

## Improving Access to Jobs and Earnings Opportunities

The Role of Activation and Graduation Policies in Developing Countries

Rita Almeida, Juliana Arbelaez, Maddalena Honorati,  
Arvo Kuddo, Tanja Lohmann, Mirey Ovadiya,  
Lucian Pop, Maria Laura Sanchez Puerta  
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Background Paper for the World Bank 2012–2022 Social Protection and Labor Strategy



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## **Abstract**

Throughout the developing world there is a growing demand for advice on the design of policies to facilitate access of the most vulnerable individuals to jobs, while reducing their dependency from public income support schemes. Even though these policies are common to both the activation and graduation agendas, a separation is needed as the graduation of beneficiaries out of poverty is a much more ambitious agenda. This paper proposes a simple policy framework highlighting the most common barriers for productive employment. It also reviews the topic of incentive compatibility of income support schemes and employment support programs that are used to address them. The paper finds that, especially in middle income countries, activation and active labor market programs play an important role connecting individuals to jobs and improving earnings opportunities. In low income countries, these programs are far from being a panacea to graduate beneficiaries out of poverty. Furthermore, only scant evidence is available on the pathways to graduation and significant knowledge gaps remain. More cross-disciplinary research is needed to strengthen the evidence base and develop recommendations for different contexts and capacity levels.

**JEL Codes:** J00, J22, J38, J32, J68

**Key Words:** activation, active labor market policy, incentive compatibility, unemployment benefits, program evaluation

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## TABLE OF CONTENTS

<b>I. INTRODUCTION .....</b>	<b>1</b>
<b>II. MAKING SENSE OF ACTIVATION AND GRADUATION POLICIES:A CONCEPTUAL FRAMEWORK. 5</b>	
2.1 DEFINING THE RISKS OF REDUCED WORK AND JOBSEARCH EFFORT.....	7
2.2 DEFINING OF CONSTRAINTS/BARRIERS TO WORK .....	8
2.3 POLICY INSTRUMENTS .....	10
2.4 KEY ISSUES/AREAS IN TERMS OF DESIGN AND IMPLEMENTATION .....	13
<b>III. PROMOTING INCENTIVE COMPATIBLE INCOME SUPPORT SCHEMES .....</b>	<b>15</b>
3.1 LEVEL AND DURATION OF BENEFITS .....	20
3.2 MUTUAL RESPONSIBILITIES .....	25
3.3 FINANCIAL INCENTIVES .....	29
3.4 IMPLICATIONS FOR PROGRAM IMPLEMENTATION.....	32
<b>IV. INTERNATIONAL EXPERIENCE WITH ACTIVATION PROGRAMS.....</b>	<b>35</b>
4.1 PROGRAMS TARGETED TO THE BENEFICIARIES OF SAFETY NET PROGRAMS.....	41
<i>Patterns in Graduation Programs in Lower Capacity Contexts .....</i>	<i>45</i>
<i>Patterns in Activation Programs in Higher Capacity Settings .....</i>	<i>50</i>
4.2 MORE GENERAL ACTIVE LABOR MARKET PROGRAMS.....	57
<i>Comprehensive Training Programs for Youth.....</i>	<i>58</i>
<i>Second Chance Education and Trainings.....</i>	<i>63</i>
<i>General Technical and Vocational Trainings .....</i>	<i>64</i>
<i>Skills Certification and Provider Accreditation .....</i>	<i>68</i>
<i>Wage Subsidies to the Private Sector .....</i>	<i>71</i>
<i>Employment Services.....</i>	<i>74</i>
<i>Entrepreneurship Support Interventions .....</i>	<i>81</i>
<b>V. LOOKING FORWARD: BUILDING A KNOWLEDGE AND OPERATIONAL AGENDA.....</b>	<b>93</b>
5.1 MAIN MESSAGES .....	93
5.2 IMPLICATIONS FOR THE WORLD BANK’S WORK ON SOCIAL PROTECTION AND LABOR.....	97
<b>APPENDIX 1: SOCIAL ASSISTANCE IN KAZAKHSTAN .....</b>	<b>101</b>
<b>APPENDIX 2: COLOMBIA JUNTOS: AN EXAMPLE OF IMPROVING THE ARTICULATIONOF SOCIAL ASSISTANCE WITH OTHER SERVICES .....</b>	<b>102</b>
<b>APPENDIX 3: CLIENTELE OF THE PUBLIC EMPLOYMENT SERVICES.....</b>	<b>108</b>
<b>BIBLIOGRAPHY.....</b>	<b>109</b>

## LIST OF BOXES

BOX 1: “ACTIVATION” AND “GRADUATION” POLICY TERMINOLOGY.....	6
BOX 2: EXPERIMENTAL EVIDENCE FROM THE UNITED STATES.....	26
BOX 3: EUROPE AND CENTRAL ASIA – REGISTRATION OF SAFETY NET BENEFICIARIES WITH PES.....	27
BOX 4: ARGENTINA <i>JEFES DE HOGAR</i> – LESSONS FROM IMPLEMENTATION.....	29
BOX 5: JORDAN PESW SOCIAL HEALTH INSURANCE REFORM.....	31
BOX 6: INTEGRATION OF ACTIVATION SERVICES IN NORWAY.....	44
BOX 7: GRADUATION MODEL PROMOTED BY CGAP AND THE FORD FOUNDATION.....	48
BOX 8: PROMOTING EMPLOYMENT IN THE LABOR MARKET: A MORE SUSTAINABLE EXIT STRATEGY – THE CASE OF <i>CHILE SOLIDARIO</i> .....	56
BOX 9: TURKEY ISKUR VOCATIONAL TRAINING PROGRAMS.....	68
BOX 10: SOUTH AFRICA YOUTH WAGE SUBSIDY PILOT: EVALUATING PROGRAM EFFECTIVENESS.....	72
BOX 11: PROMOTING ENTREPRENEURSHIP AMONG YOUTH IN UGANDA: NUSAF.....	85
BOX 12: BUSINESS PLAN COMPETITIONS IN TUNISIA: PROMOTING SELF-EMPLOYMENT AMONG SKILLED YOUTH .....	90
BOX 13: VODACOM COMMUNITY SERVICES IN SOUTH AFRICA.....	92

## LIST OF FIGURES

FIGURE 1: CONCEPTUAL FRAMEWORK.....	7
FIGURE 2: EMPLOYMENT STATUS OF THE ABLE-BODIED POPULATION IN SELECTED COUNTRIES.....	17
FIGURE 3: SHARES OF INACTIVE LABOR FORCE AND INFORMAL SECTOR EMPLOYMENT, IN THE BOTTOM QUINTILE OF THE INCOME DISTRIBUTION.....	19
FIGURE 4: GENEROSITY OF SOCIAL ASSISTANCE PROGRAMS (AS % OF TOTAL CONSUMPTION) IN SELECTED COUNTRIES.....	23
FIGURE 5: INTEGRATING SAFETY NETS AND ACTIVATION/GRADUATION INTERVENTIONS AS A FUNCTION OF CAPACITY CONTEXT.....	57
FIGURE 6: <i>CHILECALIFICA</i> : CERTIFYING BASIC EDUCATION AND TECHNICAL AND VOCATIONAL TRAINING.....	70
FIGURE 7: ELEMENTS OF VODACOM COMMUNITY SERVICES PROGRAM IN SOUTH AFRICA.....	92

## LIST OF TABLES

TABLE 1: INCENTIVE COMPATIBLE MEASURES, LIKELY IMPACTS, AND IMPLEMENTATION REQUIREMENTS.....	33
TABLE 2: A DIVERSE PORTFOLIO OF PROGRAMS ADDRESSING DIFFERENT BARRIERS TO WORK: A SNAPSHOT FROM AROUND THE WORLD.....	38
TABLE 3: SUMMARY OF IMPACT EVALUATION RESULTS OF ALMPS.....	41
TABLE 4: COMPREHENSIVE TRAINING PROGRAMS IN LATIN AMERICA.....	60

## ABBREVIATIONS

AAA	Analytic and Advisory Activities
ALMP	Active Labor Market Programs
BDP	Beneficiary Development Program
CCT	Conditional Cash Transfers
CDD	Community Driven Development
CGAP	Consultative Group to Assist Poverty
CV	Curriculum Vitae
ECA	Europe and Central Asia
EITC	Earned Income Tax Credits
EU	European Union
FPD	Finance and Private Sector Development
GDP	Gross Domestic Product
GED	General Education Degree
GMI	Guaranteed Minimum Income
GNI	Gross National Income
GoK	Government of Kazakhstan
HIC	High Income Countries
ICBF	Colombian Institute for Family Welfare
ICETEX	Colombian Institute for Educational Loans and Technical Studies Abroad
ILO	International Labor Organization
IT	Information Technology
KKV	Kazi Kwa Vijana
LAC	Latin America and Caribbean
LIC	Low Income Countries
MIC	Middle Income Countries
MSP	Ministry of Social Protection
M&E	Monitoring and Evaluation
NGO	Non-governmental Organization
NPD	National Planning Department
NUSAF	Northern Ugandan Social Action Fund
OECD	Organization for Economic Co-operation and Development
OVAY	Orphan Vulnerable and Affected Youth
PATH	Program of Advancement Through Health and Education
PES	Public Employment Services
SA	Social Assistance
SENA	National Service for Job Training
SF	Solidarity Fund
SISBEN	Selection System for Beneficiaries of State Subsidies
SNERGIA	National System of Evaluation of Public Sector Performance
SP	Social Protection
SSN	Social Safety Net
SWF	Social Welfare Fund

TSA	Targeted Social Assistance
TOR	Terms of Reference
TVST	Technical and Vocational Skills Training
UI	Unemployment Insurance
UISA	Unemployment Insurance Savings Accounts
VUP	Vision 2020 Umurenge Program
WAPES	World Association of Public Employment Services

## I. INTRODUCTION

**Governments around the world are increasingly focused on the “promotion” function of their social protection systems – how to improve access to jobs and earnings opportunities.**<sup>1</sup> On one hand, they are looking for policies that improve the employability and earnings opportunities of the able-bodied recipients of public income support. Part of the concern is related to the potential dependency on benefits, incentives for beneficiaries to stay or become inactive, and the fiscal cost of the transfer (welfare or unemployment benefits).<sup>2</sup> On the other hand, there is a general concern with the ability of workers, including the majority who are not receiving any type of transfer, to access quality jobs. Indeed, a majority of the labor force is engaged in low productivity activities either as self-employed or in household enterprises (often without pay). In addition, imperfections in labor markets can make it difficult for individuals to transit from school to work, from inactivity or unemployment into employment, or simply between jobs.<sup>3</sup>

**A first policy agenda to address problems of employability focuses on the creation of business and higher productivity jobs.** In general, these are policies that guarantee macroeconomic stability and reduce the costs of doing business while promoting competition and incentives to innovate, adopt new technologies, and enter new markets. Some of these interventions include: adequate fiscal and monetary policies; enforceable property rights and contracts; friendly regulations to create and close businesses; and access to land and infrastructure. But most of these policies will only have greater effects in the medium term and, while necessary, they are certainly not sufficient to address

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<sup>1</sup> See Robalino et al (2011) for a discussion on the different SP functions. The promotion function of SP systems relates to (i) making benefits from social assistance conditional on participation in education, health, and possibly nutrition services; and also to (ii) improving earnings and opportunities through better linkages and investments in programs promoting higher employability (including active labor market programs). This paper will not focus on the former.

<sup>2</sup> In this paper, we consider social assistance and basic public works (without an added employability component such as technical or life skills training) as welfare programs and thus are not the direct object of review.

<sup>3</sup> See Cho et al. (2011).



employability problems, especially for the most vulnerable and low skilled individuals. Furthermore, in most contexts there is a significant amount of "churning" in the labor market with several jobs being created at the same time they others are destroyed. And the question on how to promote employability for the jobs being created remains a challenge.

**The second agenda, which is the focus of this paper, calls for policies that remove the disincentives or the constraints that individuals have to access better jobs, and/or that improve the productivity of the jobs that they already have.** Individuals might not be able to get good jobs because they do not have the right skills, they do not have the social networks to find them, or they cannot move to where the jobs are. Those who are or want to become self-employed or entrepreneurs may also have difficulties running or creating their businesses for lack of skills or know-how, use of inadequate technologies, credit constraints, lack of access to markets, or simply cultural factors that discourage risk-taking and innovation. There can also be cases where the transfers that governments provide to prevent poverty or help individuals transition between jobs become a disincentive for work. Designing these transfers in a way that minimizes distortions in labor supply is therefore also an important policy issue.

**The paper takes stock of social protection and labor policies that have been used to connect individuals to jobs or increase the earnings from their current activities.** In middle and high income countries, these policies are referred to as "activation policies", especially when they target beneficiaries of unemployment benefits (or in some cases welfare). In middle and low income countries, some of these policies target beneficiaries of social assistance programs and can be referred to as "graduation policies." In both cases, the typology of programs and policies, and the principles that drive their design, are similar and remain relevant for individuals who are not receiving any type of transfer and yet are facing difficulties finding a salary job, moving into self-employment, or are involved in low productivity and low earnings activities. The graduation agenda, however, is more ambitious and involves interventions that go beyond the programs discussed in this paper.

