

Evaluations of Active Labor Market Programs in Developing Countries: Lessons and Future Directions

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ACTIVE LABOR MARKET PROGRAMS (ALMP's)

- Active labor market programs are government financed initiatives introduced with purpose of improving employment and earnings prospects of the population.
- Why government financed, as opposed to private, initiatives?
 - To address market failures in labor markets (e.g., information asymmetries, externalities, market power).
 - For re-distributive purposes.

ROLE OF ALMP's IN DEVELOPING COUNTRIES

- Given greater concerns with market failures and inequality in developing countries, ALMP's may play a more important role in these countries.
- Greater scarcity of physical and human capital may imply that returns to programs that increase capital may be greater in developing countries.

ROLE OF ALMP's IN DEVELOPING COUNTRIES

- On the other hand, some important differences in developing countries:
 - Less institutional capacity in developing countries may call for different approaches.
 - Large informal sector calls for programs that help move the population towards the formal sector.
- This means that extrapolating on the efficacy of these programs from evidence on developed countries may not be appropriate.

TYPES OF ALMP's IN DEVELOPED AND DEVELOPING COUNTRIES

1. Job Search Assistance
2. Training
3. Wage/Reemployment Subsidies
4. Workfare
5. Micro-enterprise Development Assistance

JOB SEARCH ASSISTANCE

- Goal: improve matches between employers and employees and overcome informational problems.
- Evidence from developed countries: most cost-effective method of increasing employment and earnings.
- Evidence from developing countries: increases employment but not formal employment or earnings (Fawcett, 2001).

TRAINING

- Goal: increase supply of skilled labor. Also, on-the-job training (OJT) can serve intermediation role and provide information.
- Evidence from developed Countries: positive employment and earnings effects, mainly for adults and women. Mixed evidence on their cost-effectiveness.
- Evidence from developing countries: increases overall and formal employment and earnings, specially for women. Bigger gains and lower costs in developing countries means training is cost effective (Attanasio, Kugler and Meghir, 2008; Card et al., 2007).

WAGE/REEMPLOYMENT SUBSIDIES

- Goal: increase demand (wage subsidies) and labor supply (reemployment subsidies).
- Evidence from developed countries: wage subsidies have small positive effects on employment. Reemployment subsidies increase employment and are cost-effective.
- Evidence from developing countries: wage subsidies increase employment but not earnings in Argentina (Galasso et al, 2001). No evidence on reemployment subsidies.

WORKFARE

- Goal: increase demand in short-run. As by-product may provide OJT.
- Evidence from developed countries: not effects on future employment and earnings.
- Evidence from developing countries: some evidence of immediate positive effects on earnings in India and Argentina (Ravallion et al. 2001; Datt and Ravallion, 1994) and of positive earnings and consumption effects in Colombia (Meghir et al., 2004).

MICRO-ENTERPRISE DEVELOPMENT ASSISTANCE

- Goal: provide financial and business skills to small entrepreneurs.
- Evidence from developed countries: not very successful in terms of making helping small business survive.
- Evidence from developing countries: successful in terms of helping small business survive in transition economies (Walsh 2001). Business training helped small entrepreneurs improve their practices, increased their revenues, and increased repayment of loans in Bolivia (Karlan and Valdivia, 2008).

WHAT MAKES PROGRAMS WORK OR NOT WORK IN DEVELOPING COUNTRIES

1. Job Search Assistance – doesn't work. Why?

- Good jobs allocated via informal networks rather than through formal search channels.
- Public employment service inefficient.

2. Training – works. Why?

- Training provided by private sector.
- OJT key.

3. Wage/Reemployment Subsidies – doesn't work too well. Why?

- Payroll taxes very high, so need big subsidy to stimulate demand in formal sector.

WHAT MAKES PROGRAMS WORK OR NOT WORK IN DEVELOPING COUNTRIES

4. Workfare – works better than in developed countries. Why?

- Increase earnings and consumption after program finished as jobs appear to provide skills.
- Workers not as likely to be stigmatized. Public sector jobs are good jobs in developing countries.

5. Micro-enterprise Development Assistance – works. Why?

- Works best when combining access to credit with training.
- Credit constraints more of a problem in developing countries.

NEED FOR MORE EVALUATIONS IN DEVELOPING COUNTRIES

- Evidence based on very few but carefully done randomized trials.
- However, more evidence needed.
- In particular, need randomized with multiple treatments that allow clarifying mechanisms through which programs work.
- In addition, need to design experiments that allow to distinguish displacement effects.