

ILO Research Department

ACTIVE LABOUR MARKET POLICIES IN LATIN AMERICA AND THE CARIBBEAN

Key findings

- Latin America and the Caribbean (LAC) is confronted by a number of important labour market challenges. In fact, combined with the current economic slowdown, the remarkable progress experienced since 2000 masks the fact that the transition to a more knowledge-driven economy remains incomplete.
- Ongoing cyclical factors (e.g. weak, and in some cases negative, economic growth, rising unemployment and political instability) combined with persistent and unaddressed structural factors (e.g. high informality rates, weak productivity) run the risk of undoing the significant labour market and social progress of the past two decades.
- Increased emphasis on active labour market policies (ALMPs), such as training, job-search support, etc., could help address these challenges by:
 - (i) helping to keep workers attached to the formal job market;
 - (ii) upgrading workers' skills;
 - (iii) improving the quality of the match between workers and employers;
 - (iv) improving equity in a sustainable manner, while enhancing employment mobility and job quality; and
 - (v) supporting and facilitating the shift of the labour market in the region towards higher value-added economic specializations and enhancing productivity growth.

Research question

Since 2000, the LAC region has experienced substantial progress in labour market and social outcomes, specifically:

- a steady decline in the unemployment rate between 2000 and 2015, accompanied by an increase in the employment to population ratio;
- the share of working poor in employment more than halved during this period and income inequality fell dramatically in the majority of countries in the region.

The active role played by governments and social partners – along with strong economic growth – was central to tackling social challenges and promoting job quality, notably:

- concerted efforts were made by a number of countries to extend their national social security

systems, facilitated by gains in formal employment;

- conditional cash transfers (CCTs) constituted an important element of policy strategies aimed at improving the living conditions of the population and providing social protection for those not covered by contributory schemes.

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

The shift towards quality productive employment over the past decade has been less pronounced in LAC than in other regions, which partially explains the limited improvement in labour productivity, currently among the lowest registered in any region (figure 1). Moreover, despite recent improvements, high levels of informal employment persist.

These structural weaknesses have been highlighted in the context of the current economic slowdown, characterized by weak (or even negative) economic growth and rising unemployment. In fact, the recession and resultant

protracted economic slowdown have already started to weigh heavily on social conditions (e.g. out of 13 countries with available information, eight have witnessed recent increases in income equality).

The project

Motivation

In this context, the research project “What works: Active labour market policies in Latin America and the Caribbean” was created with the following aims in mind:

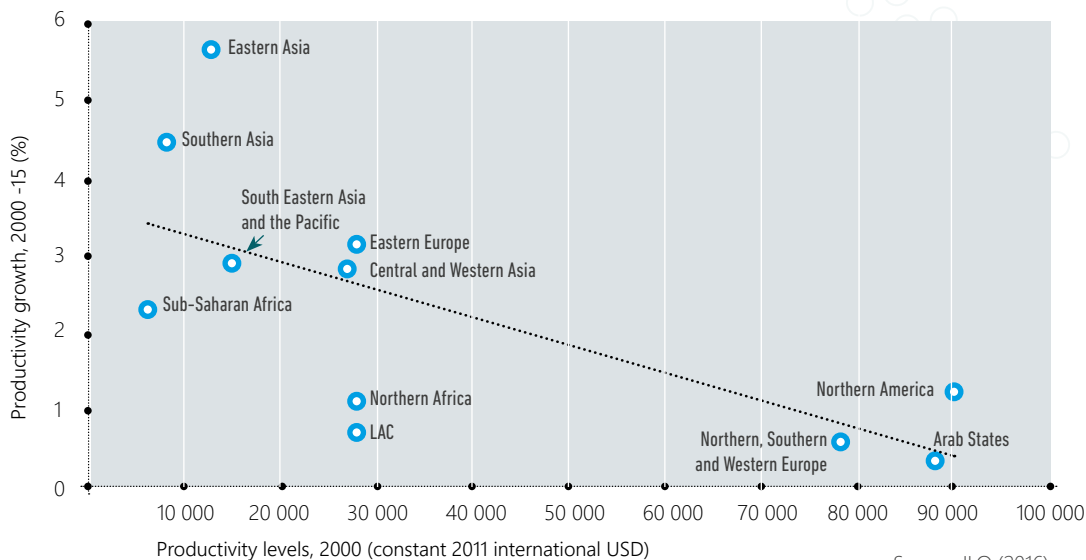
- addressing the knowledge gap with respect to the effectiveness of ALMPs in the region and ensuring that policy-makers in LAC are better informed in their decision-making in terms of what works and how best to leverage ALMPs;
- producing and presenting new evidence on the effects of particular policies that had not previously been evaluated. Particular efforts were made to ensure that the analysis undertaken was at the forefront of research in the area of policy evaluation;
- reinforcing the ILO’s commitment to provide evidence-based policy advice that is relevant and applicable;
- engaging with tripartite constituents, the civil society and the research community to ensure that the research accurately reflects the policy preoccupations of the region and its constituent countries.

Elements

The research project, conducted over a number of years, included a range of activities and outputs:

- *ILO Compendium of labour market policies*: Based on a comprehensive review of existing evidence (e.g. official documents, legislation, research papers, etc.), the compendium provides detailed information on ALMPs implemented since 1990 in Argentina, Brazil, Colombia, Ecuador, Peru and Uruguay.
- *Literature review and meta-analysis*: A narrative literature review and a meta-analysis were prepared in order to review the main results found in the literature on impact evaluation of ALMPs, paying particular attention to evidence from LAC. This stream of work enabled the project to benefit from existing knowledge and general lessons about “what works” in terms of ALMPs in the region and under which circumstances.
- *Impact evaluations*: To complement the review of the literature and meta-analysis, three individual impact evaluations were conducted on a multi-approach activation programme in Argentina, the Colombian Public Employment Service (PES) and a workfare programme in Peru. These evaluations helped to address existing knowledge gaps and to enhance the overall understanding of the effectiveness of ALMPs.
- *Synthesis report*: Presents the main findings of all these elements, in non-technical terms, together in a single volume.

