and the specific question that the research aims to answer (Caliendo and Künn, 2015). Although there is no common rule determining the set of information which the CIA must hold, previous work suggests the need to include personal and household characteristics, previous employment history, current unemployment spell and regional labour market indicators (Lechner and Wunsch, 2011). In the case of the evaluation of APE, the GEIH presents a rich collection of both individual and household background characteristics that could serve this function. Additionally, a number of papers have used PSM to evaluate PESs, assuming that selection for treatment does not critically rely on unobservable characteristics compared to other programmes (e.g. training).¹⁰⁹ For these reasons, it is assumed in the impact evaluation of APE that the CIA is met. With respect to the identification of a valid exclusion restriction, this is a necessary step, given that employed individuals (for whom information on their successful job search method is available) are not a random subsample of the entire population (i.e. employed, unemployed and inactive). The richness of the available data offers different options for identifying an instrument to determine employment without affecting the outcome of interest of the analysis (wages and formality). The validity of the different options is discussed in detail in Pignatti (2016).

Once the estimation strategy is decided, a number of decisions must be taken prior to the implementation of PSM, and their validity verified on a case-by-case basis. The first decision concerns the type and number of variables to be included in the estimation of the propensity score. In the case of this evaluation, the choice of variables to be included follows the economic theory behind participation in PESs in developing and emerging economies (Chacaltana and Sulmont, 2004) in order to ensure goodness of fit in the model. Second, the quality of the matching is checked by looking at the changes in the mean standardized bias, before and after matching. It is assumed that the greater the reduction in the standardized bias, the higher the quality of the

¹⁰⁹ Papers include Naticchioni and Loriga (2011), Rodriguez-Planas (2010) and Heinrich et al. (2009).

Box 4.4. The use of PSM: Steps for the estimation strategy (cont.)

matching (Caliendo and Kopeinig, 2008). These results are indeed obtained in the analysis, with substantial reductions in the mean standardized bias taking place after matching. Third, checking the area of common support and verifying that the number of observations which are dropped is limited is crucial in the analysis of PSM. Indeed, if a significant proportion of (participating) individuals would be dropped as a result of the matching process, questions on the validity of the results might arise. This is particularly the case if dropped individuals have some common characteristics (e.g. a lower/higher level of education) that systematically differentiate them from the rest of the population – thus making them a non-random subsample of the population.

Once the results are obtained, their robustness is tested by controlling for: (i) changes in the matching algorithm; (ii) changes in the area of common support; and (iii) the presence of unobserved heterogeneity. These are typical tests conducted in the literature on PSM (Caliendo and Kopeinig, 2008). In this case, they confirm that the results obtained in the analysis hold, irrespective of slight modifications in the assumptions made.

subgroup, the evaluation reveals that the effect on wages is significant and positive among low-skilled participants (i.e. they find employment with higher wages through APE than they would elsewhere). However, high-skilled individuals who find a job through APE receive, on average, lower

Table 4.3. Results from the evaluation of APE in Colombia

		All	Women	Men	Low skilled	High skilled
Control: classified advertisements	Employed formally	+	+	+	+	+
	Hourly wage	-	-	-	+	-
Control: private employment agencies	Employed formally	ns/-	ns	-	-	-
	Hourly wage	-	-	ns	+	-
Control: contact with employer	Employed formally	+	+	+	+	+
	Hourly wage	-	-	ns	+	-
Control: family and friends	Employed formally	+	+	+	+	+
	Hourly wage	+	ns	+	+	-

Note: The estimated effects are classified as positive and statistically significant (+), negative and statistically significant (-) and not statistically significant (ns).

Source: ILO based on Pignatti (2016).

wages than comparable individuals who used an alternative job-search method (Table 4.3).¹¹⁰ Finally, for all control groups the results indicate that APE is more effective both in terms of formal employment and wages when the services are provided face-to-face (i.e. in APE centres) rather than online.

Reform efforts could aim to leverage complementarities, increasing the reach of public labour market services

A more efficient institutional framework for the PES could both avoid inefficiencies and leverage complementarities

One of the main obstacles to the effectiveness of APE in contributing to improving labour market conditions is its limited scope. Indeed, currently only around 1 per cent of the job matches in Colombia occur through public labour market services provided by APE. This is well below the value registered not only in developed economies – the European Union average stood at 9.6 per cent in 2012 (European Commission, 2015), while the rate exceeds 20 per cent in Japan (OECD, 2015) – but also in emerging economies (in Brazil 3.8 per cent of job matches occur through the PES). The reform of APE approved in 2013 aimed to increase the reach of public labour market services by: (i) improving cooperation between public and private providers of labour intermediation through the creation of a unique network for the different agents (*Servicio Público de Empleo*); and (ii) introducing the obligation for employers to post their vacancies on this newly constituted platform (see Box 4.3 for details of the reform).

However, additional steps could be considered with a view to facilitating access to APE services and increasing the reach of the PES. These interventions mainly concern the need to optimize some of the aspects already introduced by the recent reform, notably those detailed below.

- *Avoid inefficiencies and duplications by using one unique online platform across all labour market services providers:* The move towards a single software platform that brings together public and private providers of

¹¹⁰ See Table 4.6 in the appendix to this chapter for the full set of results.

the *Servicio Público de Empleo* would enable the service to gain considerable efficiencies. The already well-functioning operational system of APE could be transformed into the unique platform for this purpose. Moreover, since many jobseekers may be unfamiliar with the concept of PES, the new platform could be given a name that easily identifies its mission in terms of job-search assistance (e.g. the platform of the Japanese PES is called HelloWork). Once this move is completed, new technologies can be introduced to improve the platform's accessibility. For instance, in Brazil and Mexico, private providers of labour intermediation have introduced the use of mobile and voice technology to connect jobseekers and employers, thus substantially reducing the cost of visiting their offices, especially in sparsely populated areas. Similarly, efforts to make the platform as user friendly as possible in order to enhance its accessibility would be particularly beneficial to users with limited IT skills. For instance, the website of the UK Government uses the same typeface as UK road signs to facilitate navigation throughout the different webpages.

- *Streamline APE services to reduce red tape:* Additional improvements to the institutional design of APE could be considered in order to facilitate its use. At present, the system stipulates a set of requirements that, although necessary to promote the “correct” use of APE, risk creating disincentives for both jobseekers and employers. In particular, employers now need to: (i) notify the *Servicio Público de Empleo* within ten days of a vacancy becoming available; (ii) report on whether each candidate that applied through APE was selected or give the reason for their rejection; and (iii) select one out of every three candidates that apply for a vacancy through APE to avoid being withdrawn from the system (i.e. employers are blocked from the system if they fill three consecutive vacancies without selecting candidates that applied via APE). These requirements are somewhat inconsistent with the premise that the PES is a complementary – rather than an alternative – instrument for employers to use in their recruitment, in addition to limiting employers' independence in terms of their recruitment decisions. Some flexibility across these three different requirements would reduce APE staff's administrative burden

while at the same time creating incentives for employers to post their vacancies within the system.

- *Connect labour market services with other ALMPs:* In Colombia, labour market services provided by APE are, de facto, only connected with the vocational training activities of SENA, which explains why many PES participants are SENA graduates. Expanding the reach of APE labour market services to other active interventions could substantially increase the coverage of PES in the country. One possible avenue is to make APE the one-stop-shop for the provision of additional services in the labour market. This already occurs in countries where unemployment benefits are managed through the PESs, while in Colombia this falls within the remit of the *Cajas de Compensación*. An example of good practice could come from Brazil, which is piloting a programme (*Estação Juventude*) that introduces a one-stop-shop where young people can access job-search assistance, skills development courses, information on public policies and basic services, such as the internet. In Colombia, APE centres could provide this kind of information as well as administering the provision of other policies for jobseekers.
- *Involve the social partners in certain aspects of PES:* Greater involvement of social partners could be considered, with the aim of improving the content of the labour market services that are provided at APE. Indeed, experience from both developed and emerging and developing economies shows that, while there is no general consensus on which management structure for PESs works best (e.g. as a line department of the ministry of employment or, alternatively, as an autonomous agency), engaging social partners (through either advisory boards, such as in Japan and the United Kingdom, or management boards, such as in France and Germany) leads to more efficient and effective PESs (Thuy et al., 2001). Additionally, greater involvement of the social partners would increase awareness among their affiliates of the services provided at APE, thus increasing their likelihood of participation (see below).

