

TECHNICAL NOTE N° IDB-TN- 2986

# How Effective are Active Labour Market Policies and Public Employment Services?

Lessons for Latin America and  
the Caribbean

Alex Nunn

Inter-American Development Bank  
Labor Markets and Social Security Division

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**Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library**

Nunn, Alex.

How effective are active labor market policies and public employment services?: lessons for Latin America and the Caribbean / Alexander Nunn.

p. cm. — (IDB Technical Note ; 2986)

Includes bibliographical references.

1. Manpower policy-Latin America. 2. Manpower policy-Caribbean Area. 3. Public service employment-Latin America. 4. Public service employment-Caribbean Area. 5. Employee training personnel-Latin America. 6. Employee training personnel-Caribbean Area. 7. Human capital-Latin America. 8. Human capital-Caribbean Area. I. Inter-American Development Bank. Labor Market Division. II. Title. III. Series.  
IDB-TN-2986

JEL Codes: H53, I38, J08, J21, J68, O15, O54

Keywords: Active labor market policies, Public Employment Services, employment incentives, training programs, labor market dynamics, unemployment benefits, labor market interventions, skills mismatch, formal employment, workforce development.

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**Prof. Alexander Nunn**

Leeds Trinity University, UK  
and University of Johannesburg, SA.



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February 2024

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# Abstract

**Active Labour Market Policies/Programmes (ALMPs) include a range of programme types and interventions, including training, employment incentives, direct job creation and subsidised employment.** In addition, one of the most prominent ALMPs is a Public Employment Service (PES<sup>1</sup>). The services provided by PES vary across countries but typically involve ‘intermediation’ services for employers and jobseekers, dissemination of labour market information and they may also play a role in coordinating other ALMPs, for example by commissioning specific training programmes and referring jobseekers to them.

**ALMPs can be contrasted with ‘passive’ labour market measures which involve the provision of various forms of welfare payments related to unemployment.** Again, these vary from country to country but might include contribution funded unemployment benefits or redundancy payments and non-contributory cash transfers. **In some countries PES have a role in the administration of these payments** and may be involved in combining active and passive measures; as in the case where they ensure that passive beneficiaries receive intermediation or demonstrate that they meet ‘conditionalities’ by performing job search activities or undertaking training. This latter function is more frequent where passive measures are more generous and can offset economic incentives to work.

**In Latin America and the Caribbean (LAC), most countries have a PES and many countries invest in a range of ALMPs,** especially training programmes targeted at young people. Many countries have historically had contributory unemployment benefits but only more recently introduced non-contributory cash transfer schemes which are typically not closely integrated with PES or ALMPs. Nevertheless, **spending on both passive and active measures in LAC typically lags OECD averages.**

There is now a significant body of literature evaluating ALMP and PES effectiveness and a range of high-quality cross-country studies, systematic review and meta-analyses which summarise this literature and evidence base. Despite apparently ‘mixed’ results, the consistent message that arises is that **some ALMPs do work where they are well targeted, designed and funded.** The empirical evidence is complex and nuanced but does broadly follow the theory: whether ALMPs work effectively is a matter of being adequately funded, well-designed, appropriate participant selection and their fit with the relevant socio-economic context.

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1. PES is used here as an abbreviation for both Public Employment Service/s in three respects: (a) in the singular, as denoting a particular organisation, (b) Public Employment Services in the plural as denoting both multiple organisations as in when there is more than one Public Employment Service in a particular country (as in Belgium or Canada), across countries (i.e. the Public Employment Services of Colombia and Costa Rica), and (c) as in the services offered by those organisations (i.e. the services offered by a Public Employment Service are Public Employment Services). This is the common use of the abbreviation in the international policy literature on Public Employment Service/s. The abbreviation ‘PESs’ is not used to denote plural.



The evidence also suggests some patterns in the relative effectiveness of different forms of ALMP. **PES intermediation services tend to have small positive short-run impacts** consistent with their low cost and duration. **Training often has negative short-run effects because of lock-in during participation, but where longer-term measurements are available these often show effects turning positive** (e.g. after a year or more). Again, this is consistent with their more substantive effect on skills formation. **For the LAC region positive impacts include increased employment formality.** Other programme types have more variable results and there are smaller numbers of studies to draw on.

This evidence suggests that the key policy question **is not ‘are ALMPs effective?’ but ‘how can ALMPs be designed to meet the needs of specific groups of participants and how might this be impacted by context?’** On this second question, there are strong clues in the literature if not definitive answers. What stands out from this evidence is that the answers tend to follow theory. **Well designed and well-funded programmes are more effective.** Programmes that meet jobseeker (including between different social groups) and employer needs are more effective. This makes specificity in programme design and participation selection hugely important.

**Alignment between ALMPs and their context matters.** As a simple example, training programmes need to meet the current skills needs of employers and recognise the existing skills of participants. Moreover, ALMPs will work differently in times of growth and surplus employment than they will in times of recession and surplus labour supply. As such, ALMP implementation should include ongoing **performance management and evaluation** in a way that helps policy makers, practitioners and stakeholders understand and monitor changing programme effectiveness and make iterative programme design changes as the evidence changes.

# 1 Introduction

This report summarizes a section of the findings from a comprehensive evidence review<sup>2</sup> focused on the operation of Public Employment Services (PES) and Active Labor Market Policies (ALMPs) in 2016 and updated in 2022-3. The review focused on all aspects of PES governance, management, design and operation.

This report summarizes findings from that evidence review in relation to four questions:

1. What are Public Employment Services and Active Labor Market Policies?
2. How effective are Public Employment Services and Active Labor Market Policies?
3. What works in Public Employment Services and Active Labor Market Policies?
4. What are the evidence gaps in our understanding of the effectiveness and operation of Active Labor Market Policies?

The report concludes that ALMPs can be effective and PES in particular may be one of the most cost effective ALMPs, delivering intermediation services. However, not all services are effective, for all service users, in all contexts and at all times. Both theory and empirical evidence point to the fact that participant selection, design and the fit between services and wider context all matter in determining the effectiveness of services.

---

<sup>2</sup>. This review was conducted as part of a toolkit on the level of development of Public Employment Services (PES) that the IDB has been promoting in the region.

## 2 What are Active Labor Market Policies and Programs?

### 2.1 Introduction

This section describes different forms of labor market services and how they relate to each other.

### 2.2 Active and Passive Labor Market Policies

Passive labor market policies provide welfare transfers to unemployed workers and households. Passive policies might include a range of policy and program types which are sometimes described inconsistently. For the purposes of this report, passive policies include contributory social insurance programs related to unemployment (but not those that relate to non-working age people such as pensions) and non-contributory social assistance (such as income-related cash transfer programs).<sup>3</sup> Passive policies then come in the form of unemployment insurance/benefits, cash transfers, retirement and ill-health benefits (see Category 8 and 9 in Table 1). Passive policies affect unemployment in several ways.

- **Positively**, they support the consumption of unemployed or low-income workers and therefore might help them to search for employment longer and find work that is better matched to their skills. At the individual and household level, this may help them avoid poverty or lower its intensity. This may have wider benefits such as medium-term fiscal benefits from reduced unemployment and higher productivity. Where spending on passive transfers is sufficient, they may also have automatic stabilizer effects in recessionary conditions, helping to sustain aggregate demand.
- **Negatively**, they may reduce job search motivation and this could tip into moral hazard, extending unemployment duration and accentuating any skills depreciation and 'scarring'.<sup>4</sup> In countries with significant welfare systems, they also account for a substantial proportion of public spending, and in recessionary contexts they can increase indebtedness.

The risk of relatively generous passive policies creating moral hazard is one of the motivations for many governments to create Active Labor Market Policies (Martin & Grubb, 2001). In sum ALMPs aim:

<sup>3</sup>. Some authors will use terms like 'Social Protection' (usually incorporating contributory insurance and social assistance as well as in-kind services such as health or education services) or social security (often contribution based and incorporating other forms of support and insurance which might include unemployment related payments as well as health or other benefits).

<sup>4</sup>. Unemployment 'scarring' refers to an effect noted in quantitative studies where people with periods of unemployment at particular times in their lives or over a particular duration suffer a permanent effect in terms of their future employment or wages.

*“to bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work.” OECD, quoted in (Martin, 2015)*

ALMPs are many and varied but include institutions such as Public Employment Services (PES), which often provide services such as job search assistance, a database of available job vacancies, different forms of counseling and training and different forms of employment support such as wage or recruitment subsidies. Outside of PES, many countries also provide other ALMPs such as more focused or substantive training, employment or recruitment incentives and supported employment. These are listed as measures 2-7 in Table 1.

Activation as a policy objective is usually linked in some way to the receipt of welfare benefits. ALMPs are active in several respects:

- In engaging unemployed/under-employed to improve matching through welfare conditionality, which asks that jobseekers engage in, and often demonstrate, active job searching in return for out-of-work benefits (see category 8, Table 1) or outreach, through actively engaging jobseekers who do not themselves approach the PES. Outreach may be particularly relevant in LAC where many people receive unconditional cash transfers or where cash transfer programs are conditional on behavior other than related to the labor market (e.g. children’s schooling or accessing health services) and may also be employed (often informally) while receiving these poverty-related transfers.
- The activities available to jobseekers to support job entry and matching (intermediation, coaching, training).
- Activates/directs the behavior of jobseekers (improved effort/quality of job search/matching).
- Outside of the formal categorization of direct ALMPs, a number of additional services support labor market service delivery indirectly. These include services that help jobseekers overcome other barriers to employment or effective job search such as child or other care considerations, health or recovery services or services which counter-act discrimination (e.g. against migrants, ethnic minorities, disabled people or ex-offenders).

**TABLE 1 CATEGORIES OF LABOR MARKET MEASURES**

| BROAD CATEGORY                                           | SUB-CATEGORY                                                                                                                                                                                                                                | EXAMPLES                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Public employment services and administration         | <b>1.1 Placement and related services</b><br>1.2 Benefit administration<br>1.3 Other                                                                                                                                                        | PES intermediation services to support jobseekers understand and access labor market demand, opportunities for sectoral and occupational mobility and training.                                                                                                                                                                                                                                                            |
| 2. Training and certification <sup>5</sup>               | <b>2.1 Institutional training<sup>6</sup></b><br><b>2.2 Workplace training</b><br><b>2.3 Alternate training</b><br><b>2.4 Special support for apprenticeship</b><br>* Certification of skills gained in employment                          | Training provided in different contexts and by different types of providers, with substantial scope for variation in duration, substantiveness and quality.<br>Many LAC governments also provide skills or experience certification which in some countries is provided through work-based training and assessment.                                                                                                        |
| 4. Employment incentives <sup>7</sup>                    | <b>4.1 Recruitment incentives</b><br><b>4.2 Employment maintenance incentives</b><br><b>4.3 Job rotation and job sharing</b>                                                                                                                | Subsidies for recruitment or wage subsidies, often targeted at particular social groups. Can be paid to employers or employees directly. And can incorporate direct payments or tax or social security contributions.                                                                                                                                                                                                      |
| 5. Sheltered and supported employment and rehabilitation | <b>5.1 Sheltered and supported employment</b><br><b>5.2 Rehabilitation</b>                                                                                                                                                                  | Non-market employment opportunities often provided to workers with disabilities <sup>8</sup> who are supported permanently or for restricted durations to build work experience.                                                                                                                                                                                                                                           |
| 6. Direct job creation                                   | <b>Direct Job Creation</b>                                                                                                                                                                                                                  | Often include public works programs (e.g. infrastructure), expansion of public sector employment, stimulus to the private sector through contracts or creation of temporary work placement opportunities which are supported by subsidies. There is overlap with employment incentives.                                                                                                                                    |
| 7. Start-up incentives                                   | <b>Start-up Incentives</b>                                                                                                                                                                                                                  | Support for entrepreneurship, small business start-up or growth.                                                                                                                                                                                                                                                                                                                                                           |
| 8. Out-of-work income maintenance and support            | 8.1 Full unemployment benefits<br>8.1.1. Unemployment insurance<br>8.1.2. Unemployment assistance<br>8.2 Partial unemployment benefits<br>8.3 Part-time unemployment benefits<br>8.4 Redundancy compensation<br>8.5 Bankruptcy compensation | Passive employment transfers. There is overlap here between LMPs and Social Protection. There are distinctions between contributory (e.g. Unemployment Insurance) and non-contributory (often income based) transfers (e.g. Unemployment Assistance) and between conditional (e.g. usually requiring proof of active job search) and unconditional transfers. Some transfers may be conditional on sickness or disability. |
| 9. Early retirement                                      | Early retirement                                                                                                                                                                                                                            | Passive employment transfer for withdrawing from economic activity.                                                                                                                                                                                                                                                                                                                                                        |

**Source:** see Lauringson and Lüske (2021) and European Commission (2013) **Note:** bold text denotes a service usually regarded as 'active.'

<sup>5</sup> As an addition to the OECD/EU categorization of labor market policies.

<sup>6</sup> 'Institutional training' refers to programs where most of the activity is spent in a training institution such as a training center, college etc. whereas 'alternative training' refers to split evenly between institutions and workplaces.

<sup>7</sup> Category 3 was previously 'job rotation/sharing' but is now reported in Category 4.

<sup>8</sup> The term people or workers 'with disabilities' is used by IDB in preference to the term 'disabled workers,' though this does not imply a health rather than social model of disability.

## 2.3 How Active Labor Market Policies and Programs Work

The variety of ALMP types indicates that they can be assumed to work in a variety of ways. The theoretical mechanisms embedded in ALMPs include:

- Increasing the intensity of job search and employment motivation;
- Increasing the motivation or ability of participants to sustain employment;
- Increasing job search effectiveness (including through overcoming information problems and asymmetries);
- Increasing job application effectiveness;
- Increasing the quality of matching between jobseeker skills and employer needs;
- Increasing, updating or changing participant skills (human capital) so that they can access different or higher quality employment;
- Increasing or influencing demand for labor; and/or,
- Increasing the effectiveness and reducing the costs of employer recruitment activity;
- Overcoming other barriers to work which may relate to the specific characteristics of, or barriers faced by, jobseekers (e.g. childcare or other care responsibilities (parents, often women because of unequal gender norms and behaviors), direct, indirect or structural discrimination (women, ethnic minorities, indigenous groups, migrants, disabled people, younger/older workers, migrants, ex-offenders); health or access barriers (ill or workers with disabilities).