**The paper has two main objectives. First, lay out a simple conceptual framework to guide the assessment and design of interventions improving access to jobs and earnings opportunities in various contexts.** Most countries use a package of policies – blending both incentives and programs/support services – to foster employability of the most vulnerable. In this paper, we will discuss mainly the incentive compatibility of income support schemes. These are features or modifications of benefits programs to make recipients less prone to work disincentives and relate to the level or duration of a benefit, co-responsibility, or financial incentive (e.g., income disregard, bonus for swift reemployment, or earned income tax credits).<sup>4</sup> Because incentives alone may not be sufficient, the conceptual framework will also highlight the importance of having a wide range of complementary support programs/services to help target groups overcome a gamut of (often multiple) barriers to work.<sup>5</sup> Although in practice the distinction between the two instruments – incentives and programs – is not always clear-cut, in this paper we will focus on each separately.<sup>6</sup> **Second, conduct a selective review on the effectiveness of policies, discussing both incentive compatibility and employment support programs.** The review will focus predominantly on the evidence for developing countries and will only sporadically refer to OECD country examples. In addition, it will rely mostly on evidence from micro-studies and impact evaluations, resorting to selective case studies to illustrate important design or implementation features.

**The stock-taking shows that although initiatives to activate individuals and improve their employability are promising, major knowledge gaps about the best ways to design and implement the relevant policies and programs still exist.** Very few programs in middle and

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<sup>4</sup> It is worth stressing that, in this paper we will not discuss stand-alone incentives. Rather, we focus the discussion mainly on the incentive compatibility of income support systems. These are modifications or features of income support programs that make them less prone to generating work disincentives. Because we narrow the concept of “incentives”, we will exclude important stand-alone instruments as the “back-to-work bonuses”. These can be used as an activation approach and are not necessarily tied to a welfare or unemployment insurance transfer (see Vodopivec 2004).

<sup>5</sup> Support services may be very diverse to overcome an array of barriers to work. However, in this paper, we will mainly focus on the employment-related support services.

<sup>6</sup> This is the case, for example, with the wage subsidies.

low income countries have been evaluated. Among those evaluated, it is difficult to assess how different design features explain success or failure as well as determine the role of local conditions. At the same time, the constraints facing individuals in accessing jobs or improving earnings cannot be ignored. Moreover, it might be that a pro-active safety net agenda – based on innovative designs and linking beneficiaries with effective labor market interventions – is the only politically sustainable pathway to expand the coverage of social protection in many countries today.<sup>7</sup>

**This paper relates closely to a large, ongoing analytical and operational agenda at the World Bank focused on promoting employability and activation of the most vulnerable.**

The topic of how to increase the employability and productivity of the most vulnerable has been the subject of extensive work led the Bank, both at the analytical and more operational levels. Although we cannot exhaustively list all the projects, this report has benefited from materials and feedback from staff in all regions of the Bank. Furthermore, we draw on an extensive list of analytical work produced either by the networks or the regions. In particular, our conceptual frame draws closely on the work by Cunningham et al. (2010). We also complement and update several other review papers on the optimal design of incentive schemes (Vodopivec 2004), on productive safety nets (Yemtsov et al. 2011), and on the effectiveness of active labor market programs and youth employment interventions (among others, Angel-Urdinola et al. 2010, Betcherman et al. 2000, Betcherman et al. 2004, Betcherman et al. 2007, Todd 2010, and Kluge et al. 2010). Our work is also directly related to other ongoing efforts within the Bank, including the review on youth employment programs led by the World Bank Independent Evaluation Group or the upcoming Jobs World Development Report.

The remainder of the paper is organized as follows. Section II proposes a simple conceptual framework to guide the assessment and design of interventions that improve access to jobs

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<sup>7</sup> In the short run, this agenda will open the door to a multi-year analytical work program on activation and graduation policies in the World Bank. The main objective of this work program is to improve our knowledge base for the effective design and implementation of activation policies.

and earnings opportunities in various contexts. Section III presents a discussion of the different types of incentive compatible income support schemes that countries use to induce individuals to search for jobs or engage in activities that can improve their employability. Section IV presents the stock-taking of the different employment support programs. It starts by focusing on the support programs targeted to safety nets beneficiaries; it then goes over more general active labor market programs that are usually available to a wider target population even when they are not recipients of any income transfer. Finally, Section V summarizes the main messages and discusses the implications for the World Bank social protection and labor agenda in the coming years.<sup>8</sup>

## **II. MAKING SENSE OF ACTIVATION AND GRADUATION POLICIES: A CONCEPTUAL FRAMEWORK**

This section proposes a simple framework to guide the design and implementation of policies contributing both to the activation and graduation agendas. The objectives and strategies of these two agendas overlap (see Box 1 for definitions and concepts). In some middle income countries (MIC), the provision of integrated employment services is aimed at both the unemployed and social welfare recipients, as well as informal sector workers who do not benefit from social assistance. In low income countries (LIC), most of the labor force cannot afford being unemployed and stay underemployed or occupied in low productivity (often informal) jobs. Here, the new agenda of “active” or “productive” integrated social programs focuses on productivity enhancement and asset-building together with services and incentives that help individuals connect to jobs or improve the earnings of their current activities. Although the set of programs reviewed in this paper and the constraints that justify their utilization are common to both agendas, these are only a narrow part of the larger and more ambitious set of graduation policies, which ultimately involve exiting poverty.

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<sup>8</sup> By safety net programs, we understand programs meant to support the incomes/consumption of population groups deemed to be poor or vulnerable.

### Box 1: “Activation” and “Graduation” Policy Terminology

There is no consensus around the different regions on a standardized terminology for these policies. The term “activation” is more common in Europe and Central Asia (ECA) where most countries are middle income and due to the proximity with the European Union (EU), where most of the challenges are similar. There, income support programs and extensive social assistance systems create the need for more proactive policies, and for “activating” beneficiaries. Indeed, the EU is increasingly focused on social policies emphasizing “active inclusion”, which is yet another variation in the terminology for activation and graduation. In low income countries (LIC), like in Africa, regular social assistance programs have low coverage, and the able-bodied safety net beneficiaries are usually active in low productivity jobs. There, the concept of “graduation” is usually more common, reflecting the fact that these policies ultimately promote the exit from poverty. Nevertheless, the two “concepts” manifest strong similarities. Both imply pro-active policies and measures aiming to fulfill the promotion function of social protection systems.

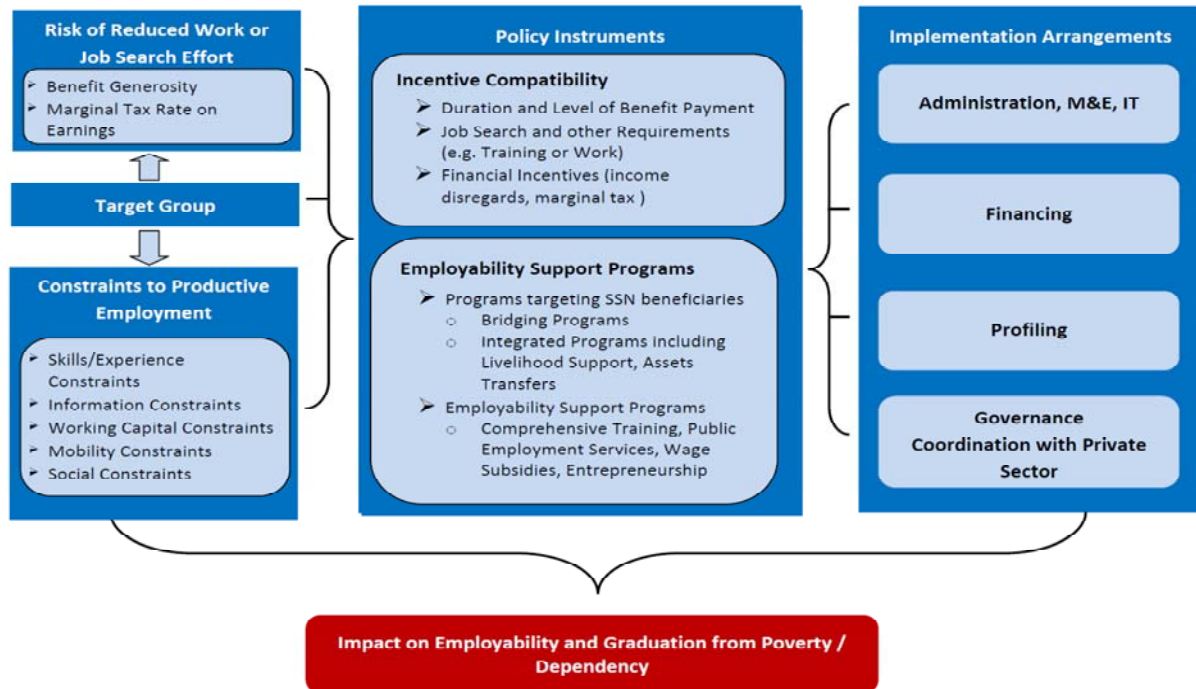
**“Activation Policies” encourage jobseekers or low skilled workers to become active in finding work and/or improving their employability (e.g., investing in their own skills).** The essence of activation is in many countries increasingly based on the principle of “mutual obligations”. The principle states that in return for receiving income support (unemployment insurance or social safety nets) and being offered a range of (re-)employment services, individuals must commit to and comply with a set of eligibility requirements (e.g., active job search, participation in training or (re-)employment programs, etc.). In most cases, activation policies also take the form of incentives and sanctions. In LICs with low implementation capacity, these policies often take the form of a package where programs include additional services aimed at improving individual employability and productivity.

**“Graduation Policies” entered the social policy discourse relatively recently.** The term does not have one clear definition, rather alternative operational definitions. However, there is a general consensus on the final objective, which is about more independent, sustainable, and resilient livelihoods. The various operational uses of the terms converge in agreeing that it refers to a process of moving from the status of poverty or dependency of public support to an independent livelihood, or both. When it comes to design and implementation of graduation “strategies” or “policies”, there is a large array of interventions – from the narrow ones that emphasize “exit” (i.e., limited duration of benefits) to the broader ones which enhance opportunities by enabling the poor to use complementary services and programs that may tackle income poverty or “dependency”, based on linkages with active labor market programs. In this paper we will focus on the broad definition.

The presentation of the framework is organized in three parts. It starts by discussing the constraints or barriers to productive employment and how relevant they are for different population groups in different contexts. The second part discusses the instruments (incentives and programs) that countries can consider to help connect individuals to better jobs in order to increase the earnings they generate from their current activities. Here, it is worth stressing again that the paper will only deal with incentive compatibility of income support schemes thus excluding stand-alone incentives (as back to work bonuses) that may

exist regardless of the benefit of income support. The last part briefly addresses important issues related to implementation, in terms of the profiling of potential beneficiaries (see Figure 1).

**Figure 1: Conceptual Framework**



## 2.1 Defining the Risks of Reduced Work and Job Search Effort

Both unemployment insurance (UI) and social safety net (SSN) programs may carry risks of decreased job search efforts and a lower likelihood of adult beneficiaries accepting jobs while receiving benefits. This potential disincentive to work and resulting dependency from income support programs is a major concern for policymakers. The adverse work incentives may result if out-of-work benefits are sufficiently generous to leave income levels close to what someone would be able to earn in the labor market. And evidence shows that benefit generosity, and the tax treatment of in-work earnings, vary widely across countries. Incentive compatibility of both SSNs and UI should offset these adverse work effects (e.g.,

by making benefits conditional on intensive job-search efforts or participation in active labor market programs).

## **2.2 Defining of Constraints/Barriers to Work**

Individuals may face many constraints preventing their access to productive employment. Below we discuss some of the most common constraints that are focused on the supply side of the market.<sup>9</sup> These may relate to lack of the right skills set, information gaps, working capital constraints, or mobility constraints. Most often individuals face not one but rather multiple constraints. Therefore, policies to promote higher employability and productivity should involve a package of instruments that seamlessly address different barriers.

**Skills constraints (technical, cognitive, or non-cognitive).** Skills constraints imply that individuals lack the appropriate technical, cognitive, and/or non-cognitive skills to respond to the demand of prospective employers. This is likely to be the case of individuals who dropped out of school. But it can also be an issue for young individuals entering the labor market and holding diplomas for which there is not enough demand. Workers who are forced to change areas of specialization in mid-career as a result of economic restructuring can also be affected. Lack of business and management skills is often an important constraint especially for the poorest who want to become self-employed.

**Information constraints (e.g., lack of networking, poor signaling).** Information constraints are pervasive in the labor market. One type of constraints refers to individuals who are not able to signal their skills to prospective employers, either because they lack the necessary knowledge and experience and/or because the value of the diplomas they hold cannot be objectively assessed. Other types of constraints relate to the lack of social network (or contacts) and/or information about job offers. Inadequate knowledge or understanding of

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<sup>9</sup> One can think of many other barriers like the lack of labor demand, strict labor regulations affecting work hours and flexibility or incentives for on the job firm provided training. Unlike the ones we review below, these are more focus on the demand side of the labor market and all these may play important roles in some settings. However, the discussion in this section is meant to provide a framework to focus on several supply side interventions we review ahead. This is the main reason for restricting the attention here to supply side barriers.

the functioning of markets and policy instruments available may also condition the set of available options or choices.

**Working capital constraints (lack of access to financial or social capital).** Capital constraints can also be a major constraint for many trying to start a business or become self-employed. Indeed, banking requirements in terms of collateral can be binding for low income individuals and financing mechanisms through capital markets are often underdeveloped.

**Mobility constraints.** Mobility constraints can take many forms. One is simply lacking resources to move across regions to find or take jobs. Poor infrastructure care and underdeveloped public transport systems can also severely limit the mobility of the labor force. Alternatively, failures in property registration and rental markets or in the rules governing the portability of social benefits may also be binding in many middle income countries.