Promoting the use of the services provided by APE to avoid it being trapped in the low end of the labour market

In addition to improving the efficiency of the institutional design of APE, steps could be taken to promote both jobseekers' and employers' use of the services provided. For example, there is a general perception in Colombia that the current pool of jobseekers who accept assistance from APE in looking for employment are typically less job-ready than comparable individuals (i.e. otherwise they would have looked for a job autonomously). As a result, employers are reluctant to outsource the recruitment process to an external institution, especially for vacancies that require a significant degree of both cognitive and interpersonal skills. Consequently, APE risks being restricted to the low end of the labour market (i.e. assisting low-skilled jobseekers in the search for low-skilled jobs), which is difficult to exit (Larsen and Vesan, 2012). Although APE has proven to be particularly effective with this category of workers – as the results of the impact evaluation have shown, in terms of both formality and wages – this risks limiting its potential to reach a wider pool of jobseekers and vacancies.

Therefore, the following could be considered with a view to increasing the scope of APE, including: (i) attracting high-quality jobseekers and vacancies from competitive enterprises; and (ii) increasing the quality of the services that are provided to both jobseekers and recruiters.

- *Reach out to employers in order to target their needs:* It is important that employers regard the PES as a helpful policy instrument that can complement their efforts during the recruitment phase. While the need to reduce administrative requirements has already been discussed, an additional possibility is to increase the incentives for employers to actively use APE. This would require further tailoring the services provided to employers according to their recruiting needs and business' characteristics. In particular, evidence suggests that enterprises that revert to APE are generally large companies, which are representative of certain specific sectors (e.g. construction) (SENA, 2015b). APE should reach out to small and medium-sized enterprises (SMEs) alike and target companies across all economic sectors (particularly those which are expanding).

In many developed and emerging economies, the staff of PESs are categorized according to their specialist knowledge of certain sectors of the economy or specific business types (e.g. small or large companies). For instance, the PES in the United Kingdom has created the “Small Business Recruitment Service” that deals specifically with companies with fewer than 50 employees, providing them with tailored assistance and recruitment support. This is particularly important, because small companies face higher costs in approaching the PESs for the limited number of vacancies that they need to post.

- *Promote jobseekers’ attachment to the system:* Another important element is to ensure that jobseekers who are registered on the platform actively look for a job and benefit from the whole range of services provided at APE. This requires a clear understanding of the trade-offs between online and face-to-face services in terms of efficiency, coverage and costs, as well as an analysis of how the different labour market services (e.g. registration, vacancies’ screening, counselling) are positioned along this trade-off (OECD, 2015). Currently, it is estimated that the majority of APE users access the services online – often because they are located at a considerable distance from a PES centre. However, the results of the impact evaluation have shown how APE services provided face-to-face are generally more effective than those provided online – both in terms of formal employment and wages. A functional system requires a multi-channel strategy, in which online and face-to-face services complement each other, while the use of new technologies helps to reduce the gap between the two channels of service provision. In Sweden, for example, public labour market services rely heavily on online services, especially in sparsely populated areas, but jobseekers who access the services online can do so through tools such as video meetings, web seminars and advanced e-services. Additionally, opening new APE centres (currently only 33 offices nationwide) could be considered to increase the reach of PES in the country – especially to rural areas.

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- *Leverage the reputation and networks of SENA to promote the labour market services provided by APE:* The role of SENA as public provider of training courses is widely known and recognized by both jobseekers and employers in Colombia. However, there is considerably less awareness in the labour market and society at large concerning the work of SENA as a provider of labour market services (through APE), which possibly explains its relatively limited reach. As part of the strategy to increase PES coverage, a promotional campaign targeting both jobseekers and recruiters could be organized to explain and promote the labour market services provided at SENA. In a country with limited knowledge and awareness of PES, it is important to provide better information on the nature of job-search assistance and the different services provided by APE (as described above). This promotional campaign could be conducted via public television, radio and the internet, while specific sessions with workers' and employers' representatives would be helpful to raise their awareness of the role of PES and SENA as service providers. Closer connections could also be built with universities (e.g. through their career services), to incentivize students to turn to APE when looking for a job.
 - *More extensive use of labour market data:* Finally, the efficient design and implementation of the PES is a continuous process that requires regular revisions, feedback from constituents and learning by doing. These requirements necessitate the collection and dissemination of data on jobseekers' use of the PES (e.g. type of services accessed, number of visits to PES centres) and their employment history afterwards (e.g. type of employment contract gained, duration of employment). At present, this type of information is not collected in Colombia and social security data (usually used to assess the effectiveness of public policies) cannot be matched with other survey data. APE only collects information on main labour market characteristics (e.g. employee profiles which are most in demand) by district, in an effort to match labour demand and supply. However, there is no evidence that this information is used to develop public interventions that follow labour market needs.

C PERU: THE ROLE OF WORKFARE PROGRAMMES IN BOOSTING EMPLOYMENT PROSPECTS AND JOB QUALITY

Quality employment in Peru remains a particular challenge for the poor

Peru has made substantial progress in reducing poverty: the poverty rate has fallen by 34.8 percentage points since 2004, reaching 23.9 per cent of the population in 2013, and the extreme poverty rate, at 4.7 per cent, fell by 11.7 percentage points over the same period.¹¹¹ This achievement took place alongside considerable improvements in the labour market, as discussed in Chapter 1.¹¹² The unemployment rate, for example, fell from 5.3 per cent in 2004 to 4 per cent in 2013, below the average rate for LAC (6.3 per cent). Moreover, the employment rate has improved from 64.7 to 70.7 per cent during the same period (ILO, 2016).

Despite the significant progress, poverty in Peru continues to affect nearly a quarter of the population, or some 7 million individuals. Moreover, the prevalence of low-quality jobs, such as informal and vulnerable employment,¹¹³ is disproportionately high among the poorest segments of the population. Indeed, the non-agricultural informal employment rate in 2013 was significantly higher than the LAC average – at 64 per cent in Peru compared with an average of 46.8 per cent for the region.¹¹⁴ Importantly, this share is considerably higher for the two poorest quintiles of the population, who are almost entirely relegated to informal employment – 95.2 and 84.7 per cent for quintiles 1 and 2, respectively (Figure 4.5). In addition, 46.1 per cent of the population is in vulnerable employment, compared with 31 per cent in LAC.

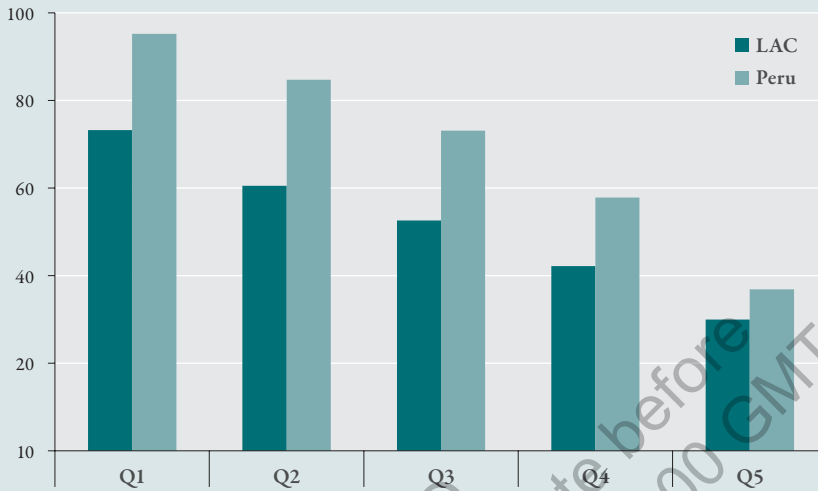
¹¹¹ Instituto Nacional de Estadísticas e Informática (INEI) (Peru).

¹¹² It is important to note that economic growth has been found to be one of the main drivers of poverty reduction in the country during the period 2007–14 (BCRP, 2014).