These different mechanisms may deliver different types of benefits:

- Individual and household benefits: individuals and households may benefit from enhanced skills, better matched and improved employment prospects. These types of direct benefits are also often positively associated with other benefits such as health and wellbeing.
- Employer benefits: such as more effective recruitment activity and skills utilization (see Box 1).
- Wider social and economic benefits arise from increased skills and employment. These include potential productivity arising from improved worker-firm matches (allocative efficiency) and fiscal benefits from reduced spending on transfers and increased tax revenues.

However, ALMPs also have costs and potential adverse effects. These include the costs of program delivery and participation. Even where participants benefit, ALMPs may have net-negative impacts if they only help people find employment that they may have taken up anyway (though this may still be positive if participation reduces the duration of unemployment), they create jobs that replace other jobs or simply change which jobseeker(s) move into a job. These possible negative effects may also

change wages and skill levels in the economy creating net positive or negative effects. For example, if ALMPs increase labor supply for low-skilled jobs, they may benefit some jobseekers while displacing others and reduce wages in the process. They may also act as a disincentive for employers to invest in technology and other productivity enhancements if the increase in labor supply suppresses wages.

## BOX 1. SKILLS UTILIZATION

Skills utilization is a relatively new term and reflected a shifting policy focus in many OECD countries in the 2000s and 2010s. Having targeted increased productivity through skills initiatives and programs to increase employability, many researchers and policy makers noted limited effectiveness and began to focus instead on the concept of skills utilization:

*“The focus of skills policies is often on the supply side – on increasing the stock of available skills through education and training, migration and activation. However, more skills are not necessarily better skills, and the mere existence of skills does not automatically lead to improved economic performance. Making optimal use of existing skills, preventing waste and attrition of skills due to mismatch or lack of use, and encouraging employers to demand higher level of skills in stagnating regions or sectors are equally important elements of skills policies.”* (OECD, 2011, p. 19)

Skills utilization initiatives focus on enhancing productivity through reducing different forms of skills mismatches (Buchanan et al., 2010; Livingstone, 2009):

- **Entry credential matching** – the use of credentials for recruitment and selection of workers. An important behavioral problem here is whether employers set and screen credentials (as proxies for skills) as a true reflection of the skills required for the job (e.g. as a reflection of performance matching below) or whether they are used as a ‘screen’ to seek the most highly qualified people for the job, even if this exceeds the level required (e.g. Sutherland, 2013). Empirically this opens up the problem of whether increased ‘credentialism’ makes it appear that employer demand is for enhanced skills even if this is not the case, and points toward the concept of over-qualification, which can itself be a significant labor market problem (see below).
- **Performance skills level matching** (vertical or level matching) – refers to the ability of workers to do the job they are employed in, which may or may not relate to credentials as above.
- **Performance skills relevance matching** (qualitative/horizontal or ‘field of study’ matching) – explores the issue of skills/demand fit as opposed to the level of skills. Skills are usually measured across hierarchical levels (e.g. post-graduate, graduate, further technical skills etc.) but clearly subject matter also matters. A worker with an undergraduate degree in English literature would not be expected to have the same skills as one with an undergraduate degree in physics, and these different skills at the same level will fit with different job requirements to a greater or lesser extent.

- **Subjective matching** – refers to workers own assessment of whether they have the capabilities required for the job, and whether the job uses their capabilities effectively.

In addition to these understandings of skill utilization, there are some specific circumstances in which more traditional policy problems of unemployment and under-employment are relevant. For instance, economic inactivity, unemployment and underemployment might be considered a skill utilization issue (Livingstone, 2019) where there is adequate demand and adequate supply of labor at particular skill levels, but a problem prevents workers coming together with employers. This might be the case, for example, where transport, logistical or social barriers prevent inactive, unemployed or under-employed workers from accessing unfilled vacancies. Social norms or direct discrimination, or just poor-quality HR management practices, which do not select the workers with the best skills for the job, may be examples of these barriers.

Data on EU and OECD countries suggests that most economies suffer from a range of skill mismatches (McGuinness et al., 2017; OECD, 2016, 2017, 2020) and this impairs productivity (OECD, 2016).

ALMPs may support skill utilization by improving the matching of jobseekers to vacancies. This may occur both through the publication of transparent labor market information (e.g. vacancies and demand trends) which can influence jobseeker behavior and skills acquisition matched to employer need and through intermediation which can help jobseekers to understand what opportunities are available and how they might match with them. ALMPs may also influence the quality, costs and effectiveness of employer vacancy sharing (Algan et al., 2020).



## 2.4 Active Labor Market Policy Design

Theoretically, three specific implications flow from the basic point that ALMPs operate differently:

1. **Program design matters.** Jobseekers have different needs and barriers to employment. Program design needs to target specific barriers to work.
2. **Program selection matters.** Following from this, all jobseekers will not benefit from participation in all (or even any) ALMPs. Rather, program participants need to be carefully selected to ensure that (a) they face barriers to employment (as opposed to being able to compete for appropriate jobs without additional support), (b) that they enter programs that are matched to their specific barriers to employment, (c) they have the pre-requisite skills, experience and aptitudes to benefit from the program.
3. **Context matters.** Some ALMPs will work better in some contexts. Programs designed to enhance motivation may have less effect where there are already very strong economic work incentives or where demand is insufficient to absorb supply. Strong work incentives are usually present where passive labor market measures are absent (e.g. welfare transfers related to unemployment). Training programs need to be designed to meet the specific skills gaps of jobseekers and the specific skills needs of employers. This means that smaller, targeted and high-quality programs may be most effective and ensuring employer engagement is likely to enhance effectiveness. Work-based training may require the development of prior foundational skills (e.g. literacy, numeracy, information technology).

A conceptual overview of the interaction of design and context issues with different ALMP types and operational mechanisms is set out in Table 2, below.

**TABLE 2 MATCHING ALMP TYPES TO JOBSEEKER NEED AND CONTEXT**

| BARRIER TO EMPLOYMENT                       | ALMP TYPE                                                                                                                                                                                                                                                                                                         | OPERATIONAL MECHANISM                                                                                                                                                                                                                       | THEORETICAL CONSIDERATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Motivation</b>                           | <ul style="list-style-type: none"> <li>- Intermediation (job search assistance, personality development, intensive case work).</li> <li>- Integration of passive and active services.</li> </ul>                                                                                                                  | <ul style="list-style-type: none"> <li>- Increasing job search and employment motivation.</li> <li>- Increasing the motivation or ability of participants to sustain employment.</li> </ul>                                                 | <ul style="list-style-type: none"> <li>- Less effective where strong economic incentives exist, e.g. where passive transfers are weak or absent.</li> <li>- Less effective if demand is insufficient to absorb supply.</li> <li>- Less effective if there is insufficient institutional capacity to monitor conditionalities.</li> <li>- More effective where passive services may include work disincentives.</li> <li>- More effective where passive and active services are integrated.</li> </ul>                                                 |
| <b>Information problems and asymmetries</b> | <ul style="list-style-type: none"> <li>- Intermediation (job search assistance, Labor Market Information, certification).</li> <li>- Training (inc. certification).</li> <li>- Direct Job Creation.</li> <li>- Employment Incentives.</li> <li>- Sheltered employment.</li> <li>- Start-up incentives.</li> </ul> | Overcoming information asymmetries for jobseekers by giving them access to information about opportunities they may otherwise lack or by helping employers to understand or overcome doubts over the productivity of particular jobseekers. | <ul style="list-style-type: none"> <li>- More effective where institutional failures or weaknesses (e.g. failure to certificate skills development) or in circumstances where quality uncertainty is more prominent for employers (see (Nunn et al., 2010) such as where there are barriers to information flow.</li> <li>- More effective for specific groups of jobseekers such as informal workers or migrants lacking locally specific qualifications or verifiable employment histories, young people who lack employment experience.</li> </ul> |
| <b>Job search skill problem</b>             | <ul style="list-style-type: none"> <li>- Intermediation services (job search assistance, Labor Market Information).</li> <li>- Training.</li> </ul>                                                                                                                                                               | <ul style="list-style-type: none"> <li>- Increasing job search effectiveness.</li> </ul>                                                                                                                                                    | <ul style="list-style-type: none"> <li>- Less effective where demand is insufficient to absorb supply.</li> <li>- Less required where there are good universal vacancy search platforms.</li> <li>- More effective where vacancy information is fragmented.</li> <li>- Effectiveness may vary where informal recruitment practices are common.</li> </ul>                                                                                                                                                                                             |
| <b>Job application problem</b>              | <ul style="list-style-type: none"> <li>- Intermediation services (intensive counselling, personality development, group programs).</li> <li>- Training.</li> </ul>                                                                                                                                                | <ul style="list-style-type: none"> <li>- Increasing job application effectiveness.</li> </ul>                                                                                                                                               | <ul style="list-style-type: none"> <li>- Less effective where demand is insufficient to absorb supply.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Other barriers</b>                       | <ul style="list-style-type: none"> <li>- Intermediation services (specialized counselling).</li> <li>- Referral to external services such as childcare, psychological support, health and recovery services.</li> </ul>                                                                                           | <ul style="list-style-type: none"> <li>- Overcoming other barriers to work (e.g. childcare).</li> <li>- Increasing the quality of matching between job seeker skills and employer needs.</li> </ul>                                         | <ul style="list-style-type: none"> <li>- Less effective where services or capacity are lacking.</li> <li>- More effective when labor market services are integrated with other services.</li> </ul>                                                                                                                                                                                                                                                                                                                                                   |

| BARRIER TO EMPLOYMENT                     | ALMP TYPE                                                                                                                        | OPERATIONAL MECHANISM                                                                                                                                                                                                                                               | THEORETICAL CONSIDERATIONS                                                                                                                                                                                                                                                                                               |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Productivity skills gaps/ Matching</b> | <ul style="list-style-type: none"> <li>- Intermediation services (career guidance, job broking).</li> <li>- Training.</li> </ul> | <ul style="list-style-type: none"> <li>- Increasing the quality of matching between job seeker skills and employer needs.</li> <li>- Increasing, updating or changing participant skills so that they can access different or higher quality employment.</li> </ul> | <ul style="list-style-type: none"> <li>- Less effective where training is not well matched to need.</li> <li>- More effective where employers are engaged in designing courses so that they reflect need and have credibility.</li> <li>- More effective where participants meet pre-requisites for training.</li> </ul> |
| <b>Skills updating/ Matching</b>          | <ul style="list-style-type: none"> <li>- Intermediation services (career guidance, job broking).</li> <li>- Training.</li> </ul> | <ul style="list-style-type: none"> <li>- Increasing, updating or changing participant skills so that they can access different or higher quality employment.</li> </ul>                                                                                             | <ul style="list-style-type: none"> <li>- More effective at times of labor market restructuring.</li> <li>- More effective where labor market information is sufficient to understand changing skills needs.</li> </ul>                                                                                                   |

Time is a further consideration in designing labor market programs. Some evaluations and measurements of ALMP effectiveness focus on effectiveness in terms of time in (un)employment or wages earned from the moment of commencing an intervention. However, this means that the time spent participating in the intervention counts against its effectiveness and for some types of intervention (such as training) this may be considerable. This is sometimes referred to as a 'lock-in' effect and conceptually may also include a post-intervention period<sup>9</sup>, though this is hard to measure. Measuring lock-in effects is appropriate; the time spent participating is one of the costs of ALMP or intermediation delivery which might be borne by jobseekers (as in forgone labor market opportunities) or the state (fiscal costs from forgone taxation income and any welfare transfer costs incurred during the lock-in period). Understanding how time spent in participation impacts effectiveness overall, cost effectiveness and the way the program operates is crucial to designing services that work in their context.

## 2.5 PES as a Labor Market Institution

PES are common internationally; a recent World Bank survey found that 157 countries had a PES and of these the most prominent services were vacancy databases or provision of labor market information, training, job placement support and career guidance. Most services are more common in higher rather than lower income countries. For example, 72% of lower income countries report having a PES which offers a vacancy database or labor market information but this rises to 81% for middle income countries and 93% for high income countries. The exception to this is internship and apprenticeship services which are more common in lower- and middle-income countries (Ulku & Georgieva, 2022).

9. This is recognized in training evaluation methods (e.g. Kirkpatrick) where high levels of impacts are estimated at some duration after completing the intervention where the intervening period is necessary for beneficiaries to practice, further develop and demonstrate new skills in the workplace and this to result in outcomes, before the full effects of the training are realized.

PES are usually responsible for the delivery of a range of different services (see Figure 1 for a conceptualization and Box 2 for a breakdown of intermediation services). The precise mix of services delivered in a country and the institutional responsibility for delivering them differs across countries but some of the labor market measures often delivered by PES include:

- Intermediation or ‘placement and related’ services;
- Delivery of initial training related to job search, application and some basic ‘employability’ skills;
- Coordination of more substantive training offered by other institutions, private or NGO providers;
- Coordination of other forms of employment support such as work placements, targeted support schemes (e.g. at young people, people with disabilities, lone parents or ethnic and indigenous groups) for groups who often face labor market disadvantages; and,
- Coordination, administration, and conditionality checking in relation to work-related welfare transfer payments such as Unemployment Insurance or job-search conditional cash transfers and incentives (e.g. wage or recruitment incentives for particular groups of jobseekers).

Differences in the availability of services and responsibilities for their delivery are often deeply embedded in path-dependent institutional legacies, sometimes dating back to state formation. Labor market and welfare institutions are also closely related to a range of other institutions and social structures which include economic and labor market regulation, the provision of wider services (e.g. education, childcare, social care), welfare benefits (e.g. unemployment insurance and benefits, social protection etc.) and the cultural norms in firm and jobseeker behavior. These intertwined, mutually dependent and co-evolutionary relationships between institutions, employers and workers/jobseekers are one of the reasons that successful institutional change can be challenging and take a long time to implement successfully. Change often depends not just on changing what services are provided or which organizations deliver them, but also on the way employers, jobseekers and other institutions behave. Since their behavior will have been partly conditioned by PES and their services in the past, making these changes can involve complex interdependencies. Taking account of these is not just a conceptual matter but a practical consideration in planning change.

## 2.6 PES Intermediation Services

There are multiple words or phrases that are often used interchangeably such as placement; intermediation; information, advice and guidance; job search assistance; orientation; job brokering etc. In sum, these services can range from assessing jobseeker skills and employability through providing general labor market or more specific career advice, helping jobseekers to search for, and apply to, vacancies and providing more in-depth support to develop skills and competences (see Box 2). They also include support to employers to improve the effectiveness of their recruitment and selection processes.