**In addition, other constraints and barriers to work include social constraints on the supply side, lack of care for dependents (children and the elderly), inadequate housing, substance abuse problems, or psychological and other health issues.** In particular, local customs and social norms may be an important external deterrent for certain groups to participate in employment programs or the labor market, even though employers may be willing to hire them. These include, for instance, competing homecare and home production responsibilities, men's decision-making power over women's time use and skills development possibilities, or self-discrimination/occupational segregation. Furthermore, another important constraint, especially affecting women, is family constraints related with taking care of children or sick parents. For space constraints, the instruments we discuss in Sections III and IV will not deal with all these barriers in detail. Rather, the paper will focus mainly on addressing the first four constraints listed.<sup>10</sup>

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<sup>10</sup> For brevity we cover in more detail only the employment-related support services. Even though the discussion in Section 4.1 refers to other services, there we do not refer to the evidence on many of the non-labor-related support services that are often needed to help the poorest individuals and connect them to better earnings opportunities (e.g., child care, psycho-social supports, and transport subsidies). For a recent



**These constraints affect the various population groups that can be targeted by policies aiming to connect individuals to jobs or improve their earnings opportunities.** At one end of the spectrum are the extreme poor and inactive receiving some public income support (either cash or in-kind). Among this group, some individuals have the potential to engage in productive occupations that may generate sufficient income to stay out of poverty and welfare programs, and may benefit from activation/graduation programs to get them into employment. At the other end are formal sector workers, in general, more educated and with higher incomes, who are temporarily unemployed. Many of them have had a history of contributing to public insurance schemes and are likely to receive some form of unemployment benefit. Policies targeting this group should promote their reintegration into the labor market before these benefits expire and before their skills depreciate.

**Effective policies and programs need to take into account this heterogeneity in beneficiaries' profiles.** While in most cases all constraints are likely to be common across population groups, their severity will vary. The set of policies considered will therefore also be common across population groups but the composition of the policy portfolio will change. In low income settings where individuals are not connected to functioning labor markets, intermediation services will provide little or no role whereas programs that support self-employment become essential. These issues are discussed next.

### **2.3 Policy Instruments**

Several programs can be used to address the constraint precluding access to productive employment. They are, however, not sufficient. Governments also need to ensure that individuals are motivated and face the right set of incentives to engage in job search or in other activities that improve their earnings opportunities. These incentives can relate to features of transfer/benefits programs to make them less prone to generating work disincentives but they may also be stand-alone incentives, like wage subsidies or “back to work” bonuses that can be offered regardless of other welfare and unemployment

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discussion on some of the instruments to address some health and psychological barriers for the disabled, see World Health Organization (2011).

insurance transfers. In this paper, we only focus on incentive compatibility of income support programs. Effective interventions therefore will combine both *incentives* and *programs* that address specific constraints. Actually, many countries use a mix of these incentives and programs (or "support services") in a very diverse blend of approaches. We discuss each of these components next.

**Incentive Compatibility.** A fundamental issue when activating the dependent of public transfers is the incentives built in the design. Well-designed incentives are at the root of promoting search effort and investments in job relevant skills.<sup>11</sup> Various policies and alternative activation measures have been conceived and implemented to mitigate disincentive effects of income support schemes. The most important are: (i) program design features (duration and level of benefits); (ii) co-responsibilities (job search and other requirements combined with monitoring and sanctions); and (iii) financial incentives (e.g., income disregard, bonus for swift reemployment, or earned income tax credits). Some of these incentives aim at going beyond the immediate integration of individuals into the labor market and fostering higher and more sustainable standards of living.

**Support Programs.** Several programs can be devised to address specific employability constraints. These range from the most common active labor market programs (including trainings, entrepreneurship support services, job search assistance and counseling, job intermediation) to the "integrative" or "bridging" safety net programs as well as other graduation programs (including asset transfer/building programs, microfinance type instruments, and livelihood improving programs). The discussion in Section 4.1 of the paper will define and exemplify the different service delivery approaches of these different programs for the safety net (SSN) beneficiaries, which are often implemented together with other incentives.

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<sup>11</sup> For the poor not receiving any type of income support program, a core issue is to provide them with access to an income support scheme. The paper will not tackle how to promote higher coverage, but rather focus on how to promote sustainable employability among those who are already beneficiaries of public income transfers schemes.

Various types of training programs, for instance, can be designed to address skills constraints. Information problems can be addressed through properly designed certification programs and employment services (intermediation, counseling, and job search assistance). Microfinance programs can be used to reduce capital constraints among the poor. Mobility can be improved through various types of grants, social insurance arrangements, and social/support services. The latter can also include assistance to obtain various types of official documents.

**The most effective policy instruments for each target group differ depending on country contexts and institutional capacities.** Conditioning country factors include, among others, the level of economic and institutional development, the political economy, the size and the design of the overall social protection system, and demographic, human capital, and labor market conditions (including the nature of the job loss).<sup>12</sup> All these matter for the set of feasible policies and their effects on labor outcomes. For example, the challenges of the MICs are very different from the challenges in LICs.<sup>13</sup> In most LICs, the degree of informality is very high with social assistance programs having relatively low coverage. Within MICs, there are also several differences. For example, in most of the ECA countries, there is relatively low informality, complex Social Protection (SP) systems (including large coverage of social insurance), and a mix of universal /categorical and targeted social assistance (with relatively small coverage by the latter). In Latin America and Caribbean (LAC), the situation is quite different, with much higher informality rates and larger social assistance coverage relative to social insurance. Although most countries combine both incentives and

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<sup>12</sup> Two points are worth noting here. First, the government's ability to do the pro-active and conduct a close "hand holding" required to activate individuals deeply depends on the number of poor and vulnerable. Complex programs may work well especially when there are not poor people. However, even middle income countries with high poverty rates likely struggle to afford and maintain complex activation programs. Second, the "nature of the loss", including how often the unemployment spell is occurring and its duration are important to determine what sort of policies to deploy and their effectiveness.

<sup>13</sup> There is wide heterogeneity even within the MICs and LICs categories. For a discussion on the different profiles of countries depending on structural conditions and labor market outcomes, see Cho et al. (2011).

programs, the way this combination is achieved in practice depends on the services and incentives available as well as on these different conditioning factors.<sup>14</sup>

## 2.4 Key Issues/Areas in Terms of Design and Implementation

The following cross-cutting themes are important common features in most incentives and programs. These are proposed as an organizing framework to elaborate the discussion within each of the case studies above.

**Governance and Private Sector.** Governance structures determine the incentives facing program managers and staff, and ultimately the quality of the services provided their impacts and costs. Issues to be addressed include what is the role of central and local governments and service providers, how responsibilities and accountability are distributed at various levels (including the different roles of ministries), how the performance of programs and providers is assessed, and how this performance is linked to resources and the compensation of managers and staff. Finally, public versus private provision is a key feature to take into account. The *private sector* is, in many countries, a core player in the implementation of activation programs through non-governmental organizations (NGO) or private providers of various services. In the case of employment services, for instance, it would be inefficient to rely exclusively on public institutions; private placement agencies are expected to have an important role under the right set of regulations. Similarly, the private sector should be involved in provision of training programs through different ways including coordination with employers' associations. Private microfinance institutions should also be involved.

**Financing.** The appropriate financing structures determine the incentives of the provision of these services. Countries differ in the financial arrangements used for employment programs. For example, in many LICs external financing plays a major role. Moreover, while

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<sup>14</sup> In a forthcoming paper the Social Protection teams in ECA and HDN propose a typology of activation and graduation policies for different OECD countries. The typology illustrates the different mix of activation approaches (blending different incentives and programs) used across the countries. The note also makes reference to the alternative service delivery models (e.g., integrated, referrals) in OECD.

some countries rely more heavily on general taxation, others rely on payroll taxes. Worker's own contributions are usually linked with a beneficiary's greater sense of accountability to the provider. This may lead to improved program quality.

**Profiling.** Profiling of beneficiaries to understand their multiple barriers/constraints to work and better-design and -target interventions is critical. Profiling allows for the definition of an appropriate blend of incentives and support programs to simultaneously address multiple barriers; otherwise the intervention, even if well implemented, may not work. Unfortunately, profiling of the beneficiaries of income transfers is still uncommon among most middle and low income countries. This contrasts with the experience in the OECD where some countries have adopted a preventive and proactive approach to early identification of the major constraints to better employment opportunities. In many European countries (e.g., France, Germany, Netherlands, and Sweden) as well as in Australia, Canada, and the United States, profiling is used as a diagnostic tool to identify the beneficiaries' risks based on quantitative (statistical) and/or qualitative (interviews and "soft profiling") approaches.<sup>15</sup> Furthermore, profiling and customer segmentation enable customized services according to the client's characteristics and needs, and allow for action planning and better targeting of services and resources. In Germany, for example, the systematic profiling of the clients of public employment offices is now one of the cornerstones of the integration strategy of the services and targeting of resources allocation. The process is based on the identification of barriers that prevent full labor market integration. Such barriers can be found in the individual's formal qualifications, motivational aspects, and other characteristics, including health. Still, most MICs have no

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<sup>15</sup> When statistical profiling is used, it is rarely the sole instrument. Usually, the caseworker judgment plays an important role. This major exception is likely the United States. In general, the statistical profiling is used together with other assessment methods (interviews, checklists). In most countries, the statistical profiling is used to measure the risk of long term unemployment, or the distance to a labor market. The different models depend significantly on the availability of administrative data (usually the models include socio-economic characteristics, past history of employment, and type of benefits). For a discussion, see Rudolph and Konle-Seidl (2005).

adequate profiling of their social insurance/assistance beneficiaries in place yet. In ECA, for example, this is constrained by the lack of capacity and a minimal number of counselors.<sup>16</sup>

### **Administration, Monitoring and Evaluation (M&E), and Information Technology (IT).**

Administrative processes and IT systems are key determinants of the performance of the programs. Yet, it is probably at this level where significant knowledge gaps still exist. There are several questions to be addressed in terms of what are the best ways to set up various business processes (e.g., registration, evaluation and counseling, referrals, benefit calculation and payment, and selection of providers of various services) and to design and integrate various information, client interface, and management systems. As the data storage and managing capacity become more ubiquitous and are made increasingly available, the integration of administrative systems linked with employment, social assistance, and social services will likely yield to important savings in administrative costs. In addition, there is also scope for simplified and integrated program procedures. Among the most important challenges ahead is the pressing need for stronger coordination across multiple ministries. At another level, the review in the paper will also illustrate the need for more rigorous evaluations on the effectiveness of activation policies in promoting employability and productivity.

### **III. PROMOTING INCENTIVE COMPATIBLE INCOME SUPPORT SCHEMES**

**Ensuring incentive compatibility of income support schemes can have very positive effects on labor market outcomes.** Such compatibility can increase the number of people engaged in active job search, raising the supply of labor in local markets and, eventually, contributing to a more dynamic market. It may also decrease dependency of benefits while linking beneficiaries to services that may actually help them to grow professionally and be

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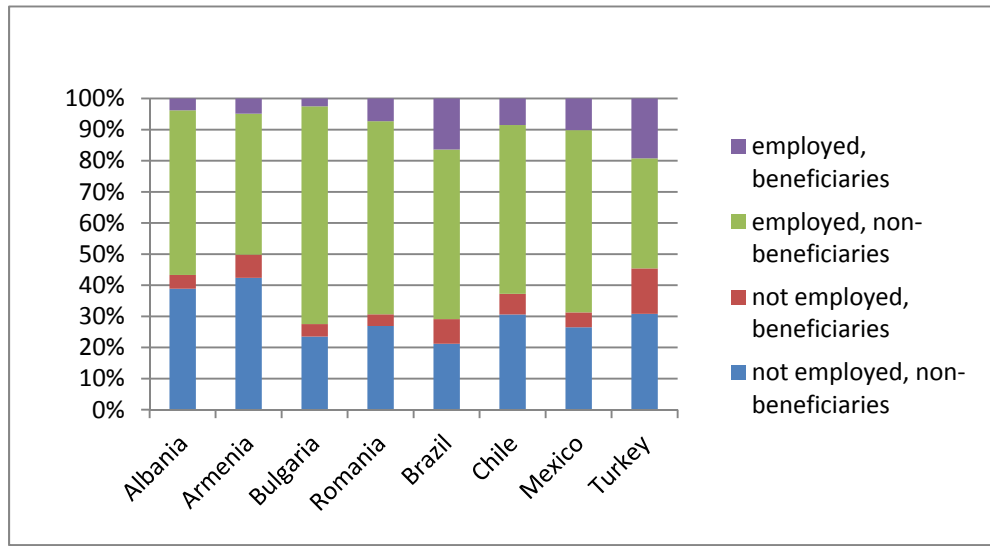
<sup>16</sup> For example, in the FYR Macedonia, one job counselor/advisor handles with more than 1,200 registered unemployed, leaving only around 10 minutes per person per “meeting” (see Kuddo 2009). In some ECA countries, the classification of jobseekers in different groups depending on their placement prospects is based on the judgment of PES officers. In other countries, PES officers may describe certain unemployed as not being job-ready.

successful in the labor market. Moreover, guaranteeing incentive compatibility of income support schemes can foster formal employment and avoid the numerous pitfalls of poorly designed schemes that tend to discourage beneficiaries from formal labor market participation.

**Therefore, policymakers are increasingly concerned with improving the design of income support programs to promote greater participation of beneficiaries in the labor market.** A major area of concern for policymakers relates to the potential disincentives to work and resulting dependency from income support programs. Both unemployment insurance and social safety net programs may carry risks of decreased job search efforts and a lower likelihood of adult beneficiaries accepting jobs while receiving benefits. Indirectly, income support programs that increase household income may also negatively influence the labor supply of other household members. Another area of concern for policymakers is the effect of income support schemes on the beneficiary's choice between formal and informal sector jobs. Given the vast informal sector in many developing countries, especially LICs, and their low enforcement capacity, income support programs may unintentionally increase the attractiveness of the informal sector.