¹¹³ Vulnerable employment is defined as the sum of own-account and contributing family workers.

¹¹⁴ Weighted average of selected countries for which information is available, including Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru and Uruguay (ILO, 2014).

Figure 4.5. Non-agricultural informal employment rates by quintile, LAC and Peru, 2013 (percentages)



Note: Quintile 1 is the poorest quintile of the population. Data for LAC are weighted averages for countries with available information. See footnote 114 for countries included.
Source: ILO calculations based on ILO (2014).

The role of workfare programmes: From Construyendo Perú to Trabaja Perú

As discussed in Chapter 2, public works programmes and direct job creation measures have been used widely as parts of ALMP strategies to assist vulnerable populations, often in response to an economic crisis and high and rising unemployment rates. It was in this context that the programme *A Trabajar Urbano* was implemented in Peru between 2002 and 2007. The programme aimed to generate temporary employment and provide some level of income support after the international economic crisis that affected Peru during the period 1998–2001.

In June 2007, the programme was replaced by *Construyendo Perú*, which was intended to support unemployed individuals, mainly heads of households, in situations of poverty and extreme poverty in a more sustainable manner. The new programme aimed to: (i) provide individuals with access

to temporary employment; and (ii) help them enhance their employability, thus improving their chances of reintegration into the labour market (MEF, no date). To achieve this, the programme provided short-term jobs and skills development through the financing of public investment projects that required intensive use of unskilled labour (Box 4.5) (Escudero, 2016). Unlike its predecessor, *Construyendo Perú* was extended to rural areas,¹¹⁵ and its duration was not limited to a single recessionary event. It was introduced principally as a workfare programme, to address employability issues and provide income support. In this respect the programme was not the first of its kind. In emerging and developing countries, public works have often been implemented with components that help participants to find more permanent employment when the public works programme concludes (referred to as workfare programmes).¹¹⁶

Targeting was an important component in the planning of the intervention. It was conducted in three stages: geographical, self-targeting and individual targeting. The first stage consisted of prioritizing the different geographical zones (districts) according to the magnitude of their poverty levels and development shortcomings. This was done by ranking districts using the FAD (*Factor de Asignación Distrital*) composite index.¹¹⁷

The second stage, self-targeting, consisted of establishing a wage level, such that it would be sufficiently low to attract only vulnerable individuals to the programme. This is a key step in public works programmes and is done principally to reduce employment rationing, therefore improving targeting so that the poorest segments of the population are reached (Galasso et al., 2004). The programme paid 16 PEN per day (11.4 USD, PPP) in all districts, which equalled a monthly wage not higher than 352 PEN (251.6 USD, PPP) for 22 days of full-time work or 63.6 per cent of the minimum wage from 2008 to 2010.¹¹⁸

¹¹⁵ The bulk of the funds (between 90 and 95 per cent) were, however, allocated to projects in urban areas.

¹¹⁶ See Box 1.2 in Chapter 1 for a discussion on the characteristics of workfare programmes.

¹¹⁷ FAD was constructed by the programme on the basis of three equally weighted indicators: (i) urban population, (ii) the index of human development shortcomings, and (iii) the poverty severity index (FGT(2)). For more details on the index, see Escudero (2016).

¹¹⁸ According to the labour statistics of the MTPE (available at: www.trabajo.gob.pe), the monthly minimum wage in Peru was 550 PEN from January 2008 to November 2010.

Box 4.5. Modalities of intervention of *Construyendo Perú*

The programme had four different modalities of intervention, depending on the nature of the project:

- i. tendered-for projects, which included regular public investment projects (i.e. infrastructure works) and service-sector public investment projects (i.e. maintenance of public infrastructure, included in 2009);
- ii. special projects, which were tailored to the protection, rehabilitation and reconstruction of areas that had been declared to be in a state of emergency;
- iii. rural interventions, which aimed to finance highly profitable projects (from both social and economic viewpoints) in rural areas, and;
- iv. contingency projects, which were of a discretionary nature.

While all four modalities focused on providing financial support to short-term public investment projects that required intensive use of unskilled labour, their relative importance varied. The first modality (tendered-for projects) accounted for the bulk of the funds (between 80 and 85 per cent) provided by the programme, followed by special projects (around 10 per cent) and contingency projects (5 per cent). The remaining resources were allocated to rural interventions. In all cases, the role of *Construyendo Perú* was to finance and oversee the development of projects that were put in place by public and private implementing agencies. A number of public institutions participated in the programme. While *Construyendo Perú* was run by the Ministry of Labour and Employment Promotion (*Ministerio de Trabajo y Promoción del Empleo – MTPE*), the areas of intervention for the public investment projects were determined by the Office of Planning and Budget (*Oficina de Planificación y Presupuesto – OPP*), and the programme's participants were selected by the Directorate of Social Promotion and Training (*Dirección de Promoción Social y Capacitación – DPSC*). Once the projects had commenced, *Construyendo Perú* was in charge of supervising their execution and providing training to the participants. Thus, the training component ran in parallel to the execution of the projects (i.e. while participants were undertaking their short-term assignments).

Once the districts had been determined and the projects chosen, local offices of the programme opened the registration process, allowing individuals interested in participating in the programme to sign up.

The third and final stage was individual targeting, which consisted of selecting beneficiaries from the pool of people who had registered to participate. The selection process was based on pre-determined criteria, notably whether an eligible applicant lived in poverty or extreme poverty. This

was done in two steps. First, all individuals who registered to participate in the programme and were already part of the national household targeting system for the poor (*Sistema de Focalización de Hogares – SISFOH*) were automatically enrolled as potential beneficiaries. Second, for applicants who were not registered in SISFOH, the programme carried out a socio-economic profiling to determine whether the individuals were sufficiently poor to participate (based on seven variables: housing with inadequate physical characteristics, overcrowded housing, housing without drainage, households with children not attending school, households with high economic dependence, educational attainment of the household head, and number of employed individuals in the household).

In terms of the support provided to participants, the programme had two components.¹¹⁹ The first was the creation of temporary jobs in public investment projects, such as pedestrian accesses, irrigation canals, post-harvest infrastructure, retaining walls and educational and health infrastructure. In this respect, the programme created a little over 685,000 temporary positions, varying considerably in duration from a few weeks to four months (MTPE, 2007–10).¹²⁰ The second component entailed providing two types of training to participants in parallel with the public investment projects. The more general type of training provided a range of soft skills development, including social skills, empowerment and a general knowledge of how to oversee the implementation of projects. The second training component aimed to develop technical skills that would be appropriate to the needs of the labour market in the region – rather than to the project in question. Although the general training was mandatory, in practice it was not enforced. The more tailored training was voluntary, with take-up disproportionately high among individuals with higher levels of educational attainment.

¹¹⁹ The development of social and productive infrastructure was considered an additional benefit of the programme, although this was not quantified. The programme financed 11,300 projects during the period 2007–10, most of which aimed to create pedestrian accesses, retaining walls and educational and health infrastructure.

¹²⁰ This figure corresponds to 290,000 full-time (working 22 days) jobs created, each for a period of four months. This artificial assumption (that each post had a duration of four months) is made to allow comparisons in time and across programmes. In reality, in *Construyendo Perú* some projects had a duration of four months (regular projects) while others had a duration of one month (service projects). Moreover, a working month comprised 16 working days on average while the programme was in place (Jaramillo et al., 2009). This means that, in practice, more than one beneficiary filled each notional “short-term job”.

The training component was officially active from 2007 to 2010, and during this period the programme provided soft-skills training to close to 260,000 individuals and more tailored technical training to 27,000 (Macroconsult S.A., 2012). Importantly, monitoring of the programme carried out by the Ministry of Economy and Finance (MEF) (Jaramillo et al., 2009) revealed that by 2009 specific training had ceased to be provided by the programme. In practice, the specific training component was provided almost exclusively during 2007 and 2008, and even then it did not take place systematically. The training components suffered from additional implementation problems, which may have been the motivation for their cessation. For example, the MEF study points to important differences in the content and quality of the training provided in different districts. Moreover, the differences in duration of the short-term jobs created, meant that a number of individuals received training for a very short period of time.