While there are differences of detail across countries, it is these services that are usually provided in-house by PES staff. Staff providing these services are often themselves highly skilled and combine skills

associated with analysts, information communicators, salespeople, counsellors, and coaches. They often provide help to jobseekers at points in their lives when they are newly unemployed and anxious over their livelihoods and family wellbeing. This can make it challenging to provide services which effectively support jobseekers, especially where this might involve shifting deeply held beliefs, understanding the need to develop or update skills or accept that changing economic conditions may require a change in expectations and aspirations.

### BOX 2. PES INTERMEDIATION SERVICES FOR JOBSEEKERS

1. Vacancy database and online job search and matching to jobseeker profiles.
2. Online training database and matching to jobseeker profiles.
3. Online job search, applications and labor market trends advice.
4. Assessment / screening (e.g. of individual attributes, competences, and preferences; of psychological state; of employability; of informal and non-formal learning).
5. Career management planning (e.g. helping individuals develop a Personal Action Plan; assistance in managing job changes).
6. Individual intensive employment counselling (e.g. through a case-management approach to employment assistance).
7. Personality development (e.g. promoting self-esteem in clients; coaching in social skills).
8. Specialized employment counselling (e.g. addressing problems that are obstacles to re-employment, such as disability, drug/alcohol addiction, homelessness, childcare, or debt problems; and offered to particular groups of disadvantaged jobseekers, including, for instance, immigrants, asylum-seekers, ex-offenders).
9. Job-brokering (e.g. help clients in clarifying what their job aspirations are, and possibly evaluating the likelihood that such aspirations will be fulfilled, given the client's profile and the structure of employment opportunities; creating networks with employers, on a general or sectoral basis; maintaining a talents bank; matching and placing).
10. Job-search assistance activities (e.g. job-search techniques; job-application training; writing C.V.s; preparing for selection interviews; work tasters; supported induction into employment).
11. Group programs (e.g. help in exploring appropriate training paths and options; job clubs).
12. Services offered to students (e.g. information sessions about the structure of employment opportunities; preventative guidance; working with dropouts; school-to-work transition guidance; assisting in the use of occupational information).
13. Providing labor market information and communicating labor market trends to jobseekers and other stakeholders.

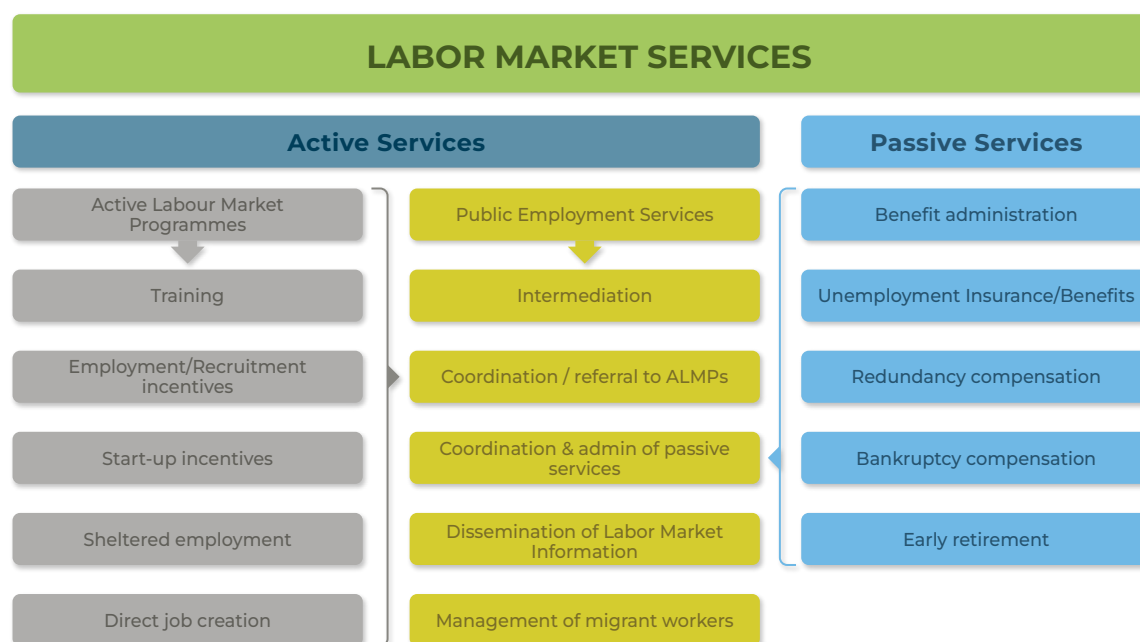
Source: Adapted from (Sultana & Watts, 2005, p. 21)

It is increasingly noted that PES services for employers have been under-used and that this has hampered PES efforts to place jobseekers (Ingold & Stuart, 2015; Orton et al., 2019). Some PES intermediation services directly target employers. These services are again varied but include vacancy registration and promotion. They might also include enhanced services such as targeted promotion of vacancies, pre-screening of applicants, pre-employment training for recruits, advice and guidance on vacancy design, advertising, recruitment and selection or other aspects of workforce recruitment and management. They might also include support for the recruitment and employment of disadvantaged groups (De Koning et al., 2012; Ingold & Valizade, 2017; Tubb et al., 2014; Weber, 2012).

## 2.7 Actors and responsibilities

PES may deliver any or all Active and Passive Labor Market Services. However, other actors may also deliver services. It is often the case that PES are responsible for intermediation services, referral to ALMPs and may also have some role administering passive services such (as unemployment insurance or unemployment related social assistance) and/or ensuring that labor market related conditionalities associated with these cash transfers are met (see Figure 1).

**FIGURE 1** CONCEPTUAL MODEL OF LABOR MARKET SERVICES AND THE ROLE OF PUBLIC EMPLOYMENT SERVICES



**Note:** This figure is created based on the OECD-EC categorization. It is essential to mention that conditional cash transfers (CCT) are not included explicitly as a passive service because not all CCTs are related or are seen as a Labor Market Service. The CCTs that are related have not always been integrated as part of a Labor Market Policy, and this is an opportunity to generate more articulate policies, and that CCTs start to play a stronger role supporting Active Labor Market Policies/Programs.

A range of other providers might deliver ALMPs outside of those delivered by the PES. These include private or state training providers (including colleges and universities) and employment agencies, charities or non-governmental organizations. They might also include chambers of commerce or other business organizations, including sectoral organizations which represent more specific groups of employers and may be well placed to understand detailed aspects of skills needs. In these instances, there are a wide range of mechanisms for the coordination of service delivery including a variety of different forms of contracting, market and partnership arrangements, including payment for results models. Other organizations involved in the delivery of passive services include welfare and social insurance organizations or social security/protection ministries.

In circumstances where there are other organizations involved in the delivery of labor market services, PES may opt to perform a 'conducting' or coordinating role (see Davern et al., 2021; European Commission, 2012; Nunn, 2015), drawing the actions of these organizations together so that they work in alignment.

# 3 Labor Markets and Policies in Latin America and the Caribbean

## 3.1 Economic and Social Structure

The LAC region experienced generally high growth between the early 2000s and mid 2010s when strong demand for primary commodities fed an export boom. Subsequent declining global demand led many countries in the region to experience prolonged economic downturns. During the growth years, many governments across the region increased spending on social programs and introduced new forms of social protection, which, alongside growth, contributed to significant reductions in poverty (Alaimo et al., 2015). Nevertheless, the growth period and subsequent downturn illustrated the continuing dependence on primary commodity production in agriculture, minerals and fossil fuel exports and low productivity.

Generally, low unemployment during the high growth period between the early 2000s and mid 2010s started to increase after 2016. During the growth years, many countries also used progressive redistribution policies to reduce poverty considerably, though poverty rates remain high by comparison with middle income and OECD countries. Unemployment and economic inactivity are strong determinants of inequality in the LAC region. The Covid-19 crisis has negatively impacted unemployment, although informal employment acted as something of a shock-absorber in the LAC region as did income support measures implemented in most countries. However, these are unlikely to have fully offset the impact of unemployment (including in the informal sector) because of effectiveness and coverage issues (Benza & Kessler, 2022; Bull & Robles Rivera, 2020; Busso et al., 2020, 2021). This meant that poverty levels increased during the crisis but have since fallen again to pre-Covid levels, though poverty affects roughly a fifth of the population of the region (Galindo & Izquierdo, 2024, p. 11). As more data becomes available, we can anticipate that prior reductions in poverty will have been somewhat reversed during the crisis and increase in informal employment and unemployment has taken some time to recover to pre-crisis levels (Viollaz et al., 2022). However, now that this is the case, longer-term trends such as a gradual loss in labor market benefits from a relatively young population are becoming more prominent (Galindo & Izquierdo, 2024, pp. 8–9). Inequality in the LAC region is high by international comparative standards (Chancel et al., 2022).

Despite some contrary analyses (De Rosa et al., 2022), most estimates suggest that both inequality and poverty fell during the period between the mid-2000s and mid-2010s driven by a number of factors including strong economic growth, fueled by commodity price booms and increased labor demand,



and electoral success for political parties and movements who prioritized some degree of redistribution and new social protection regimes that befitted some of the poorest sections of society, minimum wages and other social policy investments (Amarante & Prado, 2017; Clifton et al., 2020; De la Torre et al., 2017; Kugler, 2019). Since that point, inequalities have begun to rise once again (Bustillo et al., 2018; Olarte et al., 2021). While high levels of inequality are a characteristic of the region, this varies substantially between and within countries. Within LAC, Honduras, Venezuela and Bolivia had the highest levels of inequality in 2019-2020 and Argentina, Uruguay and the Dominican Republic had the lowest levels of inequality. There are also important spatial inequalities within many countries. For example, in Argentina average wages in Tierra del Fuego are about three times higher than they are in Santiago del Estero (Chauvin & Messina, 2020). The effects of Covid-19 have tended to increase poverty, inequality and insecurities (Cevese, 2022; Hennis et al., 2021).

General socio-economic inequality is matched by horizontal inequalities across LAC countries on the grounds of gender, ethnicity and a range of other factors. Women are under-represented in political and private sector leadership. They lag men in the labor market across a range of indicators including employment, employment and high-status occupations entry and executive positions (Abrahams et al., 2016), pay and hours (Bando, 2019; Bando et al., 2019; Berniell et al., 2021; Bustelo et al., 2019) and are more likely to be employed informally (Otobe, 2017). Pay gaps range from 20-30% for equivalent occupations and women also tend to be more likely to be in informal employment than men (Marchionni et al., 2019). Women also spend considerably more time than men doing domestic work (Frisancho & Vera-Cossío, 2020). While women and girls perform well compared to boys in school, the higher education gaps in subject choice start to predict later pay gaps. Like in other regions, women fared worse than men in the labor market in LAC during the Covid-19 pandemic (Viollaz et al., 2022), which threatens recent gains in employment rates some countries (Lopez Marmolejo et al., 2021). A significant feature of gender inequality in the region is the experience of gender-based violence, both from intimate partners and in the public sphere, which will have negative labor market effects (Bott et al., 2012, 2019; Medina-Hernández et al., 2021). Gender based violence increased during Covid-19 lockdowns. Some research also suggests that women may be more vulnerable to future unemployment as a result of automation in the region (Egana-delSol et al., 2022).

While LAC is a very ethnically diverse region, there remain significant racial and ethnic differences in socio-economic opportunities, life chances and wellbeing. Around 8% of the region's population has an indigenous ethnic identity and about 25% of the population are of African descent, forming the majority of the population in many Caribbean countries, Brazil, Venezuela and Dominican Republic. However, around 43% of the indigenous population and 25% of people with African heritage are poor, which is much higher than other sections of the population. Inequalities manifest across employment, wages, employment quality, educational access and attainment and access to other services (Davis-Castro, 2020; Frisancho & Vera-Cossío, 2020).

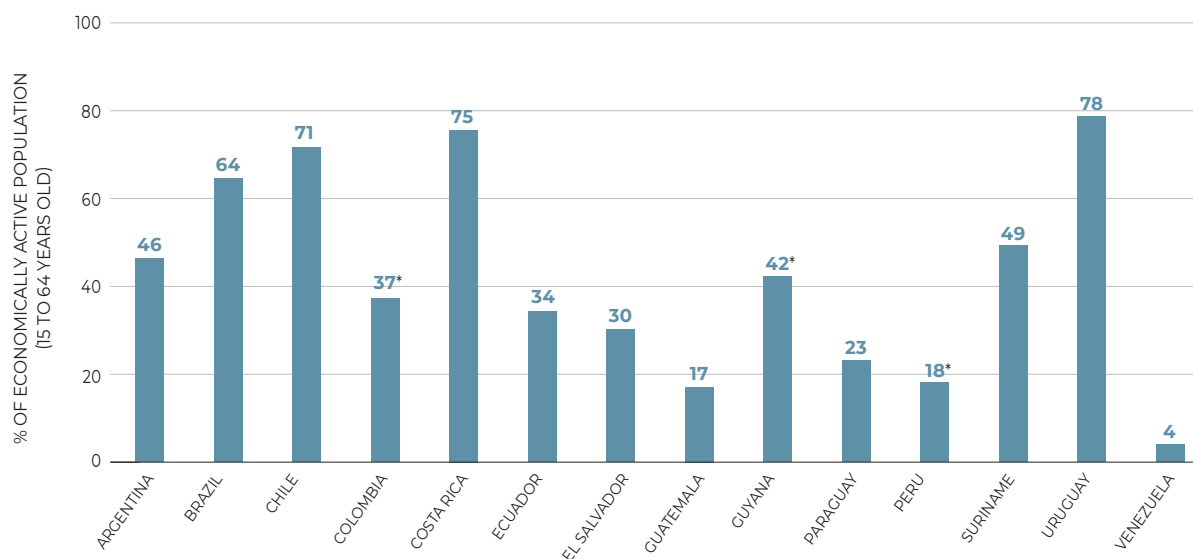
Unemployment, poverty and inequality are important outcomes of labor market performance, in and of themselves. However, they also correlate with other societal factors. High levels of inequality are

linked to lower levels of inter-personal trust, trust in government, social cohesion and higher levels of crime. The evidence suggests that this is a particular problem for the LAC region, where inequality may be related to low levels of trust, which undermine support for public institutions which in turn lowers growth, willingness to contribute to taxation and social insurance and therefore further and materially weakens growth prospects (Ardanaz et al., 2023; Córdova & Layton, 2016; Gingerich & Scartascini, 2022; González, 2022; Keefer et al., 2018, 2018; Sánchez-Ancochea, 2020; Scartascini & Joanna Valle, 2020; Scartascini & Luna, 2020).