**Concerns with the disincentive effects of income support schemes may hinder the expansion in coverage with social protection for those at risk.** In many countries, the size of the group of income support beneficiaries that are at risk is not necessarily large compared to the total population (see Figure 2). Furthermore, most SSN beneficiaries are often too poor to afford to be inactive. Figure 3 shows the share of (able-bodied) beneficiaries at the bottom quintile of the income distribution that are inactive as less than 30% in many countries. Furthermore, there seem to be only small differences among the inactivity rates for safety net beneficiaries and similar non-beneficiaries.

**Figure 2: Employment Status of the Able-bodied Population in Selected Countries**



Source: Staff estimations based on household surveys. In parenthesis we report the year of the household survey: Brazil, Chile, Mexico, and Vietnam (2006); Bulgaria (2007); Albania, Armenia, and Romania (2008); Kenya (2005); Malawi (2004).

Note: Table reports the percentage of able-bodied individuals (between 17 and 59 years old) that are employed and depending on whether they are beneficiaries of poverty-targeted transfers or of unemployment benefits. In each country, the able-bodied exclude all the disabled, retired, and individuals still in school.

**The impact of income transfers on incentives and behaviors ultimately depends on the initial local conditions.** In MICs, with comprehensive unemployment insurance and complex SA systems, the concerns are with labor supply and levels of informal employment.<sup>17</sup> Some countries, like Romania, have overlapping and often overly generous benefits making them more susceptible to possible work disincentive. In many other middle income countries in ECA, early retirement is also an important part of the problem. Other countries, like Kazakhstan, are increasingly affected by the negative effects of transfers on informal work (see Appendix 1). In LICs, on the other hand, income transfers are more incipient. There, labor informality is less of a concern; the main issue is the potential dependency effects of SSN benefits and the challenges of recurrent costs under constrained public budgets.

<sup>17</sup> See Levy (2008) and Ribe et al. (2010) for discussions on Latin America.



**Overall, the evidence on the disincentive effects of SSN programs on labor supply and informality is still scant and findings are mixed.** Even though the evidence is still very thin, there is little evidence from recent impact evaluations showing significant negative effects on adult labor supply.<sup>18</sup> A recent Bank review shows that none of the SSN programs reviewed significantly discouraged beneficiaries from working. A recent evaluation for Armenia shows that the receipt of the targeted SA program did not have a significant effect on labor force participation, hours worked, or labor informality.<sup>19</sup> The evidence from Conditional Cash Transfers (CCTs) also found no disincentive effects for work in Brazil, Cambodia, Ecuador, and Mexico.<sup>20</sup> Furthermore, recent studies also find evidence supportive of the contrary. For example, the labor market participation of *Bolsa Familia* beneficiaries was higher than that for non-beneficiaries in Brazil. Likewise, the receipt of social pensions in South Africa also increased the probability of employment of other household members by enabling the households to improve their allocation of labor resources.<sup>21</sup>

In rural Ethiopia, food aid was found not to be associated with lower work effort in agriculture, wage work, or self-employment after accounting for the fact that food transfers are being targeted to the poorest communities and to the less able-bodied members of the community.<sup>22</sup> However, studies in Albania and Nicaragua found that cash transfers led to a reduction in the total hours worked by beneficiaries. In Malawi, results of an impact evaluation also suggest a reduction in own-farm labor.<sup>23</sup> The evidence of the effects of SSNs on the choice of beneficiaries between the formal and informal sector in developing countries is scarcer. Figure 3 shows that beneficiaries of SSNs are more likely to be

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<sup>18</sup> A recent World Bank Independent Evaluation Group (IEG) report (IEG 2011) reviews the evidence on the effects of safety net programs based on impact evaluations work in the developing world. The review identifies a small number of impact evaluations looking at the impact of cash transfers on adult labor supply (6 out of 100 evaluations).

<sup>19</sup> See Levin (2011).

<sup>20</sup> See Fiszbein and Schady (2009).

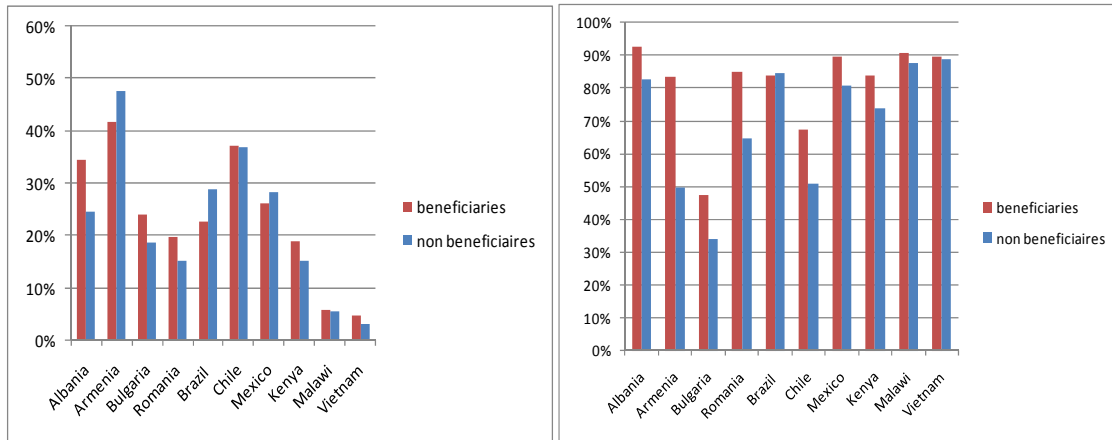
<sup>21</sup> See ILO (2010).

<sup>22</sup> See Abdulai et al. (2005).

<sup>23</sup> See ILO (2010).

employed in the informal sector than non-beneficiaries. However, in many cases these differences can be explained by differences across beneficiaries and non-beneficiaries in the (local) labor market, specific characteristics of beneficiaries (e.g., low skills), or by the program design (including program eligibility rules and targeting).

**Figure 3: Shares of Inactive Labor Force and Informal Sector Employment, in the Bottom Quintile of the Income Distribution**



Source: Staff estimations based on households surveys. In brackets is the year of the data used: Brazil, Chile, Mexico, and Vietnam (2006); Bulgaria (2007); Albania, Armenia, and Romania (2008); Kenya (2005); Malawi (2004).

Note: Figure 3A reports the percentage of individuals at the bottom quintile of the income distribution that are inactive both for the group of beneficiaries of public income support and for non-beneficiaries, respectively. For example, the numbers for Albania show that 35% of all the beneficiaries of public income support schemes at the bottom quintile are inactive. This number compares with 25% for the non-beneficiaries of income support. Figure 3B reports the same statistics, also at the bottom quintile, for the percentage of individuals that are informal. The bottom quintile is computed using information before the transfers. Income support programs include unemployment benefits and poverty-targeted cash transfers. Benefits included by country include: Albania – *Ndihma Ekonomike* (poverty-targeted benefit) and unemployment benefit; Armenia – poverty family benefit and unemployment benefit; Bulgaria – Guaranteed Minimum Income and unemployment benefit; Romania – Guaranteed Minimum Income, poverty-targeted family allowances, and unemployment benefit; Brazil – *Bolsa Familia* and unemployment benefits; Chile – *Chile Solidario* (*Bonos* Protection Social, family allowances, subsidies for water and sewer), and unemployment benefit; Mexico – *Progres*a; Kenya – food and cash transfers; Malawi – food and cash transfers, including public works; Vietnam – welfare benefit.

**Income transfers for UI benefit recipients may affect individual behaviors in the labor market and potentially can have a disincentive effects on the supply side of the labor market.** The recent empirical work on unemployment insurance systems hereby emphasizes the potential negative moral hazard created by unemployment benefits,

potentially reducing the incentives to search for or keep jobs. Indeed, there is some evidence from transition and OECD countries (e.g., Poland, Hungary, and the United States) on a positive correlation between the level of the benefit and its duration and the length of the unemployment spell. However, there are also some studies that do not support this positive relationship for a number of countries, including the Slovak Republic and Romania. The evidence on developing countries is scant.<sup>24</sup> In addition, the bundle of unemployment benefits offered, their conditionalities, and their financing mechanisms may also affect individual's decisions to take formal sector jobs. Incentives to work (formally) and save can, for example, be reduced if social security contributions are perceived as a tax. This may occur if benefits are not valued, are too generous relative to the contributions, or if there is an important redistributive component.<sup>25</sup>

**The relevant policy question going forward is therefore how to design income transfers that minimize negative effects on the supply of labor.** Some designs may create disincentives to work, while others are more apt to create incentive compatible income support schemes. The remainder of this section focuses on three features of incentive compatible income support schemes: (i) how to devise benefits and eligibility conditions; (ii) the role of mutual responsibilities (i.e., the rights and duties of both benefit providers and recipients); and (iii) the role of financial incentives, which influence individual behaviors using strictly monetary stimuli.<sup>26</sup>

### **3.1 Level and Duration of Benefits**

**No single blueprint guides the optimal duration or level of benefits.** Imposing time limits on benefits, reducing benefit generosity, and reducing the benefit level over time are some of the most common measures designed to generate incentives to work. The choice of

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<sup>24</sup> See Vodopivec (2004); Card and Levine (2000); Calmfors and Holmlund (2000); Anderson and Meyer (1993); Meyer (1990); Jones and Kotzeva (1998); Vodopivec, Wörgötter, and Raju (2003); Micklewright and Nagy (1998); Vodopivec (1995); Ham, Svejnar, and Terrell (1998); Adamchik (1999); Puhani (1996); Kwiatkowski (1998); Boeri and Steiner (1996); Cazes and Scarpetta (1998).

<sup>25</sup> See Perry et al. (2007); Levy (2008); Krueger and Meyer (2002); Robalino et al. (2009).

<sup>26</sup> In Europe the preferred terminology refers to mutual obligations. Although this difference also has policy implications, in this paper we use mutual or co-responsibilities interchangeably.

these parameters, however, requires a balanced approach taking into account the type of benefit, target group, country context, and program objectives. The recent economic crisis has also shown the importance of adaptable UB and SSN benefit levels and durations to be able to quickly respond to shocks in a countercyclical way.

**The most robust evidence shows that combining a reasonable duration of unemployment benefits with declining benefits over the spell promotes protection while activating UI beneficiaries.** Most practitioners agree that the moral hazard associated with flat (or increasing) benefits over time involves major challenges. Establishing decreasing benefits improves incentives for job search and reduces the beneficiary's reservation wage, which in turn, increases the likelihood of exiting from unemployment. However, less generous benefits can also reduce the efficiency of the jobs search process since individuals have fewer means. Moreover, evidence from Romania from the 90s suggests that the receipt of benefits increases the probability of leaving unemployment.<sup>27</sup> In most OECD countries, the exit rates from unemployment fluctuate over the unemployment duration: they decline at the beginning, remain relatively stable after the initial phase, and rise steeply before benefit exhaustion.<sup>28</sup> Several studies in MICs (Bulgaria, Estonia, Hungary, Slovenia, Slovakia, and Poland) support this relationship between the probability of leaving unemployment, the duration of benefit receipt, and the benefit level.<sup>29</sup> Jordan is another example of a country that recently introduced, with support from the World Bank, declining unemployment benefits. For the first month of unemployment the eligible recipients now receive 75% of their former wage. The benefit is reduced to 65% for the second month, 55% for the third, and 45% for the fourth to sixth months.

**The evidence on SSNs suggests that time limits alone, not accompanied by employability measures, are not an effective policy since beneficiaries have multiple barriers to work.**

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<sup>27</sup> See Earle and Pauna (1998).

<sup>28</sup> See Vodopivec (2004).

<sup>29</sup> See Jones and Kotzeva (1998); Vodopivec, Wörgötter, and Raju (2003); Micklewright and Nagy (1998); Vodopivec (1995); Ham, Svejnar, and Terrell (1998); Adamchik (1999); Puhani (1996); Kwiatkowski (1998); Boeri and Steiner (1996); Cazes and Scarpetta (1998).

The profile of SSN beneficiaries is very different from the profile of UI beneficiaries. The former usually have a smaller capacity to smooth incomes and have been without a job for longer periods. They are also more likely to require longer durations of support in order to cover the deficits in assets and human capital. If not accompanied by effective employability/productivity enhancing measures, establishing limited benefit duration may actually work against the main objective of the safety nets, protection against poverty and destitution.<sup>30</sup> In many countries, the debate on setting the duration of SSN benefits is accompanied by an increased emphasis on assessing the circumstances in which beneficiaries are able to exit assistance without the risks of destitution, negative impact on longer term human capital objective, or returning to the program. Brazil, Colombia, Ecuador, Ethiopia, Mexico, and Peru are examples. In Ethiopia, about five years after the implementation of the Productive Safety Nets Program, only about 10% of beneficiaries had met the benchmarks to graduate. Most beneficiaries remained in the program for an additional year, because households on the cusp risk quickly eroding their asset base and falling back into poverty.<sup>31</sup> This experience is not singular and is not exclusive to low income countries. The Mexican *Progresas/Oportunidades* changed several times the recertification period and the rules for the exit strategy, including as a response to this type of challenges. Depending on the results of the recertification households may remain in the program, be transferred to a “differentiated scheme” with lower benefits for an additional number of years, or exit the program.<sup>32,33</sup>

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<sup>30</sup> It worth noting that, for some types of safety nets, such as CCTs, time limits are intrinsically present since the duration depends on the age of children.