In 2011, a new programme, *Trabaja Perú*, was created by Supreme Decree No. 012-2011-TR (Government of Peru, 2011). This programme remains active to date. Like its predecessor, *Trabaja Perú* co-finances public investment projects that aim to create temporary jobs for the unemployed and underemployed whose incomes fall within poverty or extreme poverty levels in both urban and rural areas. The aim of the programme, in addition to creating short-term jobs, is to develop productive capacities for the most vulnerable, thereby promoting sustained and quality jobs for this segment of the population (Government of Peru, 2012). As such, *Trabaja Perú* assumes all of the functions of *Construyendo Perú*, with the exception of the training components, which were removed from the objectives of the programme in 2012.¹²¹ Moreover, unlike its predecessor, the funding for *Trabaja Perú* depends on the fulfilment of previously established targets.

¹²¹ Supreme Decree No. 004-2012-TR (Government of Peru, 2012).

Medium-term labour market effects of Construyendo Perú are mixed

Empirically, impact evaluations of public works programmes implemented in emerging and developing countries have shown mixed results on various fronts, particularly their impact on employment prospects (see Chapter 3). An evaluation of *A Trabajar Urbano* was carried out during its first year of implementation, showing positive but small effects on beneficiaries' incomes (Chacaltana, 2003). Similarly, an evaluation of *Construyendo Perú*, looking at the effects on beneficiaries during participation in the programme, showed that the programme had a positive effect on wages, which was higher for women and in certain geographical areas (Macroconsult S.A., 2012).

In order to contribute to the debate on the effectiveness of public works programmes and workfare programmes in Peru and other emerging and developing countries, an impact evaluation has been conducted to assess the medium-term effects of the programme *Construyendo Perú* on employment, job quality and working poverty. The analysis draws on data from the National Household Survey (*Encuesta Nacional de Hogares – ENAHO*) from 2007 to 2012 and from a special survey of programme participants carried out in March 2012. The ENAHO has been conducted by the Peruvian National Institute of Statistics and Information Technology (*Instituto Nacional de Estadística e Informática – INEI*) on an annual basis since 1995. The latter survey was carried out by Macroconsult S.A. in consultation with INEI within the framework of the previous evaluation (Macroconsult S.A., 2012). Using the two different databases generated by these surveys, it was possible to identify workfare participants and their characteristics and therefore to infer a statistical comparison group. Having complete information on participants and a comparison group from 2007 to 2012 made it possible, for the first time, to measure the medium-term effects of *Construyendo Perú*.

Unlike previous evaluations in the country, this analysis can take advantage of an interesting rule within the programme regarding assignment at the district level: districts were ranked according to the composite FAD index and those below a threshold (cut-off point) were ineligible to

participate. To exploit this discontinuity in participation, a database on the different districts was created, which included information on rural, urban and total population, poverty levels, human development indicators and a number of different district characteristics as well as information on the participation of each district in the programme. In view of this, the evaluation was conducted using a regression discontinuity design (RDD) approach, by comparing individuals living in districts just above the qualifying threshold with those in districts just below the threshold (Box 4.6).

Box 4.6. Regression discontinuity design: Assumptions and robustness analysis

RDD is one of the quantitative methods available to assess the impact of an intervention (see Box 3.1 in Chapter 3 for a complete account of these methods). To capture causal effects, it compares programme participants with a comparison group, exploiting the design of the programme (e.g. eligibility rules) as the potential means for identifying the impacts (Khandker et al., 2010). In practice, this means that RDD assigns individuals to the participant or the comparison group on the basis of a cut-off point (discontinuity) of the variable used to assign the programme in the country (e.g. in Peru, the FAD index). Intuitively, it is based on the premise that it is possible to identify the effect of the programme by comparing the outcomes of interest of the individuals who are just above the discontinuity with those who are immediately below it (Imbens and Lemieux, 2008). As such, this method accounts in the estimation for observed as well as unobserved heterogeneity.

Like any other method, RDD is based on a number of assumptions. Principally, these are: (i) that individuals in the neighbourhood of the cut-off point of the variable used to assign the programme (i.e. the FAD index) are not substantially different; and (ii) that the relationship between this variable and the results of the programme is continuous. To check the validity of these assumptions, it is crucial that impact evaluations include a thorough robustness analysis. In this particular evaluation, of *Construyendo Perú*, the following assertions were tested:

- i. estimation results did not hinge on the choice of estimator or the size of the bandwidth (i.e. distance above and below the discontinuity used in the analysis).
- ii. representatives could not manipulate the variable used to assign the programme (i.e. the FAD index), at least not in a discontinuous manner.
- iii. there were no other discontinuities in this variable or other programmes and policies generating similar effects.

All these tests proved to be conclusive and validated the assumptions (Escudero, 2016).

In addition to being particularly suited given the programme's setting, RDD estimates can, under certain conditions, offer a credible alternative to randomized experiments at the local level (i.e. in the vicinity of the discontinuity), given that discontinuities provide a natural source of randomization (Bargain and Doorley, 2011).

The evaluation assesses the effects of the programme in 2012 for individuals who participated during the period 2007–10. Overall, results of the programme are mixed. In particular, the evaluation shows that in 2012, programme participants were more likely to have found employment or to be attached to the labour market than similar individuals in the control group (i.e. in the vicinity of the discontinuity) (see Table 4.4).¹²² Employment effects, however, are statistically significant only for women and lower-educated individuals.¹²³ For higher-educated individuals and men the programme was found to have no employment effects.

The lack of employment effects for certain groups is not surprising given that the majority of participants were already engaged (formally or informally) in a remunerated activity before the programme started. In other words, the fact that there are no noticeable effects could imply that participants would have found a job in the absence of the programme (i.e. deadweight loss). However, given that effects are measured over the medium term (in some cases close to three years after programme participation), this finding could also be masking potentially greater short-term effects. In other words, the probability of finding employment immediately following participation in the programme could have been higher, but the effect faded over time.¹²⁴ This hypothesis is in line with the existing literature on the employment effects of ALMPs in LAC, which points to a greater effectiveness of programmes in the very short term (see Chapter 3 and Kluge, 2016).

¹²² See Table 4.7 in the appendix to this chapter for the full set of results.

¹²³ For the purpose of this analysis, lower-educated individuals are considered those who have completed at most primary education (i.e. 0–7 years of schooling) and higher-educated as those who continued beyond that level of education (i.e. 8 years or more).

¹²⁴ It is important to note that according to the special survey carried out on participants in 2012, 47.5 per cent of participants declared that they had found a job after participating in the programme (and that for over half of the people the job lasted more than a year). This, however, cannot be attributed to the programme without a proper impact evaluation.

Table 4.4. Effects of *Construyendo Perú* on employment status and job quality for different groups

		All	Women	Men	Lower educated	Higher educated
Employment status						
Employed		ns	+	ns	+	ns
Inactive		ns	-	ns	ns	ns
Employed informally		+	+	ns	ns	+
Employed formally		-	-	ns	ns	-
Own-account worker		+	+	ns	ns	+
Job quality						
Working poor		+	+	ns	ns	+
Number of hours worked		+	ns	ns	ns	ns
Excessive working time		+	ns	ns	ns	+
Number of observations	Minimum	33 667	15 402	18 265	8 002	25 664
	Maximum	46 665	24 427	22 238	12 374	34 257

Note: The minimum number of observations corresponds to the impact estimation on the probability of being working poor and the maximum to the impact estimation on all variables of employment status. The estimated effects are classified as positive and statistically significant (+), negative and statistically significant (-) and not statistically significant (ns). Results in the table appear as positive (+) or negative (-), when either: (i) both the parametric and at least one of the bandwidths of the non-parametric estimations coincide to that effect; or (ii) the three bandwidths of the non-parametric estimation coincide to that effect.

Source: ILO based on Escudero (2016).

In terms of job quality, the programme increased the probability of participants being employed informally. In particular, it increased their probability of being own-account and (to a lesser extent) wage workers, while decreasing their probability of working as wage employees.¹²⁵ It also increased their probability of being working poor.¹²⁶ These effects are again statistically significant for female participants and not statistically

¹²⁵ According to the ENAHO, wage employees are individuals with a predominantly intellectual occupation in an institution or firm where they receive a monthly or half-monthly remuneration or payment; and wage workers are those with a predominantly manual occupation in an enterprise or business where they receive a daily, weekly or half-monthly remuneration.