Despite some long-run favorable trends in employment informality (Galindo & Izquierdo, 2024, pp. 9–10), this remains a particular problem in the LAC region (Bosch et al., 2013; Bosch Mossi et al., 2021). with Bolivia, Honduras, Haiti and Nicaragua standing out as having particularly high rates (see Table 3). While output informality (the proportion of overall economic output in the informal sector) has fallen over the last two decades, employment informality has remained high, ranging from 20% to more than 80% in some countries (Acevedo et al., 2021; Vorisek et al., 2022). Employment informality has also risen further in some countries as a result of the pandemic (Viollaz et al., 2022) and even more recent patterns of job growth have been boosted by short-run increases in informal work (Galindo & Izquierdo, 2024, p. 10).

The causes of informality in LAC differ to some other regions and tend to be seen as the result of rigid formal institutions, high levels of initial taxation, corruption and inequalities (David et al., 2020; Vorisek et al., 2022, p. 221). Informality is also a product of a combination of poor quality, unequal access to, and costs of, education meaning that many young people transition to the labor market lacking skills and also certifications (Galindo & Izquierdo, 2024 See Box 1.2). Because job search networks are informal, they then become trapped in low quality and informal work, often marked by frequent job changes and increased inequality (Menezes-Filho & Narita, 2023). In some countries this is augmented by a lack of trust in state and formal institutions among some communities (Ødegaard, 2019). Instability (with high rates of job changes) is also a feature of LAC labor markets and may reflect both low quality employment (including temporary employment and workers searching for better opportunities) and result in both low levels of match and skill utilization, on the one hand, and disincentives for employers to invest in training on the other (Alaimo et al., 2015).

**TABLE 3** PROPORTION OF WORKFORCE FORMALITY

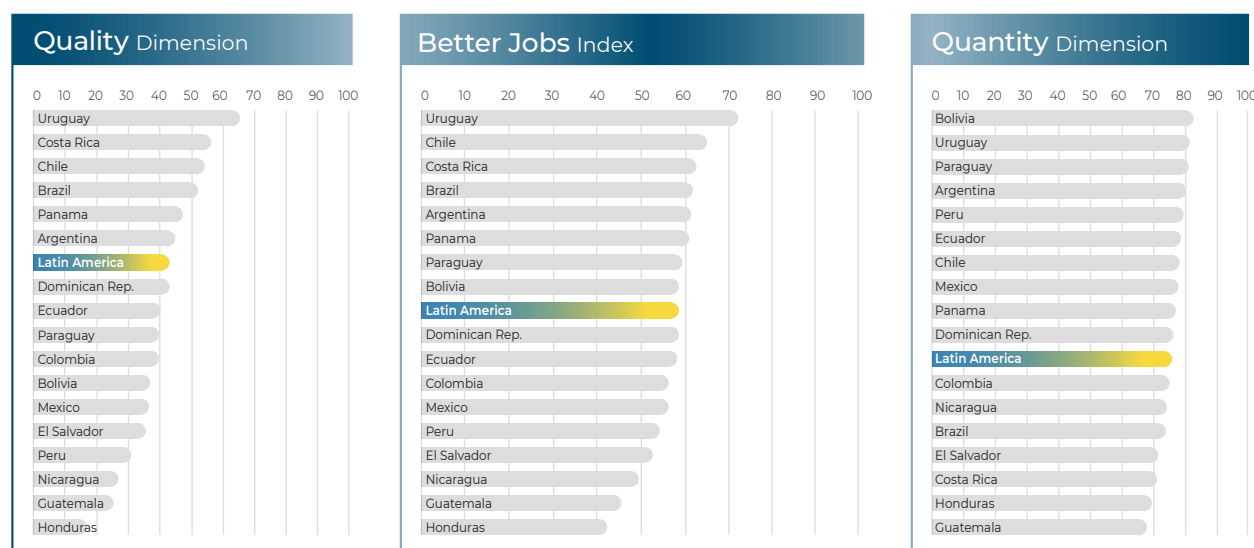


Source: IDB Labor Markets Social Security Information System (SIMS), data is 2022 except for \* (2021).

Informality is one important component of employment quality, which is central to the idea of decent work, which is itself an aspect of the universally accepted international commitment to the UN's Sustainable Development Goals (e.g. SDG 8 "full and productive employment and decent work for all"). There are several measures of employment quality available, though good quality data is often a problem (Burchell et al., 2014). One measure of employment quality is the IDB's own **Better Jobs Index** (Inter-American Development Bank (IADB), 2017 (IDB, 2024)). This encompasses employment, economic activity, formality and wages. The index provides an overall comparative score (see Figure 2) for LAC countries and includes a gender and age inequality gap on each measure. Despite a gradual increase in employment quality, the index demonstrates that the majority of workers in the region are informal or receive insufficient wages. The index is very useful in that it demonstrates the importance of informality, low pay and inequalities to understanding labor markets in many LAC countries in ways that are not fully captured by more standard comparative indicators such as employment rates. Employment quality looks worse in nearly all LAC countries when these aspects are incorporated.

Importantly, inequality, employment quality and informality are intrinsically related to the region's productivity challenge. To increase productivity LAC needs more and better-quality jobs utilizing higher skill levels. Education and training policies are part of the solution, but labor market policy will need to do more to support the existing workforce to transition to greater formality and higher skilled work.

**FIGURE 2 BETTER JOBS INDEX: QUALITY OF EMPLOYMENT AND QUANTITY OF EMPLOYMENT (DATA BY COUNTRY, 2022)**



Source: IDB, 2024, see <https://publications.iadb.org/en/publications/english/viewer/Better-Jobs-Index-2024.-Quality-of-employment-in-Latin-America-Between-Informality-and-Insufficient-Wages.pdf> Labor Market Policy and Institutions.

## 3.2 Institutions

The last two decades have seen an increasing number of ALMPs in the LAC region. Some estimates suggest that the number of programs have increased by nearly 20% over the last ten years alone, with programs targeting youth unemployment being particularly prominent (Espejo et al., 2023). Among these, training is the most prominent type of ALMP, with around 39% of the total in 21 countries. Direct employment creation ranks as the least prominent at 4%. Labor intermediation services make up 19% of the total number of programs (Figueroa & Holz, 2023).

While many LAC countries now have ALMPs and PES, spending on these services is typically much lower than the OECD average (Espejo et al., 2023). In particular, PES appear to receive very little investment in the region compared to others; about 0.3% of GDP compared to roughly twice as much in Europe (Escudero, Asenjo, et al., 2019, p. 76; Espejo et al., 2023, pp. 28–32). Moreover, the degree of informality means that PES typically have low vacancy shares (Alaimo et al., 2015) and many do not offer effective services to employers.

Historically, the LAC region has been marked by important dualities in labor market institutions; with strong (and even constitutionally embedded (Alaimo et al., 2015, p. 33)) contributory social security and legal employment protections for some workers) but large sections of the population being excluded

from unemployment and social insurance. This duality often had gendered, racial and spatial (e.g. urban/rural) and sectoral (industry/agriculture) characteristics. In the 1990s and 2000s many governments sought to address these inequalities by introducing new non-contributory social assistance programs, notably conditional cash transfer programs that were institutionally separate from existing labor market and social security institutions. While this has been hugely beneficial in terms of poverty reduction it has also resulted in institutional gaps between ALMPs and social assistance schemes. While these programs have had a significant effect on poverty they do not reach all people in poverty and there are inequalities in access (e.g. for indigenous groups). Overall, the scale of spending on cash transfers is significant. Recent research (Stampini et al., 2023) suggests that nearly 170 million individuals (2019) lived in beneficiary households in the LAC region, that they were accessed by approximately 55% of those in poverty and spending levels \$76bn USD (PPP) and approximately 0.79% of GDP. However, coverage and spending vary widely; in Bolivia spending is 2.13% of GDP, whereas spending in El Salvador is only 0.15% of GDP. Where data is available among OECD members in the region, spending on passive measures exceeds that on ALMPs by some margin (Pignatti & Belle, 2020) (see also Figure 3, p33).

While most countries have some form of contributory unemployment benefit these are typically insurance based and mostly accessed by formal sector workers as a result of legal agreements. There are a variety of schemes in operation which have some common design elements across the region but are distinct from schemes offered in the OECD (for an overview see Alaimo *et al.* (2015) and Table 4). Severance pay is the most prominent form of unemployment income support present in the region (e.g. Argentina, Chile, Colombia, Dominican Republic, Peru, Mexico). These schemes often have minimum qualification periods and involve a payment from employers to workers (either from the employers own funds or from an externally administered scheme) on termination though even those who are covered by such schemes often do not receive severance payments because they fall due at times when firms are in economic distress and therefore workers must often take legal action to claim the payment (Alaimo et al., 2015, p. 119). There are also a number of other programs in the region such as various forms of unemployment insurance and savings accounts which make payments when formal worker with contributions become unemployed. They usually have benefit limits determined either by the scale of contributions (as in a savings account) or by administrative rules (as in insurance-based schemes). Payment amounts are variable, up to 80% of previous salary (with limits) durations and amounts are much less generous than in many OECD countries ranging from around 13 weeks (Barbados) to 2 years months (in Uruguay) but the payments and durations are usually differentiated by contribution rates. A further form of income support in unemployment offered in the region is direct job creation in temporary public sector jobs. These typically offer low paid (below minimum wage) employment for a period of 3-6 months, with low or no eligibility criteria other than unemployment.

Low spending, the degree of informal work and high rates of employment change mean that in reality coverage rates are low, even below the global average. The most recent ILO Social Protection report (ILO, 2021a) found that 12.5% of the unemployed population in LAC have access to some form of (contributory or non-contributory) unemployment protection, compared to a world average of 18.6% and more than 90% in Upper-Middle Income countries. Coverage is better for non-contributory social assistance

programs as a result of the introductions of cash transfer schemes with more than a third of the vulnerable population having access to some form of social assistance) compared to 29% for the world).

However, low spending, generosity and coverage of unemployment benefits means that the region is quite different to the context in which ALMPs emerged in Europe and North America. One important difference is that while relatively generous out of work support in Europe and North America might mitigate economic incentives to search for work, this is not generally the case in LAC and will impact the way in which ALMPs are designed, as well as the roles and responsibilities of PES. Importantly, there is very little integration of passive and active services in the region; there are rarely requirements mandating cash transfer beneficiaries to access PES services or ALMPs, and the majority of ALMPs are focused on training interventions for young people (sometimes incorporating employment incentives and intermediation alongside a relatively substantial work placement and training program).

Unemployment benefits typically extend unemployment duration but can have the advantageous effects of consumption smoothing and enabling better matching on re-employment, preventing productivity losses. However, while schemes in the LAC region may help with consumption smoothing, the evidence suggests that they have not had matching and productivity benefits (Alaimo et al., 2015). Inadequate unemployment protection may contribute to some of the region's economic problems. High costs for employers of piecemeal schemes which have employment-duration based elements may act as a disincentive to employ and retain formal workers when this means that employers will then face additional costs in the event of termination. We have already seen that this also affects training expenditures. Moreover, when experiencing or fearing unemployment, households may cut costs (including for education or training) and resort to poorly matched or informal work in order to sustain income, reducing productivity.

**TABLE 4 UNEMPLOYMENT TRANSFER PROGRAMS, LAC (2020)\***

|                     | SEVERANCE PAY | UNEMP. INSURANCE | UNEMP. INSURANCE SAVINGS ACCOUNTS | TEMPORARY EMP. | UNEMP. SOCIAL PROTECTION % COVERAGE | CONTRIBUTORY | SPENDING % OF GDP WORKING AGE | MAXIMUM UB AMOUNT (PREVIOUS AVERAGE OR BEST WAGES)          | MAXIMUM UB DURATION                    | JOB SEARCH CONDITIONS |
|---------------------|---------------|------------------|-----------------------------------|----------------|-------------------------------------|--------------|-------------------------------|-------------------------------------------------------------|----------------------------------------|-----------------------|
| Argentina           | x             | x                |                                   | x              | 10.8                                | x            | 0.5                           | 50%                                                         | Up to 12 months                        | Yes                   |
| Bahamas             |               | x                |                                   |                | 26.9                                | x            | 0.4                           | 50%                                                         | Up to 13 weeks                         | Yes                   |
| Barbados            | x             | x                |                                   | x              | 88*                                 | x            | 2.5                           | 60%                                                         | Up to 26 weeks                         |                       |
| Belize              | x             |                  |                                   |                | 0.0                                 | x            | 0.5                           | Lump sum                                                    |                                        |                       |
| Bolivia             | x             |                  |                                   | x              | 0.0                                 | x            | 0.2                           | Lump sum                                                    |                                        |                       |
| Brazil              | x             | x                | x                                 |                | 17.6                                | x            | 4.0                           | Sliding scale up to 80%                                     | Up to 5 months                         |                       |
| Chile               | x             | x                | x                                 | x              | 27.0                                | x            | 2.2                           | Flat rate (UB)<br>Depreciating scale starting at 70% (UISA) | Up to 360 days (UB) 3-13 Months (UISA) | Yes                   |
| Colombia            | x             |                  | x                                 |                | 4.6*                                | x            | 0.2                           | Lump Sum/Flat rate                                          | Up to 6 months                         | Yes                   |
| Costa Rica          | x             |                  |                                   | x              | n/a                                 | x            | 0.1                           | Lump sum                                                    |                                        |                       |
| Dominican Rep.      | x             |                  | x                                 |                | 0.0                                 | x            | 0.8                           | Lump sum                                                    |                                        |                       |
| Ecuador             |               |                  | x                                 | x              | 4.7                                 | x            | 0.5                           | 70%                                                         | Up to 5 months                         |                       |
| El Salvador         | x             |                  |                                   |                | 0.0                                 | x            | 2.9                           | Lump sum                                                    |                                        |                       |
| Guatemala           |               |                  |                                   |                | 0.0                                 | x            | 0.2                           | Lump sum                                                    |                                        |                       |
| Guyana              |               |                  |                                   |                | 0.0                                 | x            | 0.2                           | Lump sum                                                    |                                        |                       |
| Haiti               |               |                  |                                   | x              | 0.0                                 |              | 0.1                           |                                                             |                                        |                       |
| Honduras            | x             |                  | x                                 |                | n/a                                 | x            | 0.3                           | Lump sum                                                    |                                        |                       |
| Jamaica             | x             |                  |                                   | x              | 0.0                                 | x            | 0.4                           | Lump sum                                                    |                                        |                       |
| Mexico              | x             |                  |                                   | x              | 6.0                                 | x            | 1.0                           | Lump sum                                                    |                                        |                       |
| Nicaragua           | x             |                  | x                                 | x              | 0.0                                 | x            | 2.5                           | Lump sum                                                    |                                        |                       |
| Panama              |               |                  | x                                 | x              | n/a                                 | x            | 1.0                           | Lump sum                                                    |                                        |                       |
| Paraguay            | x             |                  | x                                 | x              | 0.0                                 | x            | 0.2                           | Lump sum                                                    |                                        |                       |
| Peru                | x             |                  | x                                 |                | n/a                                 | x            | 0.2                           |                                                             |                                        |                       |
| Puerto Rico         | n/a           | n/a              | n/a                               | n/a            | 6.2                                 |              | n/a                           |                                                             |                                        |                       |
| Suriname            | x             |                  |                                   |                | n/a                                 | x            | n/a                           | Lump sum                                                    |                                        |                       |
| Trinidad & Tobago   | x             |                  |                                   | x              | 0.0                                 | x            | 0.9                           | Lump sum                                                    |                                        |                       |
| Uruguay             | x             | x                |                                   | x              | 31.6                                | x            | 1.2                           | Depreciating scale up to 66%/40%                            | Up to 2 years                          |                       |
| Venezuela,          | x             | x                |                                   |                | n/a                                 |              | n/a                           | 60%                                                         | Up to 5 months                         |                       |
| LAC                 |               |                  |                                   |                | 12.5                                |              | 2.6**                         |                                                             |                                        |                       |
| World               |               |                  |                                   |                | 18.6                                |              | 3.6                           |                                                             |                                        |                       |
| Upper Middle Income |               |                  |                                   |                | 17.5                                |              |                               |                                                             |                                        |                       |