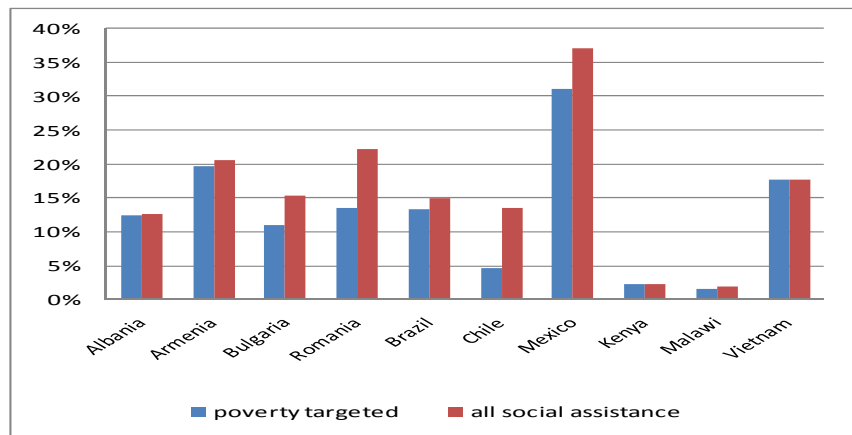
<sup>31</sup> See World Bank (2010a).

<sup>32</sup> Panel studies carried out after the first round of households were transferred to the differentiated scheme in 2003 showed that about 40% of those transferred returned below the line. As a result, in 2006-2008, the period before the first reassessment of households was increased from three to six years. See Yaschine and Davila (2008).

<sup>33</sup> The experience of developed countries with SSN benefit duration is controversial. For example, the effects of time limits in the United States are mixed and often imprecisely estimated due to the difficulty of isolating their effects from other components of the reform package. However, successful experiences are reported by programs (such as *Chile Solidario*) that accompany time limits (and decreasing benefit levels) with complementary employability and graduation measures. These examples will be discussed in Section III.

**In most countries the safety net benefit levels are already low enough to prevent work disincentives.** Figure 4 suggests that the generosity of targeted SSN benefits in most countries is too low to significantly generate large disincentives to work. In most countries, SA benefits account for less than 20% of household consumption. In most MICs, the existence of multiple programs leading to the receipt of multiple benefits by the same household, or non-cash benefits (such as fee waivers or subsidized goods and services), likely pose greater challenges. This suggests that, in these settings, the need of designing more coherent systems with consistent rules across programs may be a more important priority for SSN programs.

**Figure 4: Generosity of Social Assistance Programs (as % of Total Consumption) In Selected Countries**



Source: Staff estimations based on households surveys. In brackets is the year of the data used: Brazil, Chile, Mexico, and Vietnam (2006); Bulgaria (2007); Albania, Armenia, and Romania (2008); Kenya (2005); Malawi (2004).

Note: The figure reports the share of social assistance benefits in total consumption for beneficiaries of at least one poverty-targeted program and for beneficiaries of at least one social assistance program, respectively. Attention is restricted to households with at least one able-bodied person (i.e., households with labor supply). For example, the numbers for Albania show that social assistance benefits account for 12% of the total household consumption when households benefit from at least one poverty-targeted program. This number compares with 13% for households that benefit from at least one social assistance program.

**The work disincentives of SSNs may be reduced by setting the benefit level below the level of the unemployment benefit or of the market wage for unskilled work, but above a minimum subsistence standard.** When benefit levels are linked to the incomes of

beneficiaries (usually in means- or income-tested programs, in MICs) and calculated as a simple difference between the current household incomes and a threshold, a reduction in work effort may appear as a result of a 100% implicit tax on earned income. In this case, the benefit is reduced by one unit for each additional unit of income earned. To avoid the risk of reduced job search or work effort in such cases, the design of the program may include incentives in the form of income disregards for wage income, or a lower marginal tax on earnings. The best practice in public works programs is also to set the benefits below the minimum wage or below the market wage for unskilled labor. This ensures both self-targeting and reduced dependency risks. Often, incentive challenges may remain for part-time work. Moreover, employment regulations may prevent the implementation of such an approach. Resorting to piece wage rates may overcome this latter challenge.<sup>34</sup> In general, most Bank projects follow these rules, and in the large majority of cases, the relation between the benefit levels and the minimum net-of-tax (market) wages or unemployment benefits is assessed during project appraisal.<sup>35</sup>

**But there are no “one size fits all” solutions and decisions on the level and duration of benefits should account for the country context.** In LICs, the SSN benefits may end up being used to pursue income-generating activities and thus ultimately increase the work effort, rather than decrease it. Some early evidence from pilot programs in Namibia and Zambia support this finding.<sup>36</sup> There, a part of the SSN transfers is used as working capital to engage in income-generating activities, or for small investments.<sup>37</sup> Establishing very restrictive benefit levels would limit this opportunity, which could be especially binding for the poorest that often lack the access to credit. Despite the emerging evidence in developing countries on the positive role of safety nets in promoting higher labor productivity, not much is yet known about the link between benefit levels and income generation or investment decision-making by beneficiaries.

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<sup>34</sup> See Subbarao et al. (2010).

<sup>35</sup> See World Bank (2010b), World Bank (2011a), and World Bank (2011b).

<sup>36</sup> This type of findings is not limited to LICs. Gertler et al. (2006) find that *Oportunidades* transfers resulted in increased investment in micro-enterprise and agricultural activities

<sup>37</sup> See Regional Hunger and Vulnerability Programme (2010).

### 3.2 Mutual Responsibilities

**Establishing mutual responsibilities is an increasingly popular approach to minimize the disincentives to work.** The most common types of mutual responsibilities come in the form of “soft” obligations to search for a job, and participate in skills training, or in the form of “hard” requirements such as workfare. Enforcing mutual responsibilities has been argued to increase the legitimacy of income support programs, and eventually the overall support of these programs, by reducing the idea that beneficiaries are “lazy” and that benefits only create a culture of dependency. In spite of the importance, evidence on the effectiveness of establishing mutual responsibilities and their costs is not large. Furthermore, it is mostly based on developed economies. Some countries, for example in Central and Eastern Europe, make use of a mixture of soft requirements combined with the “work first” approach. For example, in the Czech Republic and Montenegro, job search is a pivotal activity. Programs start with job search for most participants, using the labor market as a first employability test. For those who are not able to find jobs within a short period of time, this approach proposes other activities for benefit recipients to address the barriers to their employability. These might include training, retraining, activities to enhance the work experience of the unemployed, or other options. During economic downturns, when vacancies are limited, the focus on finding work first can shift to training or retraining first. Some of the recent evidence supports the idea that disincentives to work associated with income support programs can be reduced by imposing more stiff requirements and ensuring the respective monitoring (see Box 2). The effect of enforcing stiff requirements on the exit rate from unemployment might be significant. Even the imposition of moderate sanctions can increase the exit rate by more than 50%.<sup>38</sup> However, monitoring and enforcement is costly and requires capacity. There is still very little empirical evidence on their costs.<sup>39</sup>

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<sup>38</sup> See Svarer (2007).

<sup>39</sup> See Fredriksson and Holmlund (2006) and Boone et al. (2007) for two exceptions. Both studies make the point that introducing monitoring and sanctions represents a welfare improvement for reasonable estimates of monitoring costs.



## Box 2: Experimental Evidence from the United States

An experiment undertaken in the state of Maryland in 1994 provides evidence to support the link between imposing different job search requirements on the unemployment duration. The study randomly allocated the recipients of unemployed benefits into a control group and different treatment groups. Each group was exposed to different search requirements including: (i) increased work-search requirements whereby workers had to make at least four employer contacts per week; (ii) requiring two employer contacts per week but without any requirement of documentation; (iii) requiring workers to attend a four-day job search workshop early in the unemployment spell; and (iv) informing the benefit recipients that their reported employer contacts would be verified. The control groups were required to contact at least two employers per week but no verification was conducted.

The results suggest a strong correlation between (i) the stiffness of job search requirements and the unemployment spell and (ii) the probability of monitoring the requirements and the duration of benefit receipt. Increasing the number of required employer contacts from two to four reduced the duration of benefit receipt by 6%. Moreover, informing claimants that their employer contacts would be verified reduced the duration of benefit receipt by 7.5%. In addition, it was found that participation in the job search workshop reduced the number of benefit weeks by 5%, a finding broadly consistent with results from other experiments undertaken in the United States. The effect could reflect enhanced skills in job search but may also reflect higher perceived costs of remaining on UI (as the workshop reduces time available for leisure).

Source: Fredriksson and Holmlund (2006).

**While in many MICs Public Employment Services (PES) are a key for the implementation of “soft” co-responsibilities, in countries with low capacity a network of community caseworkers or promoters might provide a viable alternative.** “Soft” mutual responsibilities can take various forms. They range from the simple mandatory registration with the PES to the development of contract-based obligations and individual plans with activities/indicators that can be monitored. In many MICs, employment services are strongly present and play a major role in implementation. Box 3 illustrates the case of many ECA countries where the registration in PES is mandatory for both the unemployed claiming unemployment benefits and for the safety net beneficiaries able to work. In other contexts, community caseworkers or promoters may also be an alternative to implement and monitor the principle of mutual responsibilities. Nicaragua is planning to experiment with this approach. There, social assistance beneficiaries agree with social workers on a set of criteria and actions to receive the assistance. The criteria are defined in “family improvement plans,” which may include mandatory participation in community-based workshops meant

to inform about existing services and provide basic training in financial management and financial literacy, family budgeting, access to credit, entry level work skills, and risk management.<sup>40</sup>

### **Box 3: Europe and Central Asia – Registration of Safety Net Beneficiaries with PES**

In most ECA countries, registration of SSN beneficiaries with PES is mandatory as it ensures that beneficiaries are actively looking for a job and taking up training. This also works as a way of (re)integrating able-bodied beneficiaries in the labor market and increases their employability through participation to training/re-qualification programs. Once registered, beneficiaries cannot refuse employment or training offers provided by these services. In the case of refusal, they lose the entitlement to benefits and in some cases the right to re-apply may be suspended for a given period. Beneficiaries must undertake periodic visits to the employment services to prove that they are searching for a job. The intervals differ across countries. They range from three months in Albania and Romania to once a year in Armenia.

In practice, this model presents challenges. First, with the exception of workfare, additional requirements are more difficult to implement in rural areas where PES are rarely present. In rural areas, information on job or training offers (or information about labor demand/vacancies) for beneficiaries is more difficult to access. Second, PES do not always perceive the safety net beneficiaries as being their “typical” clients. These beneficiaries usually have multiple employability constraints and are among the “hardest to serve”. Therefore, quite often PES have no incentives or capacity to provide services. In Romania, for example, only 4% of the Guaranteed Minimum Income beneficiaries registered with PES received training or job offers (Romania GMI Evaluation Survey, 2003).

Source: Kuddo (2011).

**Workfare programs may also be effective in discouraging “dependency” while improving the targeting of SSN programs.** Mandatory participation in work, or workfare, is one of the common approaches used to avoid the disincentive effects of income support programs. Although the term “workfare” covers many approaches, here, we focus on conditioning the receipt of “regular” income support with participation in community service or small scale public works.<sup>41</sup> The participation in either can be a condition for maintaining the receipt of

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<sup>40</sup> See World Bank (2010c).

<sup>41</sup> We exclude programs aimed at providing short term employment, where the benefit level (or the wage) is directly linked with the quantity of work performed. Although the distinction between the two approaches is not always clear, several elements make the distinction clear. Workfare as a “conditionality” applies to income support programs where the benefit level is usually a set function of criteria other than supply of work (i.e., the benefit is not a “wage”), and its level may be only loosely linked with the quantity of work performed; however, maintaining beneficiary status is conditioned on participation in mandatory work activities. Usually in these cases a minimum and/or a maximum number of hours of service is required. In the case of public

income support benefits.<sup>42</sup> These programs usually have a strong self-selection as recipients vary in the valuation of their leisure and their income capacity. Depending on the predefined benefit level, programs can better target the most vulnerable and thus reduce dependency. And, there is some evidence that the mere anticipation or threat of such features can influence the entry and exit probability of beneficiaries.<sup>43</sup> Examples of programs that condition the receipt of benefits on participation of community service are widespread in ECA (e.g., Guaranteed Minimum Income (GMI) programs in Albania, Bulgaria, Lithuania, and Romania) and are also present in Latin America. For example, in Argentina, *Jefes de Hogar*, a program that was originally designed as an emergency workfare program, required beneficiaries to participate up to a maximum of 20 hours a week in eligible activities. In addition to public works, eligible activities included adult education and training classes or participation in community services projects. However, program implementation also illustrates important implementation challenges at the local level (see Box 4).

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works programs aimed at providing (short term) employment, the benefits are paid as wages, and the time worked is usually linked to the benefit amount. In addition, the programs are financed and implemented in different ways – in the case of short term employment programs usually communities or local governments have to submit a project to be eligible for funds, and the program is assessed against completion of the project; while in the case of income support conditioned by workfare, the funds are disbursed against the program caseload (number of beneficiaries), and benefits are paid against compliance with the workfare requirement (for those subject to conditionality).

<sup>42</sup> Community service usually consists in small scale environmental activities (including landscaping or cleaning parks and public spaces), rehabilitation/ maintenance of local roads, or provision of social services (including support for elderly).

<sup>43</sup> See Vodopivec (2004).

#### **Box 4: Argentina *Jefes de Hogar* – Lessons from Implementation**

During the economic crisis in 2002, the Argentinean government initiated the *Jefes de Hogar*. The program transferred cash to families with unemployed household heads with at least one child below 18 years old, pregnant women, or the disabled, conditioned on participation mainly in workfare (for up to 20 hours per week) or on working for a private company but also in other training/education activities. Participation in workfare activities did not reach the target of 90% of beneficiaries and the Program's workfare character weakened over time. Compliance with workfare (or other eligible) activities declined from around 70% in October 2002, to 56% at the end of 2004. This reflected: (i) the increased "pull" to other part-time employment due to economic recovery; (ii) the difficulties of a number of municipalities in enforcing the requirement; and (iii) the Program's broader role as the main response of the government during the social crisis, which implied that it included a sizeable number of beneficiaries that could not be reasonably expected to effectively comply with the workfare requirement (mothers with three or more children accounted for nearly a third of the beneficiaries and many municipalities exempted them from the workfare requirement; 5% of the beneficiaries were women above 60 years of age, the disabled, parents of disabled children, or men above 65 years of age).