¹²⁶ Although working poverty thresholds have been updated of late to adapt to the newly adopted poverty thresholds (as stated in Chapter 1, working poor are defined as those living on less than 3.1 USD, PPP per day), for the purpose of this analysis working poor is defined as employed individuals (regardless of whether they are employed formally or informally) living in households in which the per capita income is below the 1.25 USD, PPP per day international poverty line, as this was the definition in effect at the time the programme was active.

significant for men, but unlike previous results they remain significant for the overall group of participants and for the higher-educated participants.

Moreover, the programme had a positive effect on the number of hours worked, but only when considering the full sample of participants. For particular groups, the effect was not statistically significant, which is not surprising given that in Peru longer hours are worked in formal jobs and in occupations that are not common among *Construyendo Perú's* participants.¹²⁷ However, participation brought about an increase in the probability of working more than 48 hours per week which is considered excessive working time according to the ILO (ILO, 2012: 16–17). This effect is relevant for the full sample of participants and for higher-educated individuals.

The lack of effectiveness of the training components could explain why the programme mainly benefitted women

The clearer and more robust effects of the programme on women may be influenced by the fact that female participation in the programme was disproportionately higher than their share in the eligible population. According to a field study carried out by the MEF (Jaramillo et al., 2009), this was explained by the fact that the programme was used by many households to top-up family income. As such, principal earners (usually men) kept their usual jobs (often temporary but earning higher wages), while women entered the programme to obtain a more secure income, albeit with low wages and for a short period of time. Importantly, the MEF study also showed that female participants had more unstable labour market patterns leading up to the programme, and were often working in temporary jobs and engaged in informal employment relations.¹²⁸

As such, given that the programme did not include effective employability-enhancing components (to enable women to escape from unstable

¹²⁷ In 2012, individuals working formally reported having worked, in average, over 50 hours per week (in all occupations), while those who worked informally reported working close to 44 hours. Likewise, while employers reported working over 52 hours per week in 2012 in average, wage employees and own-account workers (most common occupations among the programme's participants) worked around 46 hours per week (ILO estimations based on the 2012 ENAHO).

¹²⁸ Indeed, while the urban informal employment rate for men was at 68.5 per cent in 2012, that of women was over 10 percentage points higher, at 79.3 per cent (ILO estimations based on the 2012 ENAHO).

labour market paths), the pre-existing pattern of employment instability may have continued after participation. Indeed, as discussed above, training components are a welcome addition to public works programmes, especially when tailored to vulnerable populations. However, the training provided by the programme suffered from low-take up rates (less than 4 per cent for tailored training), which, combined with the considerable variation in content, quality and duration of capacity-building across districts (for both training elements), obviously would adversely affect the anticipated improvement in the employability of participants. Moreover, data from the special survey show that more than half of the beneficiaries (54 per cent) participated in the programme more than once, while 28 per cent participated for more than the maximum limit of four months.

The different effects of the programme among lower- and higher-educated individuals are also likely to be related to the implementation of the training component. Since participation in the tailored training was voluntary, it is likely that the more motivated participants self-selected into this training. Indeed, the field study carried out by the MEF found that some of the tailored training provided led to the establishment of micro-enterprises by the more driven participants, which were located to a greater extent in the informal economy.¹²⁹ This would explain why for higher-educated individuals the programme had a negative effect on the probability of having a higher-quality job (e.g. formal and better paid), although it had no effect on their probability of being employed.¹³⁰ Moreover, low take-up of the tailored training among lower-educated individuals could also explain why the programme had no effect on their work quality (e.g. compared with their lower-educated peers, the programme was unable to lift participants out of low-quality work). These findings have important policy implications not only for *Trabaja Perú*, but also for similar active programmes in the region.

¹²⁹ This finding is consistent with existing evidence on the risk that these policies become incentives to labour informality. As discussed in Chapter 3, this is the result of the strong correlation between self-employment and informality and the fact that micro-enterprises often operate in the informal sector (OAS/ECLAC/ILO, 2010).

¹³⁰ Compared with their higher-educated peers, the programme increased participants' probability of being self-employed or wage workers, while it decreased their probability of being wage employees.

There are a number of lessons that could be extracted to leverage Trabaja Perú to sustain further quality jobs and social progress

Trabaja Perú could benefit from a strong and targeted training component, which could boost employment prospects and job quality

The limited efforts in *Construyendo Perú* to improve participants' employability via training are an important consideration when looking at the overall weak employment and negative work quality effects observed. In particular, the general training was open to all participants (not targeted), it was supposed to be compulsory, but this was not enforced, and the content was not related to the job market or skills requirements in the region. In turn, the more tailored training, which was better designed, had low take-up rates among lower-educated participants, and for higher-educated ones it could have provided incentives to remain in informal occupations. In both instances, the capacity-building components did not take account of individual needs. As a result, in the absence of effective training, the programme appears to have perpetuated the low-quality and low-pay labour market patterns, especially among women and higher-skilled individuals. This is consistent with the literature, which finds that in the absence of specific components aimed at raising employability, public works programmes could have adverse effects on specific groups (e.g. Hujer et al., 2004).

Interestingly, government appraisals of *Construyendo Perú* recognised the importance of training, but, with a view to avoiding duplication of efforts and overutilization of resources, it recommended that participants be encouraged to enter already established training programmes, such as *Jóvenes a la Obra* (currently *Jóvenes Productivos*) and *Vamos Perú* (currently *Impulsa Perú*) (Jaramillo et al., 2009; Macroconsult S.A., 2012). This was also the logic behind the elimination of the training components from the succeeding programme, *Trabaja Perú*.

However, it appears that the vast majority of *Trabaja Perú* participants are not eligible for *Jóvenes Productivos* or *Impulsa Perú*. In fact, based on a sample of *Trabaja Perú*'s participants in the ENAHO survey of 2012, only 8 per cent of them fulfilled the requirements for eligibility to participate

in *Jóvenes Productivos*¹³¹ and only 27 per cent in the larger programme *Impulsa Perú* (assuming the educational requirement is limited to completing secondary education).¹³² This raises the concern that the absence of a training component could be reducing the effectiveness of *Trabaja Perú* in helping individuals find quality jobs after participation.

Even if eligibility criteria were expanded, two key challenges remain. First, *Impulsa Perú* comes with significant commuting costs for people from rural or remote villages, where the vast majority (59 per cent) of *Trabaja Perú* projects are undertaken. This is because *Impulsa Perú* operates through training institutions or certification centres (e.g. universities and technical education institutes) located mainly in urban areas. This is particularly relevant for poorer segments of the population and women with children to care for, which are the two groups with the highest representation in *Trabaja Perú*. Second, the capacity of *Jóvenes Productivos* and *Impulsa Perú* seems insufficient to meet the demand for training created by *Trabaja Perú*. Indeed, while there were more than 46,000 beneficiaries of *Trabaja Perú* in 2014, *Impulsa Perú* and *Jóvenes Productivos* assisted 13,436 individuals¹³³ and 16,244 youth, respectively, in the same year.

With this in mind, and building upon the review of the literature presented in Chapter 3, the employability-enhancing components included in *Trabaja Perú* are likely to improve employment and job-quality outcomes, especially over the medium term. As such, it would be advisable to include a particular training component in the programme, taking into account the lessons learned from *Construyendo Perú* and the existing institutional capacity built into the other training programmes. A number of provisions could be considered so as to ensure that the inclusion of the training component is the most effective possible:

- *Ensure training courses are allocated systematically:* This could be done by including a requirement for project implementing agencies to provide

¹³¹ In more detail, 13.8 per cent of participants in the sample were aged 18–29 years, 23.7 per cent of which were unemployed and 34.2 per cent were in a household that lives below the poverty line.

¹³² In more detail, 27.5 per cent of participants in the sample had completed secondary education, of which 26.8 per cent were unemployed.