Source: (ILO, 2021b) or (Alaimo et al., 2015)

\*Data is from earlier WSP data or Alaimo, whichever is later. \*\* Americas, not LAC

## 4 How effective are ALMPs?

### 4.1 Measurement issues in understanding ALMP Effectiveness

Studies of ALMP effectiveness face a number of important challenges:

- Coping with **deadweight** (outcomes that would have happened anyway without an intervention), **substitution** (where jobseekers simply accept one job as a result of program participation when they would otherwise have taken a different one, or where employers recruit a program participant as opposed to a different candidate) and **displacement** effects (where benefits to program participants imply negative or lost outcomes for other non-participants). If these possible negative impacts are equal to or dominate beneficial impacts on participants there may be no overall wider positive benefits from ALMPs; i.e. employment rates (and knock on fiscal impacts from taxation and reduced social spending) may be no higher than they would otherwise have been and the costs of the program will mean that net effects are negative. Therefore, caution is needed in interpreting the results of evaluations to ensure that these effects have been factored into the overall conclusions.
- Understanding the effects of **time** and **attribution**. All evaluations face the essential problem that the outcomes from programs may evolve and expand over time but as this occurs the problem of attributing those outcomes to program participation (as opposed to a range of other influences) becomes more complex. Added to this, the time spent in program participation may also have an influence, and this may vary for different programs and types of program. To exemplify this some types of ALMP involve relatively inexpensive and short duration participation (e.g. intermediation) and therefore result in more rapid outcomes. On the other hand, some ALMPs (e.g. training) may involve more substantial duration and costs but it is reasonable to expect that the outcomes may be more considerable over a longer period (e.g. a jobseeker will access better quality work as a result of their improved skills). The measurement period applied to these programs might impact on their perceived effectiveness (and cost effectiveness). One part of this is the so-called 'lock-in' period of training which is the period the program participant is engaged in the training rather than looking for work. Theoretically it might also be anticipated that lock-in effects might persist after participation as a matching to a higher quality job with enhanced skills may also take longer than searching for any or lower skilled work where fine-grained matching is less important.

Prominent meta-studies and systematic reviews select studies which take into account these issues providing longer-term outcome measurement or comparison over time and involving methods that can estimate deadweight etc. This and the fact that they summarize findings from a very large number of studies make these important resources for policymakers.



However, systematic reviews and meta-studies also have some weaknesses. One is that they compare types of ALMPs as if all programs within that type are the same. With such high-level categorization it is often not possible to identify variation in design features that might generate program impacts. As such they may report ‘mixed’ results for an overall ALMP category but also that some programs in that category with are extremely effective. As Yeyati et al. (2019), paraphrasing an earlier critique put it:

*“A review that does not consider this variability could draw conclusions of the type ‘wage subsidies work’ or ‘vocational training does not work,’ statements as imprecise as ‘the ingestion of chemical components works.’”*

A further challenge is that in screening out a large number of studies, they may also miss important contextual information about how and why particular types of program work, including the ways that they work for specific groups of jobseekers. As such, the discussion below first summarizes the findings from reviews and meta-studies before offering further clarification about program type and participant groups, based on a wider range of studies.

## 4.2 Evidence from Reviews and Meta-Studies

Prominent systematic reviews and meta-syntheses reach different conclusions on the general effectiveness of ALMPs. Overall, the evidence is mixed but with a tendency to suggest that ALMPs have a small positive effect on aggregate standardized outcomes, which are usually based on the probability of being in formal employment after a fixed duration from commencing the program, though some evaluations measure different types of outcome including wages or employment quality.

Intermediation services, usually delivered by PES, are generally considered to have small and cost-effective positive effect. For example, for a limited sample Yeyati provides cost estimates showing that these services generally cost \$277USD (2010) per jobseeker, compared to \$1,500-1,700USD for more substantive ALMPs such as training. Training has a smaller positive or even negative effect in the short-term (due to lock-in effects), but this tends to turn more positive over a longer timeframe. Estimates range from 2% to more than 20% increased outcomes compared to control groups. Employment creation programs have more mixed results. In some studies wage subsidies and business start-up programs show substantial positive benefits of 15% or more but in others show no benefit. In sum, some studies suggest that all types of ALMP **can be effective**, but they can also have insignificant or negative effects. The general conclusion is once again that **design, participant selection and context matter** (Yeyati et al., 2019).

**TABLE 5 NARRATIVE SUMMARY OF FINDINGS FROM  
PROMINENT REVIEWS AND META-STUDIES**

| REVIEW                           | NO OF STUDIES INCLUDED / METHOD                                                                                                                                                                                                            | FOCUS                                                                                                                                                                                                                                                                                                                                                                                            | CONCLUSIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Heckman et al. (1999)</b>     |                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                  | - No clear pattern about the effectiveness of ALMPs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Martin &amp; Grubb (2001)</b> | OECD database of ALMP evaluations, narrative review.                                                                                                                                                                                       | Commentary on employment effects for participants and macro-effects on unemployment and employment generally. Considers PES performance management and competition as reforms that can improve effectiveness.                                                                                                                                                                                    | <ul style="list-style-type: none"> <li>- Measured rates of ALMP effectiveness overall are low;</li> <li>- ALMPs can work for some groups: they are less effective for young people;</li> <li>- Job search assistance, wage subsidies and training programs can be effective;</li> <li>- Integration of Passive and Active services increases effectiveness;</li> <li>- Displacement effects are less severe over the medium- to long-term.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Kluve (2010)</b>              | 137 evaluation evaluations in 96 papers, based on 19 European countries, from the 1970s to 2000s.                                                                                                                                          | Effectiveness of four different types of ALMP on employment for participants with interaction with labor market context.                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>- Positive effects reported by 55% of studies against 21% of studies;</li> <li>- ALMPs have a small positive effect on participants;</li> <li>- 'Services and sanctions' (intermediation services) most effective;</li> <li>- Training has moderate likelihood of effectiveness;</li> <li>- Public Sector job creation least effective;</li> <li>- Positive effects more likely in conditions of high unemployment;</li> <li>- Positive effects are less likely in conditions of strict dismissal legislation.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Card (2010, 2018)</b>         | 97 studies conducted between 1995 and 2007, identified in a survey of relevant researchers. Later paper updates based on a combined total of 207 ALMP studies including 857 programs. These include 350 estimates of impact on employment. | Comparison of different types of ALMP (training vs job search assistance) and participant groups (younger/older participants) and at different points in the economic cycle on the employment rate of participants compared to some form of control group. These are considered at up to three time points, where this is possible (approximately 1, 2 and 3 years after program participation). | <ul style="list-style-type: none"> <li>- ALMPs in general have a very small effect in the short run but this is more positive over a longer timeframe;</li> <li>- Among the 415 short term estimates possible, 40% are significantly positive and 18% are significantly negative;</li> <li>- Among the 301 estimates of medium-term impact, 52% are significantly positive and 8% are significantly negative;</li> <li>- Among the 141 estimations of longer-term impact, 61% are significantly positive and 4% are significantly negative;</li> <li>- Some of ALMP effect on unemployment is from labor market withdrawal;</li> <li>- Job search assistance (Intermediation) has a small but stable impact across time, but training effects turn positive after 2-3 years;</li> <li>- Public sector job creation is least effective;</li> <li>- There are larger positive effects for women and longer-term unemployed;</li> <li>- Effects are smaller for younger and older workers;</li> <li>- Effect is more positive in conditions of high unemployment;</li> <li>- Training is more effective for long-term unemployed than job search assistance.</li> </ul> |

| REVIEW                                     | NO OF STUDIES INCLUDED / METHOD                                                                                                                                                                                  | FOCUS                                                                                                                                                                                                                                | CONCLUSIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Filges et al. (2015, 2018)</b>          | 73 studies reported in 143 papers, and 15 countries, via Cochrane compatible systematic review.                                                                                                                  | Consideration of effects on participants and some macro-effects, though consideration of impact and size of impact is based on a far smaller sub-sample.                                                                             | <ul style="list-style-type: none"> <li>- ALMPs may have small positive effect on participants likelihood of finding work but it was not possible to assess indirect effects;</li> <li>- ALMPs may have a very small effect on unemployment generally;</li> <li>- ALMP effects do not vary by ALMP type or point of participation.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Crépon &amp; Van Den Berg (2016)</b>    | Narrative Synthesis of literature from multiple countries                                                                                                                                                        | Focus on reviewing main lessons on effectiveness of different types of ALMPs, distinguishing between matching and productivity enhancing mechanisms.                                                                                 | <ul style="list-style-type: none"> <li>- ALMP effects are small overall;</li> <li>- Job search assistance is more effective than other ALMPs;</li> <li>- Many studies, especially cross-country, are weak and do not capture design effects of different types of ALMP;</li> <li>- Even where ALMPs do appear effective they may not be cost effective.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Mckenzie (2017)</b>                     | Narrative synthesis and meta-synthesis of empirical findings from studies in developing countries focused on training (n=12, from 8 countries), wage subsidies (n=3) and intermediation (n=9, from 7 countries). | Focus on reviewing the effects on several types of outcomes, including program attrition, employment and where possible earnings and incorporating costs.                                                                            | <ul style="list-style-type: none"> <li>- ALMP effects are small overall;</li> <li>- Training may have small positive effects on employment and earnings but the costs are substantial and, in most cases, outweigh earnings gains. There are also significant attrition rates;</li> <li>- Wage subsidies suffer from low levels of take up and even when they provide some short-term benefit this is not sustained beyond the subsidy period. Wage subsidies may though be effective in specific labor market conditions, such as in a downturn where they might support sustained employment and more rapid post-recession recovery;</li> <li>- Intermediation may have a small positive effect but this is not always sustained over time or cost effective, despite much lower costs.</li> </ul> |
| <b>Vooren et al. (2019)</b>                | 57 studies between 1990-2017 which provide 654 estimates of ALMP effectiveness.                                                                                                                                  | Focuses on employment effects on participants. Includes consideration of time horizons (6, 12, 24, 36 months from program start). Considers socio-economic conditions for participation and consideration of different program types | <ul style="list-style-type: none"> <li>- ALMPs overall are positive;</li> <li>- job search assistance starts positive and remain so over a longer-time;</li> <li>- Public employment and subsidized jobs have short-term lock-in effects but turn positive in the medium term;</li> <li>- Subsidized jobs with on-the-job training are the most effective in the medium term;</li> <li>- Training has a positive effect, with no short-term negative effects, but this is not statistically significant.</li> </ul>                                                                                                                                                                                                                                                                                  |
| <b>Yeyati, Montane and Sartorio (2019)</b> | 73 studies including 102 RCTs and 652 estimates.                                                                                                                                                                 | Employment and earnings with comparison by program type (vocational training, wage subsidies, enterprise support, job search assistance), participants and economic context.                                                         | <ul style="list-style-type: none"> <li>- ALMPs overall are positive;</li> <li>- Wage subsidies and vocational training are most positive;</li> <li>- Intermediation services show insignificant positive results;</li> <li>- Where costs are available, intermediation services cost less than a tenth of the cost of the interventions measured.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                         |