Subsequent assessments showed that the municipalities and local councils had limited capacity to organize and supervise activities. This happened partly because the program was setup quickly in response to the crisis and the Ministry of Labor never had the capacity to provide guidance or supervise the municipalities. This, among other reasons, explains why the conditionality on the work requirement steadily decreased. The weak enforcement of the work requirement also contributed to beneficiaries being employed in the informal sector even if they no longer participated in workfare (or other eligible activities). Overall, this likely slowed down the decrease in the numbers of beneficiaries. By the second semester of 2006, EPH data showed that a fourth of Program participants did not participate in workfare activities and worked only in informal activities.

Source: World Bank (2007).

### **3.3 Financial Incentives**

**Financial incentives conditional on swift (re-)employment are a common incentive to make (re-) employment alluring in many countries.** Financial incentives can take different forms. A simple example is a bonus for swift (re)employment or a back to work bonus. Another instrument is a (temporary) relaxed income (or means) test to determine program eligibility. Hereby, the earned income from formal employment is disregarded for tax and benefit calculations up to a certain amount. Depending on the actual implementation, the beneficiary receives either the full or a partial benefit. For example, in the case of Romania (Guaranteed Minimum Income), the existence of a working member in the household increases the social benefit by 15%. This means that, as opposed to other schemes where

the value of the income benefit is reduced by an amount equal to the earned income, the additional incomes from employment are not “taxed” 100%. For safety net programs that are based on targeting methods other than income/means test (e.g., PMTs), this principle translates in setting exit thresholds higher than entrance thresholds.

**Particularly in MICs, other types of financial “in-work benefits” include earned income tax credits (e.g., EITC in the United States, W (F) TC in the United Kingdom) and other subsidies targeted to low income workers.** Earned income tax credits proved to have significant positive employment effects, in particular on single mothers in developed countries,<sup>44</sup> and are likely to have the potential to replicate similar impacts in high capacity MICs. A more sophisticated wage or income tax that depends on the length of the previous unemployment spell can also be considered to activate dependents of income support programs. Such taxes could even be negative. Wage subsidies that are directly paid to the beneficiaries might also be seen as a financial incentive. However, the evidence regarding the effects of these measures is mixed and often controversial.<sup>45</sup> Other types of financial incentives that may be considered are transitional childcare or transportation allowances.

**Alternative instruments to the traditional unemployment insurance scheme appear to have lower risks of work disincentives.** As reviewed above, the impact assessments of unemployment insurance schemes in several countries indicate that unemployment insurance may lead to increased work disincentives and, consequently, increased unemployment.<sup>46</sup> This well-known moral hazard problem can partly be addressed by introducing individual savings accounts in UI systems, so-called Unemployment Insurance Savings Accounts (UISA). Under a UISA system, each worker saves part of his/her earnings in an individual account that defines eligibility. In case of exiting employment, benefits are withdrawn from this account. To introduce redistribution, the individual account is complemented by a solidarity fund that is only accessible if the individual account expires

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<sup>44</sup> Blundell and Hoynes (2004); for a comprehensive review of in-work benefits in OECD, see Immervoll and Pearson (2009).

<sup>45</sup> See Leppik (2006). See Meyer (1995) for a discussion of the side effects of a reemployment bonus.

<sup>46</sup> For an overview for transition economies and OECD countries, see Vodopivec (2004).

before the end of the maximum benefit duration. The individual component is supposed to strengthen work incentives, relative to standard UI approaches. Upon retirement, the balance in the account usually feeds into the pension payments. In Chile, an innovative program combines social insurance through a solidarity fund (SF) with self-insurance in the form of UISA. Recent evidence shows that the individual account component can help to improve work disincentives. Similarly, the job finding rates over the first five months of unemployment are considerably higher for workers not using the SF than for beneficiaries of the SFs, controlling for different characteristics of the recipients.<sup>47</sup> Drawing on this experience, other Latin American countries, like Colombia, are considering UISA systems. Jordan is even pushing the model by allowing the participation of beneficiaries who have not saved enough before becoming unemployed but have already accumulated some pension wealth. The system allows borrowing equivalent to three times the individual's monthly wage and balances the account with retirement pay.<sup>48</sup> However, Jordan has not introduced a solidarity component in its system.

#### **Box 5: Jordan PESW Social Health Insurance Reform**

The World Bank has assisted the Government of Jordan through programmatic economic and sector work (ESW) with the introduction of UISA. This is part of a comprehensive reform of the Social Insurance Law. The Bank team prepared a series of notes supporting the main pillars of the Social Insurance reform. These included: (i) parametric reform of the pension system; (ii) introduction of unemployment insurance savings accounts; and (iii) mechanisms to enhance coverage extension of social security. As a result of an intense and effective cooperation, the Social Security Commission (SSC) submitted the most comprehensive Social Insurance reform in the region to the Cabinet in early 2009. The approach is innovative because it addresses the reforms in a comprehensive manner, and because it includes not only aspects of financial sustainability but also important programs for social protection (e.g., UI) that would otherwise be missing. The law benefited from strong support from HM the King of Jordan; it was endorsed and sent to the Parliament in July 2009 and was approved by the Cabinet in October 2009.

Source: World Bank Operations (2011).

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<sup>47</sup> See Reyes et al. (2011).

<sup>48</sup> See Robalino et al. (2009) and Acevedo and Eskenazi (2003).

### 3.4 Implications for Program Implementation

**One of the main challenges underlying the implementation of incentive compatible policies is the existence of a dynamic labor market offering productive opportunities for the most vulnerable.** Table 1 below summarizes the main incentives reviewed in this section and the most common challenges in their implementation across countries. The establishment of time limits or lower benefits implicitly requires the existence of jobs and a dynamic labor market where beneficiaries of UI and SSN programs find productive opportunities. This is also an important precondition when promoting some of the financial incentives that are made conditional on finding a job, often in the formal sector.

**Establishing mutual responsibilities implies the capacity to provide and enforce service provision but also to *define, communicate, and impose sanctions* when beneficiaries fail to meet these conditions.** Regardless of the requirement, the establishment of mutual responsibilities demands the administrative capacity to monitor and enforce compliance. In addition, it also assumes that there are services facilitating job search and the provision of trainings through, for example, public employment offices. These services need to be of high quality, helpful, and supportive of their clients. It is important that they gain high reputation and recognition in all these dimensions to ensure compliance and reduce the exigency of sanctions. Mutual responsibilities also call for the capacity to monitor the service delivery. The workfare conditionality necessitates, for example, the capacity to organize and supervise the works or other activities (such as community services). It is also important that co-responsibilities are clearly defined and communicated to beneficiaries. Moreover, their design should account for the specific constraints that beneficiaries may have. Signed agreements such as individual action plans may further the acceptance of and compliance with the measures and steps required. Establishing mutual responsibilities should thereby ideally involve the development of indicators or criteria that are both, easy

to understand and easy to measure and enforce. In many cases, defining these criteria is a rather complex task.<sup>49</sup>

**Table 1: Incentive Compatible Measures, Likely Impacts, and Implementation Requirements**

<b>Measures</b>	<b>Likely Impact</b>	<b>Implementation Requirements</b>
<b>Level and Duration of Benefits</b>	<p>Lower benefits can increase job search and decrease the reservation wage.</p> <p>Limited benefit duration may imply an increased job search effort.</p> <p>Lower and limited benefits work best if complemented with employability measures.</p>	Existence of jobs (labor demand).
<b>Mutual Responsibilities (e.g., job search requirements, training, and workfare)</b>	<p>The monitoring of job search requirements may increase job search and decrease the unemployment spell.</p> <p>The mere anticipation of search, work, or training requirements changes the valuation of time in the program and elsewhere, and can influence the entry and exit of beneficiaries from the program.</p>	<p>Capacity to monitor and enforce requirements.</p> <p>Local provision of job intermediation services, training, and workfare-related activities.</p>
<b>Financial Incentives (e.g., income disregard, bonus for swift (re-)employment, earned income tax credits)</b>	<p>Income disregards and bonuses can help reduce disincentives to accept job offers.</p> <p>Earned income tax credits and bonuses can increase attractiveness of formal jobs.</p> <p>Voluntary savings accounts can increase job search and the probability of accepting a job as the costs of income support is internalized.</p>	<p>Participation in the formal labor market.</p> <p>Existing jobs (labor demand)</p> <p>Implementation capacity and coordination across systems.</p> <p>Effective incentives for voluntary savings.</p>

Source: Authors (2011).

<sup>49</sup> For example, when beneficiaries are required to follow up on job offers, the job offer needs to be assessed as to whether it was considered reasonable for a given beneficiary. In addition, a “reasonable wage” for the beneficiary can be set to decide on the suitability of the offer.



**The design of workfare programs needs to account for the labor market constraints of beneficiaries and the implementation capacity of agencies to organize and supervise works or other activities.** In practice, community service activities are not always easy to implement. First, they require some administrative capacity to organize and supervise the works or other activities (such as community services) as well as to enforce the conditionality. Depending on the complexity of activities, they also require resources that may not be available in every municipality (e.g., staffing). Second, even if in most cases the activities are labor intensive, they require inputs (e.g., tools, equipment, or materials) that are not always available or affordable to the poorest communities. As a result, not all communities are able to organize community works in a systematic and regular manner. However, qualitative evidence shows that the experience in Albania and Romania has been positive for both local governments and beneficiaries.<sup>50</sup> The design of workfare requirements should also take into account some of the beneficiaries' constraints. For example, many of the able-bodied beneficiaries of SSN programs are primary caregivers for the elderly, the disabled, or children.<sup>51</sup>

**To reap the positive impacts of incentive compatible income support schemes, it is important to consider the “right” measures early in the design stage of the income support.** Depending on the labor demand and the administrative capacity, several options exist and can be adapted to different contexts. This review has shown that approaches may vary widely across countries. In low capacity countries with high informality and labor demand constraints, income support programs typically deliver “parallel” SSNs for different target groups, while most do not provide any type of UI scheme. The unconditional transfers primarily target labor constrained households or those not able to work, and cash or food for work programs for those able to work. In these countries, the risk of work

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<sup>50</sup> Community works are viewed as activating beneficiaries even for a short time, helping to target beneficiaries, and improving community assets, including the environment, infrastructure, and social services.

<sup>51</sup> The experience in Romania (Guaranteed Minimum Income) highlights the importance of defining the exemptions from the work requirement when care facilities are lacking. When the conditionality was first implemented and exemptions were not clearly defined, about 20% of beneficiaries under 40 years old reported not being able to comply with the work requirement because of lack of supply side conditions (e.g., childcare).

disincentives is minimized by conditioning the receipt of the income benefit to work. In many countries, benefits are also set below the minimum wage. A few programs also limit the duration of benefits merely due to budget constraints and the need to provide benefits to newly entering beneficiaries, rather than to address dependency or work disincentives. In middle income countries, the supply of employment services and both UI and SSN programs are more developed. Moreover, the administrative capacity to monitor and sanction is higher and increases with the country's income level. Countries with these characteristics put a higher emphasis on promoting incentive compatible programs, which often leads to the adoption of a mix of measures. This mix typically includes job search requirements, participation in mandatory activities, adjusting program design features (benefit levels and duration), and, to a lesser extent, financial incentives.

#### IV. INTERNATIONAL EXPERIENCE WITH ACTIVATION PROGRAMS

**This section reviews the international evidence of the impacts of activation programs in promoting higher employability and productivity of their beneficiaries, while discussing their key design features.** While the previous section reviewed the international evidence on the effectiveness of the most commonly used incentives for activation and graduation, this section will focus on the international best practice in developing countries for the activation support programs. Although activation programs are gaining relevance in the developing world, high income OECD countries still spend significantly more resources than lower income countries. For example, in 2008 in the European Union (EU) a total of 201 billion euro (1.6% of EU-27 Gross Domestic Product) was spent on labor market policies in EU-27 countries.<sup>52</sup> In developing countries, spending is still much smaller often not

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<sup>52</sup> There is considerable variation across EU countries with expenditure ranging from 3.3% of GDP in Belgium to only just over a quarter of 1% in Romania and Estonia. A major part of labor market programs expenditure (60%) goes to income support for out of work jobseekers – primarily unemployment benefits. Expenditure in labor market services in 2008 represented around 12% of total expenditure in labor market programs or 0.19% of EU-27 GDP. Only four countries spent more than a quarter of 1% of GDP (the Netherlands, Sweden, Germany, and the United Kingdom). The spending in each component also varies widely across countries as it

exceeding 0.1–0.2% GDP. As a consequence, most of the available rigorous evidence on program evaluation still comes from high income countries. In this review, our objective is not to be comprehensive but rather to choose selective examples of programs in order to quantify program impacts and/or illustrate special features of programs. We deliberately restrict the attention to the evidence for developing countries and mention OECD examples only when they prove to be particularly relevant to the developing country context.<sup>53</sup> Even though most of the evidence tends to be based on more rigorous empirical studies, we also resort to selected country case studies. When evidence is available, we also discuss effects of programs on the quality of the jobs or on the stability of jobs.