¹³³ This included 7,572 individuals who participated in labour market training, 1,321 individuals in self-employment training and 4,543 individuals who received a labour skills certificate.

accredited certification of training and to report the graduation rates. Rates could then be used to measure the effectiveness of the training provided, as a requirement for participation in future public tenders.

- *Ensure that training is tailored to fit the productive needs of the region and is targeted at meeting individuals' needs:* This will ensure that any improvement in the employability of participants is relevant and readily usable in the regional economy. This will require the strengthening of some existing elements of training, and also the introduction of more training options (e.g. different types of training, according to educational attainment or work experience) (Lodemel et al., 2002). Given the high proportion of women participating in the programme, it would be important to design training components tailored to their particular needs.
- *Increase the length (or intensity) of the courses:* Evidence shows that setting the duration of a course too short reduces the effectiveness of the training (Kluve et al., 2012; Kluve, 2016).¹³⁴ While a minimum length should be respected, the intensity and depth of the course has to be adapted to the individual's skills set, as discussed above. Indeed, evidence shows that qualifying unskilled participants even at a low level reduces programme dependency (Lodemel et al., 2002; del Ninno et al., 2009).
- *Reinforce the linkages with the private sector and local organizations:* This would be important both during the design and implementation of the training component and during project implementation (as was the case in *Construyendo Perú*). This would increase the chances of success for participants, as it would open up the range of employment options available to them.

Improvements to aspects of the design and implementation of Trabaja Perú could increase its effectiveness

Despite the great potential of public works programmes, there is evidence that the success of these programmes hinges on their particular design

¹³⁴ Kluve et al. (2012) find that training programmes reach their maximum effectiveness (on employment outcomes) when their durations are around four to five months. Longer programmes are not necessarily more effective in the short term, although they can be slightly more effective in the medium to long term. Effectiveness is dramatically lower for durations of training that are either too short or too long.

and implementation characteristics. Regrettably, many of the public works programmes implemented in emerging and developing countries have been found to lack proper design and implementation (e.g. inconsistent focus and lack of transparency, as well as governance problems and corruption), which has both eroded longer-term impacts and undermined their credibility (Subbarao et al., 2013).

In the case of Peru, weak targeting and the lack of continuous and appropriate monitoring are limiting the potential of these programmes. For example, while public works programmes are usually effective at reaching their intended population, for various reasons they are less successful at ensuring that everyone who should benefit from the programme has the opportunity to participate – e.g. a number of programmes suffer from high shares of multiple participation or longer-than-planned treatments. *Construyendo Perú* is no exception in this regard. The evaluation of the programme undertaken for this study finds that a significant number of beneficiaries appear to have participated more than once in the programme (54 per cent) and that others participated for more than the maximum time limit of four months (28 per cent) (Escudero, 2016). This has important implications for the design and implementation of similar programmes.

Unfortunately, information that would allow for a similar analysis for *Trabaja Perú* is not yet available. However, the similarity in the design, assignment and implementation between the two programmes suggests that a number of adjustments to *Trabaja Perú* would be likely to improve its effectiveness in promoting job quality and developing productive capacities for the most vulnerable:

- *Better enforcement of targeting rules and eligibility criteria:* This would be key to preventing eligible participants from participating more than once and thereby ensuring that everyone who should benefit from the programme has the opportunity to participate. This has to do with establishing the right set of rules from the outset, but it is also related to ensuring that the different local offices have sufficient implementation capacity to allocate participants into the programme. This is particularly

important in emerging and developing countries with large regional heterogeneities in public administration.

- *Improve monitoring during the implementation of the programme:* This includes regular supervision of the different activities and following up on the evolution of well-established targets. It also requires proper cooperation and continuous communication between the different stakeholders (e.g. project implementing agency, local government, programme management, etc.). This would reduce inefficiencies during the implementation, such as inadequate use of resources or inaccurate assignment.
- *Ensure that the programme is demand driven:* Including social partners in the design and implementation of the programme (e.g. in the decision on the types of projects to be funded) would be a welcome step. Social partners have the knowledge of the particular region, in terms of the most pressing needs of workers and employers, and they have the national presence required.
- *Improve data collection and evaluation practices:* Relevant data, both at the individual and programme levels, need to be collected systematically and regularly. Moreover, impact evaluations need to be carried out to assess the effects of *Trabaja Perú* and the associated training programmes. Doing this will ensure that future programmes and initiatives benefit from and are informed by best practices and knowledge of what works (or doesn't) under certain conditions.

Finally, additional resources would need to be allocated to ALMPs in Peru to ensure that efforts are commensurate with the problem at hand

Enhancing the effectiveness of programmes will undoubtedly require additional resources (or the more effective allocation of existing resources). Peru, however, remains one of the lowest spenders on labour market programmes in the region, both as a share of GDP and as a share of total government spending (considering both active and passive labour market policies). In 2010,¹³⁵ Peru spent, in relative terms, nine times less

¹³⁵ Latest year for which comparable information is available (Cerutti et al., 2014).

than Argentina and 22 times less than Brazil (as a percentage of GDP). And while spending on labour and employment promotion programmes increased between 2010 and 2014 (by an overall 16 per cent), greater allocation of resources towards employment goals is needed to ensure that efforts are commensurate with the labour market and social problems at hand. This is particularly important because the prevalence of low-quality jobs, such as informal and vulnerable employment, in Peru is among the highest for all LAC countries (Figure 4.6, panel A) and is disproportionately high within the poorest segments of the population.

However, the transition from *Construyendo Perú* to *Trabaja Perú* brought about a reduction in public spending and an even greater reduction in coverage, which has had significant implications for the magnitude of potential benefits (i.e. lower number of temporary jobs created and reduced opportunities for training). For instance, according to *Trabaja Perú* administrative reports, during the period 2012–14 the total budget of the programme was around 413 PEN million (271 USD million, PPP) (Figure 4.6, panel B).¹³⁶ This means that annually the programme spent close to 138 million PEN (90 million USD, PPP), compared with 162 million PEN (106 million USD, PPP) spent by *Construyendo Perú*. The difference in the number of people assisted is even greater.

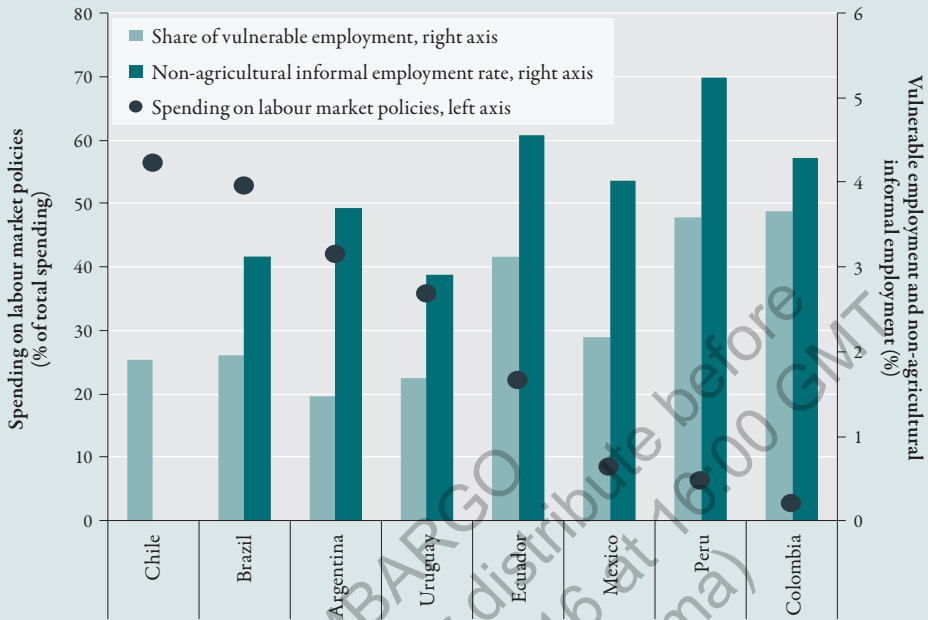
Trabaja Perú has benefited around 49,000 individuals per year (a total of around 148,000 during the period 2012–14), compared with around 171,000 individuals per year for *Construyendo Perú*. Importantly, *Trabaja Perú*'s short-term jobs have, on average, a longer duration. However, when accounting for this difference, *Construyendo Perú* was still more efficient, creating more jobs on a standardized basis. Indeed, when looking at the comparable notional four-month short-term job (explained above), *Trabaja Perú* has generated an average of 39,500 jobs per year. In comparison, *Construyendo Perú* created on average 72,700 four-month jobs per year (or close to 291,000 during the period 2007–10¹³⁷), which corresponds to around 33,000 more jobs per year than its successor programme.