Figure 1. Average productivity growth rates (2000-15) and productivity levels (2000) by global regions



Source: ILO (2016).

What works?

The synthesis report shows that a reorientation of policy strategies is needed:

- A shift in policy orientation in the region is vital to prevent the current slowdown from translating into structural stagnation, to boost further economic and social progress and to avoid a reversal of past labour market and social achievements.
- In particular, innovative income generation policies of the past decades should be complemented with ALMPs that support a shift of the economy towards more competitive specializations, higher productivity growth and quality job creation.

Based on the literature review, ALMPs have the potential to act as a central pillar of labour market and social policies:

- A functional system of ALMPs can ensure the continuous upgrade of workers' skills, improve the quality of the job matching between workers and employers and promote productive and quality employment creation.
- In developing and emerging economies, where ALMPs aim to address multiple objectives beyond simply enhancing the employability of participants, ALMPs can contribute to improving equity in a sustainable manner, while enhancing employment mobility.
- ALMPs can substantially support and facilitate the shift in the labour market towards high value-added economic specializations and enhance productivity growth.

Evidence based on the literature review and meta-analysis undertaken in the project suggests that:

- Training, employment subsidies and self-employment and micro-enterprise creation programmes have been generally effective in LAC, although there is

less available information on the latter two types of intervention;

- At the same time, public works schemes can raise the living standards of beneficiaries during participation, although their effects post-programme are ambiguous;
- Not enough is known about the effectiveness of PESs in the region;
- For all types of active interventions, the meta-analysis shows that the design, targeting and implementation of a policy are essential components in ensuring its effectiveness.

As such, ALMPs represent an untapped source of great potential in the region:

- Despite the increased prevalence of ALMPs in the region, gaps persist in both the coverage of ALMPs and the quality of the services provided, constraining the potential role of ALMPs as a policy tool to promote sustainable employment.
- In addition, this report finds that, while ALMPs in LAC often have multiple objectives, they are frequently narrowly focused on one type of intervention, rather than providing a more comprehensive set of measures (e.g. training initiatives have been the most popular form of ALMP in LAC, both in terms of their incidence and their share of allocated spending).
- The evidence presented in the synthesis report points to the need to leverage an additional, and more comprehensive, set of ALMPs, as well as exploiting complementarities and synergies with policies that are already in place. For instance, the report finds that non-contributory programmes, particularly CCT programmes, provide an outstanding channel for leveraging further ALMPs to promote quality and sustainable employment.

Policy considerations

The new impact evaluations undertaken – coupled with evidence from the literature review and meta-analysis – highlight a number of areas for improvement in the design, targeting and implementation of ALMPs, as detailed below.

Improving the design

Impact evaluations (in Argentina, Colombia and Peru) carried out for the purpose of this project demonstrate that ALMPs have the capacity to improve the labour

market and social prospects of participants, but only when they are properly designed and executed. The analysis suggests the following design improvements:

- exploit complementarities and generate incentives to increase the take-up of ALMPs, e.g. combining training with public works or job-search assistance with income support;
- tailor the policy to context-specific needs, in particular to those of the individual and the labour market.

Implementing a more careful targeting strategy

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

- ensure that the programme reaches its targeted population, while promoting equity;
- adapt programme characteristics to align with those that have proven to be most efficient.

Paying more attention to effective implementation

Appropriate policy design and careful targeting will only improve the effectiveness of ALMPs if sufficient attention is given to implementation. This necessitates

careful planning of resources and institutional actions to guarantee the functioning of planned activities throughout – and beyond – the duration of the programmes and services. In particular, the report highlights the need to:

- strengthen the institutional capacity to support the delivery of ALMPs;
- improve monitoring during the implementation of the programme.

Encouraging further rigorous assessments

Evidence-based policy formulation, founded on a sound impact evaluation of what works and under which circumstances, is key to ensuring the best use of public finances and to improving outcomes on a sustainable basis.

Further reading

Escudero, V. 2016. *Workfare programmes and their impact on the labour market: Effectiveness of Construyendo Perú*, ILO Research Department Working Paper No. 12 (Geneva, International Labour Office).

International Labour Organization (ILO). 2016. *What works: Active labour market policies in Latin America and the Caribbean* (Geneva, ILO).

Kluve, J. 2016. *A review of the effectiveness of active labor market programmes with a focus on Latin America and the Caribbean*, Research Department Working Paper No. 9 (Geneva, International Labour Office).

López Mourelo, E.; Escudero, V. 2016. *Effectiveness of active labour market tools in conditional cash transfers programmes: Evidence for Argentina*, ILO Research Department Working Paper No. 11 (Geneva, International Labour Office).

Pignatti, C. 2016. *Do Public Employment Services improve employment outcomes? Evidence from Colombia*, ILO Research Department Working Paper No. 10 (Geneva, International Labour Office).

For more information or clarification please contact Steven Tobin, Labour Market Trends and Policy Evaluation Unit of the ILO Research Department, at tobin@ilo.org. Further information is available at: www.ilo.org/almp-americas.