**The section is divided into different subsections, reflecting the most relevant types of programs for our client countries: activation programs for safety net beneficiaries, comprehensive trainings, wage subsidies, skills building and signaling programs, employment and intermediation services, and entrepreneurship support.** First, we review the evidence on the alternative approaches to activate and graduate the beneficiaries of safety net programs. In this section, we review the public works plus programs, encompassing public jobs and complementary activities. Second, we discuss broader active labor market programs, which are usually available regardless of whether the beneficiaries are also recipients of other public income support programs. Within this group, we will first discuss comprehensive training programs for youth. These typically combine classroom technical training with more hands on, on the job training through internships in private sector firms. More recently, these programs also have offered life skills training modules. Following this, we also review the most recent evidence on wage subsidies and skills building and signaling programs, which include second chance programs and vocational and

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depends on program coverage and generosity. For example in Korea, the expenditure with training reached 8.3% of GDP while the expenditure with UB covered 0.31% of unemployed and reached 2.05% of GDP.

<sup>53</sup> This review draws on several examples of recent meta-analysis including Betcherman et al. (2004), Fares and Puerto (2009), Kluve et al. (2011), and Cunningham et al. (2010). The Bank has also engaged in a concerted effort in compiling a Youth Employment Inventory covering youth employment projects around 100 developing countries (see Fares and Puerto 2009 and Kluve et al. 2011). See Muzi et al. (2011) for a summary of the programs and evaluation designs led by the World Bank through a large impact evaluation Trust Fund.

technical trainings.<sup>54</sup> Finally, we also review the evidence for employment and intermediation services and entrepreneurship support. When reviewing the evidence for entrepreneurship support programs, we consider both education-related programs, as well as microcredit and SME support, and micro-franchising. As discussed, we will resort mostly to rigorous empirical studies for developing countries to discuss effectiveness. However, this will not always be possible due to lack of evidence. In addition, we complement the discussion with country case studies that shed important light on how activation and active labor market programs are currently being designed and implemented. Table 2 showcases some of the most promising programs that are recent or ongoing in the developing world. The table is meant to be simply illustrative of some of the most interesting programs in the developing world. We give preference to programs that have sound monitoring or an impact evaluation. As illustrated in the last column, programs usually address more than one constraint to work. This reflects the increasing complexity of interventions, which in turn reflects the many dinging constraints to the employability of different groups.

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<sup>54</sup> There are multiple market failures in skill formation, and most governments intervene to minimize the risk of under investments in training (see Banerji et al. 2010 and Almeida et al. 2011a for a discussion). There are basically three types of vocational trainings: (i) before employment and largely targeted to youth (or, pre-employment TVET); (ii) on the job (on the job trainings); and (iii) ALMP-type of trainings. In this section, we only discuss the third type, which in most countries is organized and delivered by the government. For a more detailed discussion of the different programs, see Almeida et al. (2011a) and Kluve et al. (2011).

**Table 2: A Diverse Portfolio of Programs Addressing Different Barriers to Work:  
A Snapshot from Around the World**

TYPE OF PROGRAM		SELECTED PROGRAMS	CONSTRAINTS / BARRIERS TO WORK
Stand Alone Wage Subsidies		<ul style="list-style-type: none"> <li>• A Youth Wage Subsidy Experiment (South Africa)</li> <li>• Bonificación a la Contratación de Mano de Obra -Chile Solidario (Chile)</li> <li>• Jovenes con Mas y Mejor trabajo (Argentina)</li> <li>• Idmaj (Morocco)</li> <li>• Stage d'initiation a la vie professionnelle (Tunisia)</li> </ul>	Lack of skills / experience and lack of information
Skills building/signaling	Comprehensive Training Programs for Youth	<ul style="list-style-type: none"> <li>• Kenya Youth Empowerment Program (Kenya)</li> <li>• Youth Internship Subprojects Program (Argentina)</li> <li>• Juventud y Empleo (Dominican Republic)</li> <li>• Taehil (Morocco)</li> </ul>	Lack of skills / experience constraints and lack of information
	General Technical and Vocational Training	<ul style="list-style-type: none"> <li>• ProbeCat (Mexico)</li> <li>• ISKUR Public Employment Agency vocational trainings(Turkey)</li> </ul>	Lack of skills / experience; Lack of information and signaling of competencies
	Second chance Programs	<ul style="list-style-type: none"> <li>• Afghanistan Primary Education Program -APEP (Afghanistan)</li> </ul>	
	Certification	<ul style="list-style-type: none"> <li>• Chilecalifica (Chile)</li> <li>• Lifelong Learning and Training Project (Argentina)</li> </ul>	
Employment Services		<ul style="list-style-type: none"> <li>• Red CIL Pro Empleo (Peru)</li> <li>• Career Guidance Services (Slovenia, Lithuania)</li> <li>• Job Clubs (Lithuania)</li> <li>• Vacancy and Job Fairs (Azerbaijan)</li> </ul>	Lack of information and lack of working capital
Entrepreneurship Support Programs	Education	<ul style="list-style-type: none"> <li>• Fomento del Espiritu Empresarial (Colombia)</li> <li>• Concours de Plans d'affaires Entreprendre et Gagner (Tunisia)</li> <li>• Know About Business Program (Syria)</li> </ul>	Lack of skills / experience; lack working capital; lack of entrepreneurial skills; lack of information
	SME support	<ul style="list-style-type: none"> <li>• Apprenticeship Training Program and Entrepreneurial Support for Vulnerable Youth (Malawi)</li> <li>• Northern Uganda Social Action Fund (NUSAF) (Uganda)</li> <li>• Economic Empowerment of Adolescent Girls (EPAG) (Liberia)</li> </ul>	
	Microfranchising	<ul style="list-style-type: none"> <li>• Vodacom Community Services: Rural Telephone Access (South Africa)</li> </ul>	

Source: Authors (2011).

**The empirical evidence shows that, when well-targeted, -designed, and -implemented, activation and active labor market programs can be cost effective, short-run responses to improving the beneficiary's employability and productivity.** Although these programs are not a panacea for large scale unemployment, some types of interventions, when properly designed and implemented, can be effective for selected groups of workers. Even though evidence is still very scarce, employment services (including counseling, placement assistance, and job matching) have been shown to produce positive and cost effective results on employability. They tend to be relatively low cost but have limited effectiveness in contexts of large informality, outside urban centers, and with limited labor demand.

Comprehensive training programs have also proved to be effective tools to foster employability among the most vulnerable groups, especially youth and women. Their effectiveness is higher when classroom trainings are combined with hands on trainings and possibly are complemented with life skills.<sup>55</sup> Table 3 summarizes the main findings for a selected group of interventions.

**Even though activation programs are very diverse in their costs per beneficiary, employment services across most countries tend to have the lowest cost per participant and the widest beneficiary outreach.** The cost of activation programs is very diverse across countries and is deeply related with the design and generosity of the benefits/services provided. On the cheapest side are the employment services, including, among others: providing information services to jobseekers, including access to trainings and other programs; job brokerage services for employers; and individual case management services of individualized assistance (e.g., intensive counseling and guidance, job search assistance, personalized action plans). They tend to reach a large number of jobless individuals and tend to have a low cost per placement. At the other extreme, public employment programs or wage subsidies typically involve transferring larger income support to beneficiaries or employers. Unfortunately, the data available on the costs of these programs is still very limited. Data from Romania in 2001 shows that employment services reached the largest number of clients at an average cost of only USD 12 per client which contrasts with the much smaller number of clients served by public employment at a much larger cost per client of about USD 294 per client.<sup>56</sup>

**Early evidence also shows that activation programs may improve the beneficiary's psycho-social well-being and optimism towards the future.** Even if activation programs fail in producing better employment outcomes, they may still produce beneficial effects on the society by fostering the psycho-social welfare of their beneficiaries. Important dimensions are individual self-esteem or his/hers self-confidence. Researchers are increasingly focused

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<sup>55</sup> For recent meta-analysis mostly in developing countries, see Betcherman et al. (2004, 2007).

<sup>56</sup> See Rodrigues-Planas and Benus (2006).

on investigating the impacts on mental and behavioral outcomes at least in the short term. For example, recent findings show that participants in *Chile Solidario* have greater self-esteem and higher perceived self-efficacy in the labor market as well as greater optimism towards the future. The impact evaluation of a business plan competition among university graduates in Tunisia also strongly associates participants with greater optimism towards the future. Finally, these effects are corroborated by the evaluation of *Juventud y Empleo*, a comprehensive training program in the Dominican Republic, which finds significant effects on future expectations, job satisfaction, and job search attitudes.<sup>57</sup>

**Much remains to be learned on the cost effectiveness of programs, especially for which groups they are most effective and how they can be best delivered.** While much has been documented over recent years for example on training programs, there are still many under-evaluated interventions in developing countries. These include more comprehensive public works, targeted wage subsidies, or the many services delivered by employment services. Because program effectiveness deeply depends on specific program designs and country contexts and institutional capacities, there are still major knowledge gaps in how and why some programs work and others do not. Conditioning country level factors include the level of economic and financial development, competitive structure of the labor market, design of the overall social protection system, and existing institutional arrangements. There is especially need for deeper understanding of the most effective program designs when implementation capacity is low.

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<sup>57</sup> For evidence on these outcomes, see Carneiro et al. (2010) for Chile and Almeida et al. (2011b) for Tunisia.

**Table 3: Summary of Impact Evaluation Results of ALMPs**

<b>Intervention</b>	<b>Impact (on Employment and Earnings)</b>	<b>Type of Studies</b>
Employment Services/Sanctions	Positive, with low costs. Increases employment probability and earnings. But also increases search time (“lock-in effect”). Sanctions increase search intensity.	Case studies from developing countries; Quasi-experimental studies from developed countries
Training	Generally positive impacts on employment. Many studies (but not all) show better impacts for women than men. Youth most difficult group to benefit. Classroom and OJT have greater benefits than basic (remedial) education. Increasing evidence that benefits increase over time.	Randomized studies from developing and developed countries. Several quasi experimental studies and case studies in both developed and developing countries.
Wage/Employment Subsidies	No consistent evidence, with some positive and some negative results. High deadweight and substitution effects.	Few quasi-experimental studies from developing countries and several studies from developed countries.
Self-employment Assistance	Few evaluations. Very low take-up. Can have positive effects for older, well-educated individuals.	Selected randomized studies from developing and from developed countries.

Source: Adapted from Betcherman (2010).

#### **4.1 Programs Targeted to the Beneficiaries of Safety Net Programs**

**Safety Net programs increasingly include a “promotion” arm based on a very diverse portfolio of programs.** The main objective of activation and graduation strategies within SSN programs is to improve the employability and livelihoods of beneficiaries. Their long term objective is to achieve sustainable inclusion in the labor market. The range of programs available throughout the developing world to achieve this is large. These include general active labor market programs but also interventions promoting the financial inclusion of SSN beneficiaries (e.g., access and incentives for saving accounts, microfinance



services), livelihood support through asset transfers (e.g., livestock transfer), investment grants, and extension programs for small farmers.<sup>58</sup>

**There are multiple channels to connect beneficiaries to activation and graduation programs, which vary among country contexts and program/beneficiary characteristics.**

Linking or integrating safety net and activation programs, can be done at different levels and in various forms. The specific channel is determined by many factors, including the administrative capacity and the available set of supply side services, the complexity of the social protection system, the characteristics of the SSN program, and the profile of the beneficiaries. In countries with less developed social protection systems and a minimal supply of employment services, graduation programs are often offered as comprehensive *packages* or are designed as complementary interventions. In Sierra Leone, all beneficiaries of public works receive literacy and life skills training. In countries where a given supply of support services exists, beneficiaries are linked through provision of information, referrals, or mutual obligations. At one extreme is the simple provision of information to the SSN beneficiaries about available programs and services in a given geographic area. This usually occurs through different instruments, ranging from information campaigns to community workshops.<sup>59</sup> A social protection project in Nicaragua plans to implement this approach: Families in the project will be informed about available services in their locality and how to access them through community-based workshops (with mandatory attendance for safety net beneficiaries) and also through brochures disseminated by outreach workers promoting the use of the services. Another approach is to link beneficiaries to employment services through conditionalities, as do most countries in the ECA region. In Romania, beneficiaries are required to frequent the employment services every three months, where they can be

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<sup>58</sup> In addition to these types of interventions, the activation/graduation packages for safety net beneficiaries may often involve support services meant to remove barriers and constraints such as the lack of access to basic legal documents or the lack of identification documents. Also, the provision of childcare services, psychological support, language coaching, etc. can be part of the package. Even if such interventions address important constraints to labor mobility and thus employability, we do not review them in this section. For a discussion in the context of youth, see Cunningham et al. (2010).

<sup>59</sup> Information campaigns may use fliers and brochures and even application forms made available at the point of benefits payment.

offered training, counseling, or jobs. Beneficiaries can also be linked to activation programs through *referrals* from social workers. Among the most well-known programs of this type are *Juntos (Unidos)*<sup>60</sup> in Colombia and *Chile Solidario*. Both include personalized support in the form of diagnostics of the main barriers, customized action plans to overcome them, and referrals from social workers.<sup>61</sup> Similarly, the Steps to Work program in Jamaica makes personalized referrals for the conditional cash transfer (PATH) beneficiaries to participate in relevant employment programs. In Bangladesh, the beneficiaries of the Rural Maintenance Program (public works targeted to women) are referred to microfinance institutions.

Programs (and beneficiaries) can be linked through *unified information systems* and/or *harmonized intake procedures*. Turkey has recently implemented an online information system that collects information on all beneficiaries (and applicants) of national social assistance programs, the different benefits they receive, and the conditionalities attached to the benefits. This database is linked to the e-school database to check on children's schooling, health database, and the public employment agency (ISKUR). Integration at the registry/MIS level facilitates monitoring and profiling of beneficiaries, and may support matching and referrals processes. *Juntos* in Colombia uses core information systems to identify its beneficiaries (the updated national targeting system Selection System for Beneficiaries of State Subsidies (SISBEN)) and to identify needs and gaps in coverage with services and programs.