¹³⁶ Given that 2011 was the transition year from one programme to the other, data for this year were not included in calculations for either of the two programmes to avoid biasing the results.

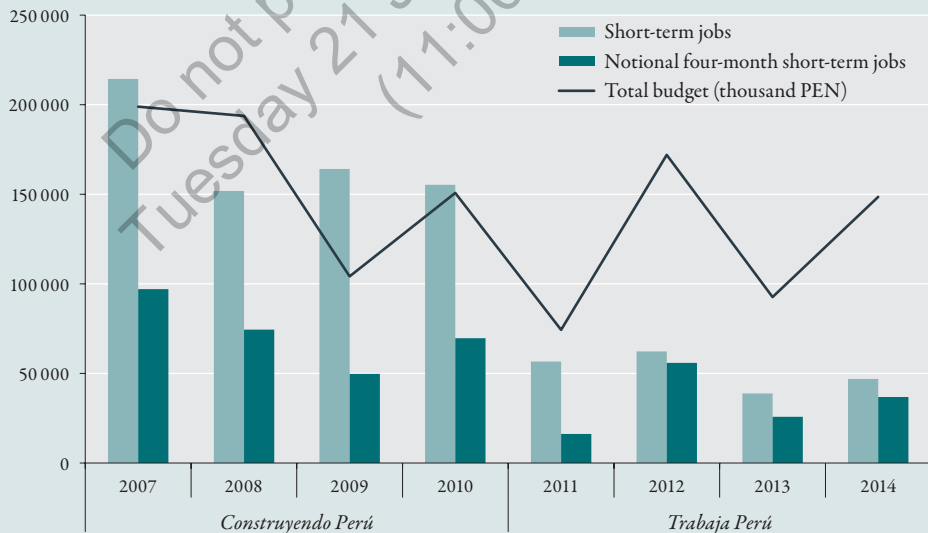
¹³⁷ See footnote 120.

Figure 4.6. Labour market policy spending in Peru

Panel A: Spending on labour market policies and job quality variables (2010), selected countries



Source: ILO calculations based on Cerutti et al. (2014), ILO (2014) and ILO (2016).

Panel B: *Construyendo Perú* and *Trabaja Perú*: Expenditure and outcomes

Source: ILO calculations based on MTPE (2007–10) and MTPE (2012–14).

As such, if there are not sufficient resources to address the overall challenges at hand, *Trabaja Perú* will not be able to generate positive change at the macro level, no matter how effective the policy is. More importantly, increasing the allocation of resources to this policy will not necessarily mean that significant budget cuts will have to be made elsewhere. In fact, if they are properly designed and executed, programmes of this type can be self-financing in the medium term because they can trigger reductions in contributory and non-contributory social transfers (Brown et al., 2011). This can be true even during crisis periods because, when implemented countercyclically, ALMPs can dramatically reduce the negative labour market effects of economic shocks (Escudero, 2015).

With this in mind, this report makes two recommendations on how to increase the significance of *Trabaja Perú*, thereby giving more room to improve its effectiveness:

- *Increase the allocation of resources to Trabaja Perú:* Additional efforts could be considered to boost the reach of *Trabaja Perú* and make it more meaningful for the Peruvian labour market. This is particularly important given: (i) the poverty reducing objective of the programme, which can only be achieved when programmes are large enough to influence jobs and wages in the private sector (Dev, 1996); and (ii) that *Trabaja Perú* is the largest labour market programme active in the country.
- *Maintain budget stability:* The transition from *Construyendo Perú* to *Trabaja Perú* was accompanied by changes in the right direction, specifically: (i) *Trabaja Perú* was established as a budgetary programme, which allows for more stable endowments conditional on meeting targets – this is particularly important because budget instability was a key problem for its predecessor; and (ii) an obligation to allocate government resources countercyclically was established as of 2014 (and for the whole 2014–16 period).¹³⁸ Taking into account the economic cycle when establishing the programme’s budget will ensure there is additional spending when there is greater need for these resources (i.e. during periods of low economic growth and higher unemployment), reducing as well the

¹³⁸ As per the programme’s intervention strategy. Available at: www.trabajaperu.gov.pe/index.php?option=com_content&view=article&id=73

unfavourable labour market effects of economic shocks, as discussed above. Provided that sufficient resources are allocated to the programme, these welcomed changes in *Trabaja Perú* have the potential to reinforce the overall effectiveness of the programme.

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D CONCLUDING REMARKS

This chapter summarizes the results of the three impact evaluations conducted as part of this research project assessing the effectiveness of selected ALMPs in LAC, notably *Seguro de Capacitación y Empleo* in Argentina, *Agencia Pública de Empleo* in Colombia and *Construyendo Perú* in Peru. These unprecedented evaluations shed important light on the functioning, successful features and potential areas for improvement of the selected ALMPs, which will be relevant for other countries in the region, and beyond, where similar policies exist. The results suggest that, when properly designed and executed, ALMPs have the potential to improve the labour market and social prospects of participants and can potentially even be self-financing (e.g. through reductions in contributory and non-contributory social transfers).

As governments in the region and elsewhere grapple with new and emerging employment and social challenges, it is important to understand the role that ALMPs can play in this regard. While at the individual level these policies can improve workers' employability and provide them with new job opportunities, at the national level this can translate into less poverty and lower levels of inequality. In many of these countries, however, ALMPs remain underdeveloped and could be leveraged further to the benefit of society. However, the development of ALMPs needs to bear in mind that policy design must be based on an accurate analysis of the labour market and social needs of the specific country. The lessons of the impact evaluations presented in this chapter highlight the importance of: (i) ensuring that policies are tailored to fit the productive needs of the country and are targeted towards individuals' characteristics – this includes appropriate enforcement of targeting rules, and also ensuring that initiatives respond to particular individuals' needs and guarantee equal participation opportunities for different groups; and (ii) leveraging complementarities among labour market policies and reinforcing the incentives to participate in ALMPs in order to increase their efficiency and reach. Of course, to achieve these, governments need to ensure there is sufficient administrative and institutional capacity in place to allow these interventions to be developed fully.

Finally, a major conclusion arising from these impact evaluations is that governments need to move towards evidence-based policy formulation, based on sound impact evaluation. This will require collecting high-quality data on the programmes and their participants, assessing the programmes by means of micro-econometric evaluations, and adjusting the design and implementation of programmes based on these findings. Lessons from evaluations carried out in other countries (such as those discussed in Chapter 3) should also be used to improve understanding of what works and under which specific circumstances. However, this should be accompanied by a critical assessment of the extent to which such findings can be extended to another country with different characteristics.

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APPENDIX: ESTIMATES FROM THE THREE IMPACT EVALUATIONS

Table 4.5. Effects of activation measures in a CCT programme on employment status and job quality

	Full sample	Matched sample
Employment status		
Employed informally	-0.02*** (0.003)	-0.06** (0.013)
Unemployed	ns	ns
Inactive	0.03* (0.009)	0.08** (0.019)
Number of observations	3 404	1 872
Job quality		
Real hourly wages	0.04*** (0.005)	0.03** (0.009)
Low-paid job	ns	ns
Number of hours worked	0.64* (0.226)	-1.55*** (0.079)
Excessive working time	-0.02** (0.004)	-0.05** (0.009)
Underemployment	-0.03*** (0.001)	-0.02*** (0.001)
Number of observations	2 300	1 246

Note: Standard errors (in parentheses) are clustered at the household level. Significance levels: *significant at 10 per cent; **significant at 5 per cent; ***significant at 1 per cent; ns is not statistically significant.

Source: ILO based on López Mourelo and Escudero (2016).