## How Effective are Active Labour Market Policies and Public Employment Services? Lessons for Latin America and the Caribbean



| REVIEW                                               | NO OF STUDIES INCLUDED / METHOD                                                                                                                                                                                                                               | FOCUS                                                                                                                                                                                                                                                                                                                  | CONCLUSIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Escudero et al., (2019)</b>                       | 51 studies, evaluating 53 programs and 296 impact estimates in 12 LAC countries.                                                                                                                                                                              | Focuses on training (more than 75% of the sample), intermediation and private sector incentives, with the outcomes being employment (inc. formal) and earnings (and for some studies hours worked). Considers age, gender and disadvantage and some socio-economic context variables. Also considers program duration. | <ul style="list-style-type: none"><li>- For short-run estimations, the largest number of studies included show significant positive effects (54%), 42% show insignificant effects and 4% show significant negative effects;</li><li>- For medium term estimations the largest number (50%) show insignificant effects, 49% show significant positive effects and 1% show significant negative effects;</li><li>- Training programs and private sector incentives are more effective and public works programs are least effective.</li></ul>                                                                                         |
| <b>Kluve et al. (2019)</b>                           | Systematic review and meta-analysis covering 113 studies of 107 different youth employment programs in 87 separate ALMPs, producing 3105 treatment estimations.                                                                                               | Focuses on programs for youth including training, entrepreneurship, intermediation and employment incentives. Outcome variables include employment, earnings or business performance.                                                                                                                                  | <ul style="list-style-type: none"><li>- ALMPs are more successful for young people in low- and middle-income countries;</li><li>- ALMPs focusing on youth with multiple components are more likely to be effective, including combining training with profiling and individual follow-up;</li><li>- Positive impacts are more evident over longer durations.</li></ul>                                                                                                                                                                                                                                                               |
| <b>ILO and World Bank 2022 (updates Kluve 2019).</b> | Systematic review and meta-analysis of 248 studies covering 171 ALMPs in 62 countries, all focused on young people (aged 15-25).                                                                                                                              | Focuses on programs for young people, including skills training, enterprise support, intermediation and subsidized employment. Includes a focus on multiple outcomes including employment and earnings and differentiates between high and low/middle income countries.                                                | <ul style="list-style-type: none"><li>- Outcomes are positive on employment and earnings in both high and low/middle income countries, though they are more significant in the latter.</li><li>- Positive impacts are larger for younger and vulnerable groups in low and middle income countries.</li><li>- Entrepreneurship are most effective, followed by training, Subsidized employment and PES intermediation.</li><li>- Combining ALMP types can often increase effectiveness.</li><li>- Designing programs to fit local contexts is effective,</li><li>- The majority of studies show that benefits exceed costs.</li></ul> |
| <b>Carranza and Mckenzie 2024</b>                    | Narrative review plus meta-synthesis of a limited number of additional studies in relation to training (n=7), skills signaling and mobility interventions (n=5) and online job platforms (n=5). All studies are focused on countries in Asia, Africa and LAC. | On job training, intermediation and online job platforms on employment and, in some cases, earnings.                                                                                                                                                                                                                   | <ul style="list-style-type: none"><li>- The majority of studies on (5/7) show small positive impacts for training, but this may still be relatively costly;</li><li>- The majority of studies show small positive effects for subsidized job search (6-7/8), but the effects may be short-lived;</li><li>- The majority of studies (6/8) showed encouraged use of online job portals to have a negative effect.</li></ul>                                                                                                                                                                                                            |

**TABLE 6** SELECTED IMPACT ESTIMATES FOR ALMPS FROM  
PROMINENT SYSTEMATIC REVIEWS AND META-SYNTHESSES

| STUDY                                | PES INTERMEDIATION                                                                                                                                                                                                                                                                                                                                             | TRAINING                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | OTHER (TYPE)                                                                                                                      |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Mckenzie, 2017</b>                | Range from -1.2-+6.8 percentage points (ppts) on employment but this is at high costs, high attrition & without clear understanding of displacement effects.                                                                                                                                                                                                   | Range from -1.4-+8 ppts on employment, including formal employment, but this is at high costs, high attrition & without clear understanding of displacement effects.                                                                                                                                                                                                                                                                                                                          | Range from +1.2-+38.4 ppts, before accounting for take-up & costs & impacts were not sustained beyond the subsidy (wage subsidy). |
| <b>Card et al., 2018</b>             | Range from +1.1-2.0 ppts                                                                                                                                                                                                                                                                                                                                       | Range from +2.0-6.7 ppts                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Range from +1.1-21.1 ppts (private employment subsidy)                                                                            |
| <b>Filges et al., 2018</b>           | Up to 9% increase in chances of employment relative to control group, & 7% difference in employment overall (rounding up, for every 15 people treated, 1 year later an extra person would be employed).                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                   |
| <b>Vooren et al., 2019</b>           | Coefficients are approx. +0.07 (+0.09 for employment) after 12 months controlling for country context.                                                                                                                                                                                                                                                         | Coefficient is 0.07 for employment after 12 months, without controlling for country context.                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                   |
| <b>Yeyati et al., 2019</b>           | +2.6% on employment outcomes.                                                                                                                                                                                                                                                                                                                                  | +7.7% on earnings.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | +16.7% on earnings/ (wage subsidies)<br>+16.5% on earnings (start-up assistance).                                                 |
| <b>Escudero et al. (2019)**</b>      | All ALMPs: Coefficients for the chances of showing a significant positive outcome range from +0.22-0.25 on formal employment, depending on what control variables are included & +0.23-0.27 on employment. Mainly positive but not significant, depending on which control variables are included.                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                   |
|                                      | Mainly +ve but not significant, depending on which control variables are included.                                                                                                                                                                                                                                                                             | All +ve but not significant, depending on what control variables are included. However, when decomposed for duration, most estimates are negative, especially in shorter-run estimations (less than 9 months). When those with unknown durations are added, training has a coefficient for the chances of a significant positive outcome of between +0.27-0.35 effect on formal employment, +0.33 effect on employment & +0.24-0.31 effect on earnings, depending on control variables added. |                                                                                                                                   |
| <b>ILO and World Bank 2022</b>       | Effect sizes are shown in positive or negative Standardized Mean Differences, a positive number indicating a positive effect relative to a comparison group. Overall ALMPs for young people are positive at 0.08SMD, regarded as a borderline medium size effect overall, but rising to 0.10SMD for middle income countries and 0.09 for low income countries. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                   |
|                                      | 0.04SMD                                                                                                                                                                                                                                                                                                                                                        | 0.08SMD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Entrepreneurship promotion: 0.15SMD<br>Subsidized employment 0.05SMD                                                              |
| <b>Carranza &amp; McKenzie, 2024</b> | Small positive impact but this is not sustained.                                                                                                                                                                                                                                                                                                               | - Average employment effect of training is c+2% (large government schemes).                                                                                                                                                                                                                                                                                                                                                                                                                   | Negative effects (online job portals).                                                                                            |

\* Mainly exit to employment but some also include earnings or, for LAC, formality. \*\* LAC only.

## 4.3 Evidence from developing countries and Latin America

Despite earlier evidence gaps, there is now a growing body of work which focusses on developing and middle-income countries and on the Latin American and Caribbean region (Acevedo et al., 2017; Alzúa et al., 2016; Attanasio et al., 2015, 2017; Diaz & Rosas, 2016; Ibarra et al., 2014; Ibarra & Rosas Shady, 2009; Kluve et al., 2015, Escudero, Kluve et al. 2019; ILO and World Bank, 2022).

McKenzie (2017) provides a review of ALMPs in developing countries and reaches generally negative conclusions. The studies he reviews, however, demonstrate mixed results overall but virtually all of them find some form of positive impact from ALMPs on employment, formal employment or wages. A later review (Carranza & McKenzie, 2024) incorporating a small number of additional studies is slightly more positive but still questions the overall effectiveness of supply-side ALMPs. A review of 106 studies on ALMPs in the Pacific and East Asia region (Nino Zarazua & Torm, 2022), finds overall evidence for the effectiveness of ALMPs but that they often require careful coordination with passive measures. The authors conclude that adjustment to (rapid) technological change requires a combination of basic income protection and targeted training provision. A recent ILO and World Bank (2022) systematic review with meta-analysis reports that ALMPs of all types are effective for young people (across wages and employment) and that positive effects are large in low and middle income countries.

Several recent papers have extended the approach taken in now classic reviews of ALMPs cited above to summarize the evidence on ALMPs in the LAC region. One meta-review summarizes 44 previous studies (the majority are based on Peru, but Argentina, Chile, and Colombia are well represented, among others) (Kluve & Rani, 2016) and another reviews 51 studies (Escudero, Kluve, et al., 2019). The majority of the ALMPs reviewed are training interventions and typically targeted at disadvantaged youth. Ibarra & Rosas (2009) review a suite of programs focused on youth with similar design characteristics (demand led classroom training followed by a work experience placement), finding that these were broadly positive effects ranging between 6-21% for employment and 10-35% for earnings.

Overall, the reviews suggest a small positive effect on employment from ALMP participation in LAC. Participation in ALMPs is associated with increased chances of formal job entry (though not necessarily increasing income) ranging from 22%-25% effect on formal employment for participants compared to control groups overall. For training, estimates differ in significance and sign (positive/negative) but are generally positive (with some estimates suggesting +24%-35% depending on the labor market outcome measured and control variables included). Some uncertainty arises in the results when training duration and type are compared. A potential explanation is that the training component in these programs is often too insubstantial to effect a major change in employability (especially when multiple interventions are combined). (Escudero, Kluve, et al., 2019). These studies tend to suggest that ALMPs are more effective for women than men and for youths than prime-age workers (Escudero et al., 2019; Espejo et al., 2023; Ibarra & Rosas Shady, 2009; Kluve & Rani, 2016, ILO and World Bank, 2022). More

recent research has suggested that some youth-oriented programs have increasing positive effects, especially in contexts where there is sufficient growth to absorb youth labor which has received modest skill investments, but not in more challenging economic contexts (Ibarrarán et al., 2019) and that they may reduce informality over the longer-term, as well as realizing significant short-term positive employment outcomes (Attanasio et al., 2017; Kugler et al., 2015).

Research on PES and intermediation services in LAC is sparse. However, that which does exist tends to suggest they can be generally effective (Espejo et al., 2023). Women and less educated jobseekers tend to receive the most significant effects and results are positive for employment, salaries and formality (Espejo et al., 2023; Novella & Valencia, 2022; O’Leary et al., 2021).

Overall, the results suggest that ALMPs can be effective in the LAC region and might be more effective if greater investment in human capital were built into program design and if they aimed to increase formality by targeting informal workers and focused on skills development relevant to the formal sector (Escudero, Kluve, et al., 2019b). Overall, studies focusing on LAC tend to echo themes in the wider literature; that ALMPs can be effective, especially for participants but consideration of wider employment effects is important and much depends on program design, resources and fit with context.

## 4.4 Evidence from Cross-Country Studies

In addition to reviews and syntheses of ALMP studies and evaluations, there is a smaller collection of research which draws on cross-country datasets to assess the effectiveness of ALMPs (see Table 6). For example, a report by Martin (2015) draws on OECD databases to review 13 multi-country macro-economic reviews of ALMPs. He concludes that ALMPs can work, including in challenging economic conditions, but that much depends on program design, participant selection and interactions between programs.

The evidence from macro-economic studies is mixed. Murtin and colleagues (Murtin & De Serres, 2014; Murtin & Robin, 2018) find evidence that investment in ALMPs have a positive effect on reducing unemployment but the data is quite old and focused only on a limited selection of OECD countries. Pignatti and Belle (2020) report that, in general, spending on ALMPs reduces the unemployment rate and increases employment and labor force participation and that there are positive interactions between spending on active and passive policies; i.e. in general these are mutually supportive and create additional positive outcomes, rather than alternative and competing investments. However, these results are less positive in developing countries where spending on ALMPs alone has a detrimental impact on employment and labor force participation but there is evidence that increased spending in both ALMPs and passive policies, beyond a (very high) threshold level, would result in positive outcomes. Ulku and Georgiva (Ulku & Georgieva, 2022) report extremely mixed impacts of ALMP on aggregate macro-economic outcomes. They suggest that some ALMPs have positive effects on productivity in low and lower-middle income countries and that they have a positive effect on employment rates in agriculture, but not in industry or services.

## 4.5 ALMPs in changing labor market contexts

A further point of learning that has emerged from evaluations and meta-reviews relates to how ALMPs relate to differing labor market contexts. On the one hand, program participation has more chance of helping people into work when labor demand is growing. However, recent studies (Card et al., 2018; Eichhorst & Konle-Seidl, 2016) suggest that ALMPs may also work in recessions.

It is worth reflecting on the likely (theory-based) explanations for these findings. In an expansionary labor market, ALMPs may help people find an opportunity in a growing number of jobs. During this period, ALMPs on the supply side may be more effective. To do so they may need to help jobseekers overcome ‘barriers’ to labor market participation such as motivation, health, behavioral or basic skills problems. In these conditions they may need to help participants cope with non-labor market issues in their wider lives (e.g. child or other care responsibilities, health problems etc.) as well as building soft skills and attributes (e.g. ‘employability skills’ (Nunn et al., 2009)). In a contracting labor market, the balance may be more toward demand-side ALMPs to promote job creation. In these contexts supply-side ALMPs may also work differently; helping unemployed workers to avoid skills atrophy (and ‘scarring’ (Arulampalam, 2001; Egdell & Beck, 2020; Knabe & Rätzl, 2011)), build new skills likely to be in demand when creative destruction leads to structural change or promote spatial mobility (Carranza & McKenzie, 2024).

## 4.6 Summary conclusions

Despite apparently ‘mixed’ results, the consistent message that arises from evidence reviews and meta studies is that **some ALMPs do work for some participants in some contexts**. The empirical evidence is complex and nuanced but does broadly follow the theory: whether ALMPs work effectively is a matter of design, participant selection and their fit with the relevant socio-economic context. As such, the key policy question **is not, ‘are ALMPs effective?’ but, ‘how can ALMPs be designed to meet the needs of specific groups of participants and how might this be impacted by context?’** The next section addresses this more complex set of issues.