Table 4.6. Effects of participation in APE on employment outcomes in Colombia

	Dependent variable: Employed formally											
	Classified advertisements		Private employment agencies			Contact with employers		Family and friends				
	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.				
Baseline equation	0.094	***	0.012	-0.011	*	0.005	0.052	***	0.006	0.309	***	0.008
Control for firm size	0.038	***	0.011		ns		0.034	***	0.006	0.107	***	0.007
Online matches only		ns		-0.037	**	0.015	-0.052	***	0.015	0.058	**	0.024
Excluding online matches	0.150	***	0.016		ns		0.057	***	0.006	0.309	***	0.009
Low skilled	0.238	***	0.022	-0.028	**	0.012	0.095	***	0.015	0.456	***	0.019
High skilled	0.046	***	0.011	-0.011	**	0.005	0.034	***	0.006	0.245	***	0.009
Number of observations	13 841		31 457			165 228		541 086				

	Dependent variable: Hourly wages (log)											
	Classified advertisements		Private employment agencies			Contact with employers		Family and friends				
	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.				
Baseline equation	-0.036	*	0.019	-0.022	*	0.013	-0.055	***	0.012	0.056	***	0.013
Control for firm size	-0.083	***	0.020		ns		-0.073	***	0.012	-0.053	***	0.012
Online matches only	-0.126	***	0.035	-0.125	***	0.034	-0.283	***	0.037	-0.174	***	0.044
Excluding online matches		ns			ns		-0.052	***	0.012	0.057	***	0.014
Low skilled	0.127	***	0.031	0.045	***	0.017	0.059	***	0.019	0.224	***	0.023
High skilled	-0.101	***	0.023	-0.065	***	0.016	-0.124	***	0.014	-0.041	***	0.014
Number of observations	13 559		30 081			154 746		524 892				

Note: Significance levels: *significant at 10 per cent; **significant at 5 per cent; ***significant at 1 per cent; ns is not statistically significant; S.E. illustrates the standard errors.

Source: ILO based on Pignatti (2016).

Table 4.7. Estimates of the effect of *Construyendo Perú* on employment status and job quality

Panel A: Parametric two-stage least-squares method

	All	Women	Men	Lower educated	Higher educated
Employment status					
Employed	ns	2.28* (1.24)	ns	4.67* (2.69)	ns
Inactive	ns	-2.46* (1.36)	ns	-4.73* (2.75)	ns
Employed informally	5.53** (2.44)	3.97** (1.85)	11.7** (5.45)	ns	6.64** (2.91)
Employed formally	-3.0** (1.42)	-1.49* (0.85)	-8.63* (4.82)	ns	-3.95** (1.92)
Own-account worker	3.57** (1.47)	2.79*** (1.02)	ns	ns	3.53** (1.43)
Job quality					
Working poor	7.60*** (2.72)	5.62*** (1.95)	13.5** (5.88)	ns	8.86*** (3.21)
Logarithm of the number of hours worked	ns	ns	ns	8.13** (3.97)	ns
Excessive working time	ns	ns	ns	ns	ns

Table 4.7. Estimates of the effect of *Construyendo Perú* on employment status and job quality (cont.)

Panel B: Non-parametric local linear regression method

	<i>Bandwidth</i>	All	Women	Men	Lower educated	Higher educated
Employment status						
Employed	<i>Optimal</i>	ns	4.49* (2.54)	ns	ns	ns
	<i>Half</i>	8.85** (3.59)	6.99** (3.34)	ns	20.9** (10.6)	6.81** (3.45)
	<i>Double</i>	4.52* (2.72)	6.08** (2.94)	ns	ns	ns
Inactive	<i>Optimal</i>	ns	-4.94* (2.53)	ns	ns	ns
	<i>Half</i>	-8.64** (3.72)	-8.25** (3.53)	ns	ns	-5.26* (3.13)
	<i>Double</i>	-5.85* (3.28)	-6.71** (2.97)	ns	ns	-6.36* (3.86)
Employed informally	<i>Optimal</i>	15.8*** (4.94)	7.53** (3.07)	ns	ns	15.2*** (5.14)
	<i>Half</i>	20.9*** (5.30)	11.2*** (3.70)	ns	ns	-20.2*** (6.19)
	<i>Double</i>	8.13*** (2.95)	6.72** (2.87)	ns	ns	8.10*** (3.11)
Employed formally	<i>Optimal</i>	-8.43** (3.44)	ns	ns	ns	-9.46** (4.01)
	<i>Half</i>	-8.54** (3.42)	-3.89* (2.09)	ns	ns	-8.84*** (3.38)
	<i>Double</i>	-4.20* (2.18)	ns	ns	ns	-4.34* (2.56)
Own-account worker	<i>Optimal</i>	5.47** (2.21)	4.54** (2.01)	ns	ns	7.15** (3.09)
	<i>Half</i>	10.22*** (3.55)	7.05** (2.80)	ns	ns	9.19*** (3.36)
	<i>Double</i>	5.78** (2.76)	4.74** (1.87)	ns	ns	6.57* (3.56)

Table 4.7. Estimates of the effect of *Construyendo Perú* on employment status and job quality (cont.)

Panel B: Non-parametric local linear regression method (cont.)

	<i>Bandwidth</i>	All	Women	Men	Lower educated	Higher educated
Job quality						
Working poor	<i>Optimal</i>	13.9* (7.58)	10.2* (5.78)	ns	ns	7.72** (3.86)
	<i>Half</i>	15.2** (6.45)	16.2* (8.40)	ns	ns	10.6* (6.04)
	<i>Double</i>	10.6** (5.28)	ns	ns	ns	ns
Logarithm of the number of hours worked	<i>Optimal</i>	23.6* (13.50)	ns	ns	ns	18.9* (11.41)
	<i>Half</i>	21.3** (9.36)	ns	ns	ns	15.9* (8.06)
	<i>Double</i>	13.9* (7.18)	15.9* (9.44)	ns	ns	ns
Excessive working time	<i>Optimal</i>	14.0* (7.78)	ns	ns	ns	16.13* (8.48)
	<i>Half</i>	17.5** (7.94)	ns	ns	ns	-12.6** (5.71)
	<i>Double</i>	11.1* (6.69)	ns	ns	ns	7.61* (4.36)
Number of observations ¹	Minimum	33 667	15 402	18 265	8 002	25 664
	Maximum	46 665	24 427	22 238	12 374	34 257

¹ The minimum number of observations corresponds to the impact estimation on the probability of being working poor and the maximum to the impact estimation on all variables of employment status.

Note: Table reports estimated treatment effects of the programme *Construyendo Perú* conditional on crossing the FAD index cut-off point of 0.125. Panel A reports estimates obtained using the parametric two-stage least-squares method (2SLS). Panel B reports estimates of a local linear regression (LLR) obtained using a triangular kernel regression model on both sides of the cut-off for three different bandwidths. See Escudero (2006) for a discussion of the different bandwidths used. Standard errors are in parentheses. Significance levels: *significant at 10 per cent; **significant at 5 per cent; ***significant at 1 per cent; ns is not statistically significant.

For the purpose of this analysis, lower-educated individuals are considered to be those who have completed at most primary education (0–7 years of schooling) and higher educated are those who have completed 8 years or more of education.

Source: ILO based on Escudero (2016).

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WHAT WORKS:

ACTIVE LABOUR MARKET POLICIES IN LATIN AMERICA AND THE CARIBBEAN

This issue of the *Studies on Growth with Equity* series provides an evaluation of “what works” in terms of active labour market policies (ALMPs) and their potential for building job-rich and equitable growth. As countries grapple with the challenge of creating quality and sustainable jobs, evidence-based analysis will be fundamental to guide policy decisions.

Latin America and the Caribbean (LAC) is confronted by a marked economic slowdown, which is challenging the ability of governments to sustain the social progress achieved during the past decade. In this context, ALMPs can play a fundamental role by improving workers’ employability and generating productive employment. However, while ALMPs have become more important in the region over recent years, very little is known about their effectiveness in achieving more and better jobs.

The purpose of this report is to fill this void by providing the first systematic analysis of ALMPs in LAC and assessing their effectiveness in improving labour market and social conditions, particularly through a meta-analysis of studies in LAC and a new series of impact evaluations of policies implemented in Argentina, Colombia and Peru.

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