**TABLE 7 NARRATIVE SUMMARY OF FINDINGS FROM CROSS COUNTRY STUDIES**

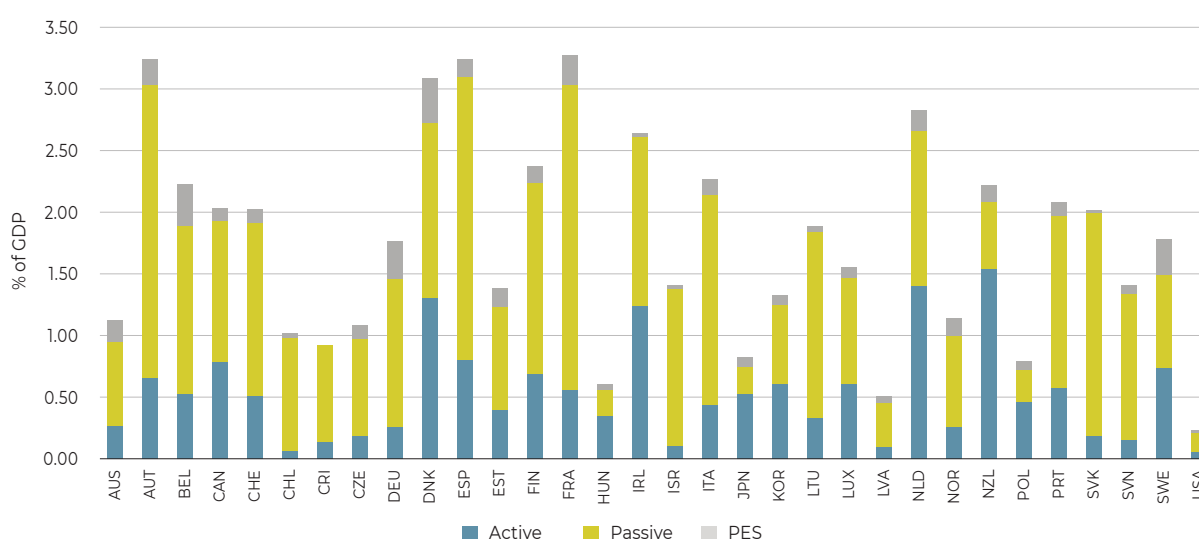
| REVIEW                           | NO OF STUDIES INCLUDED / METHOD                                                                                                                  | FOCUS                                                                                                                                                                                                                                                                                 | CONCLUSIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Martin (2015)</b>             | Reviews existing micro-economic reviews plus 13 macro-economic studies and a narrative review of OECD research in 7 OECD countries, post-crisis. | Focus on macroeconomic effects of ALMPs from cross-country data.                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>- 9 of the 13 Macro-economic studies conclude that ALMPs reduce unemployment, but there are some qualifications to these findings;</li> <li>- ALMPs can have a positive impact, but this is small once displacement and deadweight are accounted for;</li> <li>- ALMPs composition and the scale of investment are important in realizing positive outcomes;</li> <li>- Where unemployment insurance/benefits are generous, activity monitoring is important.</li> <li>- ALMPs need to interact positively with other services, especially passive labor market programs;</li> <li>- ALMPs can be effective in times of economic downturn and evidence offers some support for the argument that the lock in costs of training is less significant during a recession.</li> </ul>                                                                                                                                                                                                                             |
| <b>Pignatti and Belle (2020)</b> | Collates data on spending on passive and active labor market policy in 36 developed, 64 emerging and 21 developing countries                     | The focus is on unemployment, employment and labor force participation as outcome variables and spending as inputs, including their inter-linkage.                                                                                                                                    | <ul style="list-style-type: none"> <li>- ALMP spending is positively associated in general with unemployment, employment and labor force participation;</li> <li>- ALMP spending alone has opposite effects in developing countries;</li> <li>- Spending on passive policies can have negative impacts on these outcomes in the absence of active spending;</li> <li>- Combining ALMP and passive spending beyond a very significant threshold level (met by few countries, even in the OECD) can have positive outcomes in developing countries.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Uku and Giorgieva (2022)</b>  | 191 countries – survey sample of employment policies and programs matched to macro-economic data on employment, unemployment and productivity    | Focus is on relationship between different forms of labor market policy, including forms of ALMP (training and counselling) and outcome variables which include employment, unemployment and productivity growth. Results are broken down for country income groups and world region. | <ul style="list-style-type: none"> <li>- Passive policies have a negative effect on employment and increase unemployment;</li> <li>- Counselling (intermediation) has a positive effect on employment in agriculture but the effect is negative in services and industry;</li> <li>- Training positively effects the employment rate in industry but has the opposite effect in services and self-employment;</li> <li>- Counselling and training both have a significant positive effect on employment in agriculture in lower and lower-middle income countries;</li> <li>- Counselling has a negative impact on employment in services and industry in low and lower middle-income countries;</li> <li>- However, training, internships and mobility support all have a positive impact on productivity in low and lower-middle income countries;</li> <li>- Effects of ALMPs on upper-middle income countries are less positive, though there is some evidence that skills investments have a positive effect on productivity growth.</li> </ul> |

# 5 What Works in Public Employment Services and Active Labor Market Policies?

## 5.1 Integrating Active and Passive Policies

Active services and passive transfers have different objectives (see Section 2.2) and spending on active and passive services varies widely across countries (see Figure 3), as does the balance between different types of active measures and between active and passive spending more generally. In OECD countries, passive spending tends to outweigh active spending. In LAC, spending on PES is lower than for many other regions (Escudero, Asenjo, et al., 2019, Espejo et al., 2023). Measuring spending on these policies must be set against their counter-cyclical nature; spending on both passive and active services will increase during periods of unemployment growth because they are taken up in the main by people who are unemployed. Data on these services is also often of poor quality because active spending is often split between multiple agencies and levels of government. Data on active and passive spending in some countries is available from the OECD and for some other countries from the World Bank ASPIRE database, but these two sources are not consistent.

**FIGURE 3** LABOR MARKET SPENDING IN OECD COUNTRIES, % OF GDP (2021\*)



Source: OECD (2024), Public spending on labor markets (indicator). doi: 10.1787/911b8753-en (Accessed on 18 January 2024)

\*2021 or latest year available after 2019. Mexico removed due to lack of data.

While it can be tempting to see active and passive spending as alternatives, the evidence suggests that these services work best in combination (Asenjo et al., 2024; Escudero, Kluve, et al., 2019; Pignatti & Belle, 2020). This is especially the case in developing and emerging economies where the poorest households often combine income from cash transfer programs and informal work, making it particularly important to support the jobseeker who will often not be able to devote all of their efforts to job searching.

While there are concerns that transfers themselves can reduce work motivation by reducing the economic incentive for job search and employment (therefore extending unemployment duration), these are mainly concerns in generous welfare systems (Asenjo et al., 2024). In developing or emerging economies there are very strong employment incentives. Rather than extending unemployment, transfer payments can be effective in helping poorer households to avoid dropping into poorly paid, low productivity informal work or making sub-optimal household social reproduction decisions ((Farrall et al., 2022; Nunn & Tepe-Belfrage, 2019) such as encouraging children to leave school early to take up paid employment. That said, low payment rates and weaknesses in other services (e.g. employment regulation enforcement and completion of formal schooling) often mean that poorer households are forced to combine income from informal work with cash transfers to survive. In these circumstances, passive transfers are a necessary but not sufficient solution to the problem of high levels of poverty, inequality and informality. Without active services designed to offer a bridge to higher productivity formal employment, cash transfers may subsidize low-paid, low-skilled, low-productivity work.

Asenjo et al. (2024; 2019) and ILO (2016) provide an overview of a variety of schemes that combine cash transfers and ALMPs as a matter of design in developing and middle-income contexts. They show that by working in combination, cash transfers can help beneficiaries to stay in training or other support (e.g. self-employment support) programs long enough to gain benefits from participation (Asenjo et al., 2024). However, this is not a foregone conclusion. There are elements of design that appear to matter in making positive outcomes more likely. These include conditions of participation and selection mechanisms, levels of cash transfer (to enable participants to sustain participation), that the active element of the program is well suited to the needs and capacities of participants (e.g. training matches prior skills/knowledge or self-employment support for people with some existing business skills) and that there is sufficient institutional capacity to ensure take-up, compliance and effective integration in the implementation of programs. This is in addition to what we know about the design and implementation aspects of ALMPs separately (e.g. what works in intermediation, training etc.). In addition, effective outcome monitoring is likely to be necessary to offer formative and ongoing evaluation so that programs can be iteratively adjusted to ensure effectiveness.

## 5.2 PES profiling

In the last two decades PES have increasingly adopted methods of profiling jobseekers to help to allocate them to particular services thought to be matched to their specific needs, including self-help. There are a variety of approaches to profiling. These include statistical methods which estimate the likelihood of jobseekers finding work within specific timeframes based on their characteristics and history; rules-based methods which allocate jobseekers to particular types of treatment groups based on their characteristics, soft profiling which might be based on a mix of statistical or psychological tools as well as case worker discretion and pure case-worker profiling based on the professional judgment of PES staff (Desiere et al., 2019). Many PES use a combination of these methods and many have also shifted approach between these categories over time (Barnes et al., 2015). Typical variables used in profiling include socio-economic status, motivation, job readiness (e.g. skills proxies), context (e.g. labor market demand indicators). Some PES have even experimented with very complex and rigid forms of profiling associated with allocation to private providers and the operation of performance incentives and conditionalities, though these approaches have been marked by problems and criticism (Casey, 2022; Desiere & Struyven, 2021; McGann et al., 2022; O'Sullivan et al., 2019; Wright et al., 2020).

There is no strong evidence on whether profiling is generally effective or not. There are concerns that profiling can sometimes lead to systematized 'creaming' and 'parking'<sup>10</sup> of jobseekers and reductions in public spending (Casey, 2022; Considine et al., 2022) where combined with other measures such as payment for results or public spending cuts. However, in principle profiling may even counteract these tendencies where it is well designed and operated with scope for human intervention and over-ride.

## 5.3 PES Intermediation Services for Jobseekers

Intermediation services are generally regarded as both effective and cost-efficient compared to other forms of ALMP (Cheung et al., 2019; Maiborn et al., 2017; Manoli & Patel, 2019; Manoli et al., 2018), though these services can work alongside to support more intensive ALMPs (e.g. training, work experience or recruitment incentives) rather than being alternatives to them (Fredriksson, 2020, 2021).

There are several aspects of intermediation services that stand out as effective in the literature:

- **Relatively cheap and insignificant interventions can increase effectiveness** – some studies have shown that relatively insubstantial interventions such as providing information in leaflet form at first contact with PES can have positive impacts on speed of re-employment (Altmann et al., 2018).

10. 'Creaming' here refers to the preferential selection of jobseekers who have higher chances of securing employment for interventions they may not need while 'parking' refers to the opposite tendency of ignoring those who may have lower chances of employment but benefit more from interventions. Creaming and parking are noted as unintended behavioural consequences of some forms of performance management practice, including in the delivery of intermediation services.

Even online services can be effective (Altmann et al., 2022), though face-to-face services tend to have stronger impacts.

- **Individualization** – is a marker of effective intermediation services. This refers to a range of service delivery aspects including 1-2-1 as opposed to group sessions (Cheung et al., 2019) and the scope to tailor services to the specific needs of individual jobseekers (Vikström et al., 2021), such as referral to appropriate support services (Rice, 2017) and having staff with specialist knowledge and skills which are relevant to different jobseeker groups (Dingenen & Raeymaeckers, 2022). It also includes scope for individualized relationship building between jobseekers and employment counsellors (Ravn & Bredgaard, 2021; Schiprowski, 2020). There is also literature which suggests that these factors are linked and cumulative so that having highly skilled and empathetic employment counsellors helps to ensure that referrals to external support services are well matched to need and that positive relationships are established between job seeker and counsellor (Hooley, 2014; Hooley & Rice, 2019). Evidence also suggests that positive relationship building should be a pre-cursor to helping service users take responsibility for their own career management (Wang & Jiao, 2022; Weber et al., 2018).
- **Targeting** – there is some evidence that these services may be most effective for those with barriers to labor market entry, suggesting that targeting these services on jobseekers with barriers may be most cost-effective. The use of allocation mechanisms to improve targeting and sequencing has the potential to substantially improve effectiveness (Goller et al., 2023). This might be achieved by employing jobseeker profiling; channeling people with recent work history to self-help for the initial period of unemployment and offering immediate service access to those jobseekers with markers of additional disadvantage that are derived from relevant/local labor market data.

Some factors may inhibit the effectiveness of Intermediation services (Cheung et al., 2019; Cottier et al., 2018; Gautier et al., 2018; Van Den Berg et al., 2019). The key message from this literature mainly reinforces the points above – that services are most effective where they are targeted, respond to specific needs and integrate with their wider social, political and economic context (Haapanala, 2022; Kreiner & Svarer, 2022).

There is some debate about whether monitoring and conditionality aspects of intermediation services are effective and about their unintended consequences. Some research suggests that there is a ‘threat’ effect of mandatory intermediation and other ALMP services meaning that some potential participants leave unemployment directly before being mandated to undertake these activities (Hall et al., 2022). There is also research which distinguishes between coercive and supportive ALMPs and suggests that coercive ALMPs may have the effect of increasing outflows to involuntary part-time or low-quality employment (Haapanala, 2022). The key policy question here is how to best integrate passive and active policies to gain the most out of positive interaction effects and avoid policies working against one another.

## 5.4 PES Intermediation for Employers

While historically services for employers were not well covered in effectiveness studies and evaluations (Ingold & McGurk, 2023), there is an increasing number of studies that focus on these services. For example, Algan *et al.* (Algan *et al.*, 2020) evaluated a PES intervention in France to provide employers support with advertising, promoting vacancies and selecting candidates. They find that the reduced recruitment costs experienced by employers led to a 24% increase in open-ended vacancy postings with the PES and a 10% increase in permanent job outcomes for registered jobseekers. They found that the quality of pre-screening mattered and that it was important that initial successes built confidence with employers to continue using the service.

An important pre-cursor to effective services for employers is engagement and evidence suggests that employer engagement is often a challenge for PES and ALMPs in general. Valizade *et al.* (Valizade *et al.*, 2023) show that employer engagement in forums and networks that provide linkages to PES is a strong predictor of engagement. These networks take different forms in different institutional contexts, but the crux is trust (Fernandez-Urbano & Orton, 2021) in network structures that provide these linkages. Other research finds that employers are motivated to engage by a variety of factors which include direct material benefits of faster or cheaper hiring but also more value-based commitments such as making a difference to jobseeker's lives (Bredgaard, 2018; Ingold *et al.*, 2023).

## 5.5 Training

Training programs come in an infinite number of forms. They can be relatively insubstantial in duration and intensity or last several years and occupy participants for their entire available time, they can be classroom or work-based, they can be focused on basic attributes and competencies, general and transferable skills or specific technical skills that are relevant to particular sectors, occupations or individual employers. They can be generally targeted at mass-participation or more finely targeted at participants with specific characteristics and prior skills/experience. Further, they can be high or low quality. The effectiveness of different programs will be determined by the combination of these factors. Systematic or meta-reviews are often unable to fully take into account these individual program differences.

The general consensus is that training may have short-run negative impacts because of the lock-in effect of participation, but that this turns positive after a period of time, which depends on the duration of the training itself. Some assessments suggest that the longer-term impact can be substantial (Lechner *et al.*, 2011). However, this is always dependent on design features. Several authors report that the following design and selection characteristics can be used to increase effectiveness:

- **Selection and alignment** – Some participants benefit more from some types of training. Several studies suggest that ALMP training programs may be most effective for women and long-term

unemployed jobseekers (Card et al., 2018; Crépon & Van Den Berg, 2016; Dengler, 2019) or jobseekers affected by structural economic change (Humlum et al., 2023), potentially because they may have most need for updating of skills. In the LAC region people in poverty, women and young people have been shown to benefit most from training, which may reflect similar drivers, including young people who have not completed formal schooling benefiting from training to offer skills suited to employers (Escudero, Kluve, et al., 2019; Ibararán & Rosas Shady, 2009). ‘Employability skills’ training for people who did not complete school may need to take into account the reasons for not completing schooling, such as disaffection with classroom-based learning styles (Nunn et al., 2009). Targeting is likely to increase effectiveness for other groups also. Participants without basic literacy, numeracy or digital skills will likely benefit from work-based technical skills only after these gaps have been filled. Similarly, some technical training is only likely to be effective when pre-requisites are already met (van Doorn & van Vliet, 2022). This suggests that high-quality jobseeker skills assessments are essential to ensure jobseekers are allocated to skills training programs that meet their individual requirements.

- **Participant agency** – Some research suggests that participant agency can be important in ensuring that jobseekers actively engage in training. Therefore, mandatory training may be less successful (after the initial threat effect). It may also be that supported jobseeker choice over type and nature of training within a general mandated requirement of activity is effective. Voluntary jobseeker participation may also act through another channel; influencing the perception of employers, with those who engage enthusiastically, even when having more employment disadvantage, being perceived more positively than those who need to be mandated (Fossati et al., 2021; Liechti et al., 2017).
- **Matching employer needs** – unsurprisingly, research suggests that training is most effective where skills content matches employer needs (Meager, 2008; Vooren et al., 2019). There are several ways to achieve this, but avoiding ‘broad brush’ training for all participants and focusing instead on sectoral or individual employer engagement stand out as most effective (Meager, 2008). Here, matching training with intermediation may also increase effectiveness, though the evidence is mixed on this (Escudero et al., 2019). Training and education have a signaling effect to the labor market – indicating that jobseekers who possess particular qualifications or who have completed particular training programs have general or specific skills that employers value. As such, the credibility of training programs and qualifications in the eyes of employers is crucial. Engaging employers in the design and validation of programs can be an effective way of ensuring credibility as well as the substantive alignment of content to need. Where a small-scale or targeted program is aligned with an individual employer, their engagement is important. However, engagement of employer coalitions, sectoral associations trusted by employers or sector leading employers (e.g. to mimic the effects of some in-house training and apprenticeship schemes) can also be effective (Katz et al., 2022). Employer engagement in co-producing training to meet growing areas of demand might also be married to recruitment commitments from employers themselves and it may be possible to insert additional commitments regarding priority jobseekers such as women returning from childcare breaks, migrants, disabled workers and others. Finally, training with employer engagement can support the reallocation of workers from lower to higher productivity sectors (Katz et al., 2022).

- There is some evidence that **classroom-based training may be less effective than on-the-job training** (Vooren et al., 2019).
- **Quality matters** – as with matching to employer skills needs, it is unsurprising that the literature suggests that training should be high quality (Wesseling, 2021). This includes not being too long in duration or, conversely, trying to incorporate too many elements of training (e.g. classroom, on the job and life skills) with too little time and resources allocated to each (Escudero, Kluve, et al., 2019).

## 5.6 What works in other ALMPs

There is some indicative evidence about other forms of ALMP:

- Contrary to some findings in Europe, there is evidence that **business start-up incentives** can be effective in LAC, but more so for highly educated individuals (Escudero, Kluve, et al., 2019). This supports the wider assertion that business start-up incentives are more effective where beneficiaries have prior business experience. This also fits the evidence on training that prior experience and skills are crucial to understanding the alignment of participant needs to the specific form of intervention.
- Evidence also shows that **employment or recruitment subsidies can be effective** in some circumstances, regarding employment and wages. This evidence suggest that they are more effective in private sector than in the public sector (Crépon & Van Den Berg, 2016). However, some public sector schemes have been shown to work and avoid unemployment scarring (Arulampalam, 2001) for young people, though in very specific circumstances (Department for Work and Pensions, 2012). In theory, they may be more effective when labor market problems are associated with low demand rather than matching or supply-side constraints. An important risk in employment or recruitment subsidies is the scope for employer fraud or gaming – taking subsidies for a defined period and then making workers redundant immediately after the subsidy period so that they can benefit from a further subsidy attached to another jobseeker (Robertshaw, 2017). Even in these circumstances, there may be a beneficial impact of work experience and avoiding a prolonged period of unemployment.
- **Labor mobility schemes** – may also be more effective (in theory) in circumstances where labor supply is concentrated in areas of low demand and there is unmet demand in other places, though the evidence related to schemes that specifically promote such mobility is not fully convincing (Carranza & McKenzie, 2024). While some studies do demonstrate positive effects in the short-term these often decline over time and are dependent on continued interventions (e.g. transport subsidies). Evidence from these studies suggests careful targeting is important to ensure that interventions benefit those who would not have moved anyway and to ensure that they fulfil the objective of broadening job search, awareness of viable opportunities and overcoming initial cash constraints.
- **Employer exposure** – for example some work experience and speed-dating (rapid meetings between jobseekers and hiring employers allowing rapid mutual exposure and selection) schemes can work to increase employment entries. However, care is needed about promoting some forms of tempo-



rary work as a ‘stepping stone’ to more permanent or secure employment because there are risks that jobseekers get stuck in a cycle of short-term and low-quality employment (Jones et al., 2019; Van der Klaauw & Ziegler, 2022). This is especially where the promotion of temporary or low-quality work is combined with broader ‘punitive’ reforms such as reducing passive benefits and tightening conditionalities (Kaufman, 2020; O’Sullivan et al., 2019; Redman & Fletcher, 2022).

Again, the lesson is about how ALMPs fit within their specific context.

## 5.7 What works for different participant groups

There is also some evidence about what types of intervention might benefit particular social groups:

- **Young people may benefit from early intervention** to correct a lack of skills at the end of compulsory education and in recessions where they may be disadvantaged by slack labor demand, with long-term consequences (Eichhorst & Rinne, 2018; Gregg & Tominey, 2005; Knabe & Rätzl, 2011; Regan & Roantree, 2021; Rotar, 2022). **Basic education, training, employment/recruitment subsidies, and work experience** may all be effective but quality and alignment with future opportunities is crucial (Hardoy et al., 2018; Kluve & Rani, 2016). **Low quality work placements should be avoided** (including in the public sector). **Job search assistance, extended support for work transitions and understanding employer expectations** and appropriate behavior are likely to be effective (Papadopoulos & Jones, 2022). Interventions that **expand social ties to higher educated networks** may also be beneficial for lower skilled/less connected young people (Baranowska-Rataj et al., 2023; Simões et al., 2022). Moreover, young **people’s perceptions** of service accessibility, effectiveness and quality is important in shaping their engagement, suggesting that **reputation and marketing** are key (Shore & Tosun, 2019).
- **Migrants** often benefit from carefully **sequenced and integrated support**. **Early work/residence permit approval** is crucial as is **rapid support for language or cultural acclimatization** (Arendt, 2022; Auer & Fossati, 2020; Bonoli, 2020; Del Carpio et al., 2018; Lochmann et al., 2019; Machado et al., 2021). This can be done ‘on the job’ so long as work commitments do not crowd this essential building block activity out. **Job search assistance** (Cockx et al., 2023), **service integration** (Brännström et al., 2018). **Mentoring and buddying in work placements**, supported job entries and **accreditation of prior skills, experience and qualifications** are all helpful (Bagnoli & Estache, 2022). Support should be attuned to **cultural differences** (e.g. support to households may not help women if there are patriarchal cultures that may prevent the support reaching women) (Flechner et al., 2022; Nada, 2022). **Supportive employer relations are key and income support and wider support** (e.g. housing etc.) are key for many migrants (Fossati & Liechti, 2020). **Anti-discrimination legislation** is also important.
- **Women** tend to face different labor market barriers than men. As well as the standard ALMPs which both women and men can benefit from, support for **child and other caring arrangements** (Hall-

dén et al., 2016; Kang, 2021; Nieuwenhuis, 2022; Nieuwenhuis et al., 2019; Van Lancker, 2018), **travel to work and training considerations, paid maternal/family leave for parents, early childhood care and education** can all help to improve gender pay and employment gaps, particularly around maternity/childcare breaks (Adema et al., 2016; Thévenon, 2016; van Huizen & Plantenga, 2018). **Anti-discrimination legislation** is also important.

- **Precarious and informal workers** – can benefit from **intermediation and ALMPs** in much the same way as other workers and there is considerable overlap between precarity/informality and other markers of vulnerability such as being a member of an indigenous group, gender, disability and age. The evidence on **intermediation and ALMPs and precarity/informality specifically is not large** but there is evidence that badly designed services can increase precarity and insecurity and that **well-funded ALMPs can reduce it by improving skills** (Deidda et al., 2015; Jessen & Kluve, 2021; Pignatti Morano, 2016). Moreover, the evidence suggests the importance of the **integration of a wide range of policies** and interventions across multiple policy domains and incorporating both demand (e.g. employer services) and supply side measures (e.g. Employment Protection Legislation, barriers to take-up and coverage of social insurance schemes) (Kolm & Larsen, 2019; Maurizio & Vásquez, 2019; Salazar-Xirinachs & Chacaltana, 2018; Williams & Horodnic, 2019). Firm level interventions such as targeted enforcement actions and warning can also be influential (Bosch Mossi et al., 2021; De Giorgi et al., 2018; Díaz et al., 2018; Feld, 2022), as can the development of local capital markets accessible by firms (Ohnsorge & Yu, 2022, p. 262).
- There may be benefits in increasing accessibility of **platform work** to disadvantaged groups at the same time as regulating or encouraging platforms to improve formality, linkages to financial savings products and social insurance contributions and the provision of training (Azuara et al., 2019; Edward, 2021; Lane, 2020; Madariaga et al., 2019) as well as encouraging ‘workertech’ responses from workers themselves such as collective organization and self-provision of insurance and other supports (Cañigüeral Bagó et al., 2021).
- **Workers with disabilities** benefit from ALMPs which **include passive transfers and supportive employer relations** to ensure that workplace and expectation adjustments support job entry and retention (Bellia, 2021, 2022; Kersten et al., 2022). Sheltered work may be a permanent solution for some but a transition for others; a range of placement types is likely to be most effective (Reinders Folmer et al., 2020). Inequalities in access to mainstream ALMPs are a barrier for disabled people ALMPs may **help employers with information, advice and the financial costs** (the level of support will matter) of adjustments (Bellemare et al., 2018; Heggebø & Buffel, 2019). **Anti-discrimination legislation** is also helpful.

## 6 Evidence Gaps

Despite the evidence reported above there are important evidence gaps. These are particularly concerned with:

- Convincing evidence about the net effects of ALMPs. Such net effects would include employment effects for participants as well as displacement, deadweight and substitution effects among non-participants and the wider economic and fiscal effects. Where spending levels on ALMPs is small, however, the fiscal effects are likely to be minor.
- The specifics of what works for whom in what circumstances. While it is clear that context matters, there is less evidence on how different forms of ALMPs integrate with different social, economic and political conditions. This includes interactions with other services, such as education, childcare, employment protection legislation and welfare (including contributory and non-contributory systems).
- How ALMPs change in relation to different economic contexts. The evidence suggests that they can work in both periods of growth and contraction, but they may need different design features in those varying conditions.
- The effects of ALMPs on firm performance, particularly in relation to productivity. In theory ALMPs which improve matching or human capital might be expected to have some positive impact on productivity. On the other hand, they may also act as a barrier to firms investing in technology if ALMPs ensure that employers always have access to a ready pool of cheap labor and therefore rely on this rather than technology investments.

Further learning from impact evaluation and cross-country systematic reviews and meta-studies may help with these evidence gaps. However, because the three critical characteristics (design, participant selection, contextual fit) which affect ALMP and PES effectiveness differ so widely, it is likely that country authorities have most to benefit from integrating ongoing and high-quality performance management and program-level evaluation. With suitable underpinning data, such systems can facilitate ongoing analysis of outcomes from program participation according to the characteristics of different groups of participants and changing context and even compare participant and non-participant experiences. In theory, such systems, drawing on tax records, could also help to identify longer-term and macro-economic impacts and differentiate between formal and informal labor market outcomes.

## 7 Conclusion

Following the emergence and spread of ALMPs, including PES modernization, in the 1980s and 1990s, there has been an increasing interest in understanding whether these policies work. Individual evaluations of varying quality have explored specific programs. Rigorous and high-quality systematic reviews and meta-studies have drawn these studies together in the search for whether and which ALMPs work. These have focused more on the impacts on participants but have also extended to the impacts on those who are not ‘treated,’ the net effects on employment and even some studies which focus on macro-economic and fiscal effects.

The commentary that emerged from these studies is rather murky. They tend to report ‘mixed’ effects: some ALMPs work, some don’t; some ALMPs are more effective for particular groups; some ALMPs work in some contexts, others do not. The balance, though, is toward positive effects on participants compared to control groups with a range of positive results depending on the outcome variable and controls included:

- PES intermediation services tend to have small positive short-run impacts consistent with their low cost and duration.
- Training often has negative short-run effects because of lock-in during participation, but where longer-term measures are available, these tend to show effects turning positive (e.g. after a year or more). Again, this is consistent with their more substantive effect on skills formation. For the LAC region, positive impacts include increased employment formality.
- Other programs have more variable results and there are smaller numbers of studies to draw on. Nevertheless wage/recruitment subsidies (mainly in private sector employment) and start-up incentives are often reported as having significant positive effects.

Macro-economic and fiscal effects are harder to measure, partly because the challenge is more significant and the pathway to impact is longer and subject to more intervening influences. Again, there are mixed findings in the literature but there are some positive messages regarding overall employment and productivity. Theory based assumptions would suggest that increased formal employment would have a positive fiscal effect so long as other policies support general formalization, but ALMPs alone may not be enough.

What this suggests is that **ALMPs and PES can work**. PES intermediation services are generally effective and low cost. They are also useful in coordinating other ALMPs, including participant selection and referral to more substantive ALMPs. They may also be central to the integration of passive and active services, which is a major challenge for the LAC region.

The question to be asked and answered is then, not so much about whether and what types of ALMPs work. Rather it is: **‘what aspects of program design, selection and contextual integration increase or decrease effectiveness?’**

On this second question, there are strong clues in the literature, if not definitive answers. What stands out from this evidence is that the answers tend to follow theory. Well-designed and well-funded programs are more effective. Programs that meet jobseeker (including between different social groups) and employer needs are more effective. In combination with further learning from cross-national reviews of evidence, **the implementation of policy needs to use ongoing performance management and evaluation in a way that helps policy makers, practitioners and stakeholders understand and monitor changing program effectiveness and make iterative program design changes as the evidence changes.**

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