Finally, programs and services can be integrated in a *one-stop shop*. This reduces the beneficiaries' transaction cost, and may also reduce the administrative costs of the programs. One-stop shops offer the possibility of triaging beneficiaries and have the capability of increasing program outreach and take-up rates for other services. While this

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<sup>60</sup> The program has been recently reformed and renamed. Throughout the paper we refer to it using its previous name.

<sup>61</sup> *Juntos* and *Chile Solidario* include relatively similar approaches in linking beneficiaries to support services, although their implementation arrangements differ. *Juntos*, as opposed to *Chile Solidario*, does not include any cash transfer, but many of its beneficiaries are also participants in the *Familias en Acción*, a CCT program. Participants in *Juntos*, who for some reason are not participating in *Familias*, receive no cash transfer. The cash transfer in *Chile Solidario* is conditioned on more general criteria of participation in the program and in working with the social worker.

approach is not common in the developing world, many developing countries are looking for examples of well-established one-stop shop offices in the EU and OECD countries, where activation services and social assistance programs are integrated under “one roof.” The United Kingdom and Norway are two such examples (see Box 6 for Norway). The British Jobcentre Plus provides a wide range of information and services, including benefits, loans, grants, and job search assistance. Thousands of job vacancies are advertised every week using the Labor Market System (LMS) computer system. These can be accessed by beneficiaries through Jobpoints (i.e., touch-screen computer terminals) and via the Jobcentre website.

### **Box 6: Integration of Activation Services in Norway**

The threefold organization of the welfare agencies in Norway - National Employment Service (Aetat), National Insurance Administration (NIA), and Municipal Social Assistance Services - was long considered sub-optimal. It raised concerns on a divided and fragmented administration, especially for those that needed help from more than one agency. In the late 90s, the government developed a proposal for a more coordinated social security system, with the setup of one-stop arrangements between the employment services and social welfare offices. The proposal consisted of merging the employment and insurance/pension services into one comprehensive service, and establishing a one-stop shop system at the local level together with the municipal social services. All claimants for unemployment, social assistance, sickness, rehabilitation, and disability benefits and those wishing to participate in ALMPs are serviced. The reform was finalized in 2009 and is quite similar to the reforms in the United Kingdom, Denmark, and Germany.

In line with the reform agenda, the 2006 Labor and Welfare Services Act gives the organization responsibility for a wide range of clients and issues: unemployment, sick leave, vocational rehabilitation, disability, social assistance, and old-age pensions. In particular, the Norwegian Labor and Welfare Administration (NAV) tasks include:

- i. Implementing labor market, social insurance, and pension policies
- ii. Providing incentives to benefit recipients to take up employment wherever possible
- iii. Assisting in job search and mitigating the effects of unemployment
- iv. Following up and controlling benefit payments
- v. Providing advice and guidance to employers and employees to prevent sickness, absence, and labor market exclusion.

The new NAV offers an integrated service consisting of job placement, job counseling, benefits, and active programs for all the above groups. According to NAV’s activation principle, the focus is on job search assistance and job clubs for easy-to-place clients, while skill-enhancing training and labor market programs are targeted at those most distant from the labor market.

Source: Kluge (2010) and Duell et al. (2009).

### ***Patterns in Graduation Programs in Lower Capacity Contexts***

**Low capacity contexts have experimented with different approaches to graduation usually involving the definition of broader and more comprehensive packages.** A first approach consists of adding a training component to a cash or food for work programs, which is also known as “*public works plus*”. Examples of these programs include the El Salvador PATI program and Papua New Guinea, providing additional technical and life skills training, and the Sierra Leone and Liberia Youth Employment Support Programs, providing integrated compulsory literacy, numeracy, and life skills training. A second approach delivers more *comprehensive packages* of benefits and services to SSN beneficiaries. The interventions comprise grants (or direct cash transfers) and complementary livelihood support packages, usually including microfinance services and/or asset transfers and skills development support.<sup>62</sup> These programs vary in the degree of integration (i.e., interconnectedness of benefits and services) and complexity of design, as well as with respect to the required intensity of monitoring and coaching by staff. Starting in 2006, the Ethiopian government enhanced the social assistance packages targeting the poorest under the Productive Safety Net Program (PNSP). Currently, some of the beneficiary households also receive subsidized credit to rebuild their assets or to purchase household packages consisting of agricultural inputs.<sup>63</sup> The government aimed to achieve approximately 30% coverage of the annual PNSP beneficiaries with the household packages for three years.<sup>64</sup> In sum, delivery of comprehensive social assistance packages is often the only possible avenue in low capacity contexts as these areas are characterized by severe supply side constraints where there are fewer services or programs to link safety net beneficiaries with.

**The graduation of safety net beneficiaries can be pursued through financial inclusion and microfinance programs, though recent evidence suggests that expectations should not be overly ambitious.** A significant number of countries focus on non-wage employment and in

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<sup>62</sup> They may also include asset transfers, literacy and numeracy training, income-generating skills training, health and education awareness, group formation and training, and micro-credits.

<sup>63</sup> This is often based on a business plan developed with the support of the extension services.

<sup>64</sup> See World Bank (2010e). One of the main challenges in the implementation of the PNSP was that the agricultural extension system was under-resourced and there were few skilled staff.

particular on improving the access of safety net beneficiaries to microfinance or mainstream financial services in order to foster self-employment. The objectives are to remove the barriers of lack of savings and access to financial capital, and to facilitate income-generating opportunities for the poor or to improve their ability to smooth consumption and cope with shocks. SSN beneficiaries are provided with financial services such as microcredit or saving accounts, sometimes accompanied by training (e.g., financial literacy, income-generating skills). Examples of such programs include the Vision 2020 *Umurenge* Program (Rwanda),<sup>65</sup> *Samurdhi* (Sri Lanka),<sup>66</sup> and the Bangladesh Rural Maintenance Program. In Bangladesh, the participants in the public works<sup>67</sup> are required to participate in mandatory savings plans and receive training in numeracy, income-generating skills, and micro-enterprise management. They are referred to microfinance institutions and receive business management advice one year after exiting the program. Evidence shows that three years after exiting the program, almost 80% were still self-employed in micro-enterprise activities.<sup>68</sup> However, recent rigorous impact evaluations<sup>69</sup> show that the microcredit impact on welfare and income generation (in particular entrepreneurship) is more modest than was thought, and that microcredit may work for some populations and contexts although not for others. Regarding saving accounts, the evidence is still limited.

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<sup>65</sup> The program encourages beneficiaries to save a portion of their wages to be utilized for income-generating activities in the future. In particular, the program opens a bank account where wages are deposited weekly. After one or two years, and when beneficiaries accumulate savings, the government provides a matching grant for those interested in starting their own business. The program promotes financial inclusion and encourages savings habits thus creating an enabling environment for beneficiary graduation. No rigorous evidence exists regarding the impact of the program.

<sup>66</sup> The *Samurdhi* combines a relief component (cash or food stamps) with mandatory savings and microfinance services for entrepreneurial and business development. The forced savings component requires beneficiaries of higher grants to contribute 20% of the value of their stamps as compulsory savings. These savings can be neither withdrawn, nor used as collateral, nor accessed in any other way. They are deemed to be used for financing secondary education and for retirement pension. The savings and credit component accounted for 45% of the total *Samurdhi* budget. This component was initially available only to *Samurdhi* households. Currently, it is available to all interested and loans are issued to members mostly for agricultural and self-employment activities. No rigorous evidence exists regarding the impact of the program.

<sup>67</sup> The program is targeted to women.

<sup>68</sup> See Hashemi and Rosenberg (2006).

<sup>69</sup> For a review of these impact evaluations and further references, see Bateman (2011) and Bauchet et al. (2011).

**Although the evidence is still scarce, some studies suggest that productive packages including investment grants and training increase the welfare of the poorest.** A recent impact evaluation of the *Atención a Crisis* pilot in Nicaragua found that two years after the end of project the welfare of the households receiving a package of a CCT together with investment grants to jump start non-agricultural activities and business training was significantly higher than the welfare of the households in the control group.<sup>70</sup> A more complex, integrated model is the “*ladder*” graduation promoted by the Consultative Group to Assist Poverty (CGAP) and the Ford Foundation (see Box 7). Although most of the projects are still in the pilot stage, preliminary results are encouraging.<sup>71</sup>

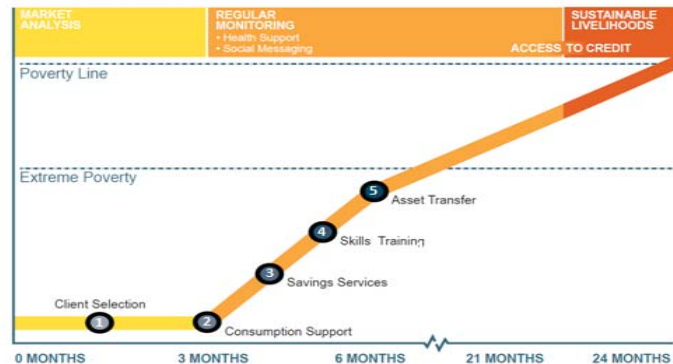
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<sup>70</sup> See Macours et al. (Forthcoming). Preliminary evidence also suggests that the well-being of households receiving the comprehensive package is also higher than the ones in groups receiving only the CCT or the CCT plus a vocational training package (including a stipend to compensate for income loss related to attending the courses).

<sup>71</sup> A randomized impact evaluation of the “Targeting the Hard Core Poor” (THCP) pilot in India finds that the program leads to a 15% increase in monthly consumption. This happened most probably due to an increase of income from small-scale household enterprises (see Banerji et al. 2010.)

### Box 7: Graduation Model Promoted by CGAP and the Ford Foundation

According to this model “graduation” refers to participants moving out of SSN programs and “graduating” into self-sustaining income-earning activities. Although initially developed by BRAC in Bangladesh, since 2006, CGAP and the Ford Foundation have adapted this experience to other contexts. Pilots in Ethiopia, Haiti, Honduras, India, Pakistan, Peru, and Yemen are under way through partnerships among financial service providers, NGOs, and SSN programs. The model includes consumption support transfers, *asset transfers*, and training, and it aims to “graduate” beneficiaries to microfinance over a relatively short period.



When implemented in partnership with safety net programs, the SSN provides the consumption support necessary for the first stage of the model. This transfer is meant to stabilize household consumption. Afterwards, beneficiaries are encouraged to start saving, usually in an individual account at a microfinance institution. They also receive skills training for specific assets or for running a small business. While rudimentary, this training is essential in managing successful businesses. The training also provides information on where to go for assistance and services. A few months after the program starts, each participant receives some form of subsidized asset transfer to help jump-start an economic activity. To identify sustainable livelihood options in value chains that can absorb new entrants, support services and market infrastructure must be thoroughly analyzed beforehand.

A crucial part of the model is the regular monitoring and coaching of participants by program staff. Weekly household visits by staff allows for monitoring and “coaching”. During these meetings, participants also improve their business planning and money management, along with social support and health and disease prevention services. Peer support in group meetings and self-help groups also promotes higher self-confidence. Several pilots have also created “village assistance committees” which typically include local community leaders. These committees support participants during the program and can continue to help them after the program is over. The program adopts a contractual approach, setting clear targets for participants.

Source: CGAP (2009).

**Sustainability and scalability are some of the main challenges behind the more complex graduation approaches in low capacity settings.** Most strategies in low income countries are relatively new and still in pilot stages. The most common challenges include their demand for highly intensive monitoring and coaching of beneficiaries, the degree of

complexity of some of the interventions, and the risks of sustainability and stability of the safety net programs to which they are linked. The Yemen Social Welfare Fund (SWF) illustrates some of these scalability risks. The program has rapidly expanded to provide cash transfers to 1 million households and in 2004, established the Beneficiary Development Program (BDP) with the aim of providing SWF beneficiaries skills training and economic advancement opportunities. The BDP delivered 44 training programs benefiting 23,000 individuals among SWF beneficiary households and provided 4,375 loans with a total disbursement of USD 1.8 million with a payback rate of approximately 80%. Most beneficiaries participate in the training program because they automatically get a loan after the completion of the program. However, the expansion of the SWF coverage and its services was not accompanied by adequate technical and operational support, which resulted in large inefficiencies. The BDP experience highlights severe challenges in staff capacity, preventing for example the reduced assessment of the beneficiaries' capacity to repay, as well as the low budget for case management and monitoring and evaluation of the program.

**Public works are an important instrument for providing short term employment in low income settings, but their promotional role is rather limited.** In low income countries, SSN beneficiaries are active in low productivity jobs and their main constraint consists in the lack of labor demand as well as lack of skills and means to participate in the economy. Public works, including Guaranteed Employment Schemes like those in India or Bangladesh, although not aiming at improving the employability of beneficiaries, are important instruments to provide them with temporary employment and wage earnings, and thus maintaining their links with the labor market. In some cases, evidence shows that public works can help beneficiaries to escape poverty. However, from this perspective their impact is rather similar with the impacts of other cash transfer programs with equivalent benefit levels. Still, in low capacity and fragile settings, the provision of cash or food for work is likely to be a better alternative to costly interventions with sustainability risks.



**A new role for Social Funds?** In several low income countries, Social Funds are experimenting with various employment generation and graduation programs targeted to the poor, including safety net beneficiaries. Such programs include, among others, public works linked with training or assets transfers linked with microcredit (e.g., Yemen and Sierra Leone). Innovative use of combinations between safety nets and Community Driven Development (CDD) operations are being tested in India, the Philippines, and Tanzania. Although Social Funds may not be the long term mechanisms to deliver safety nets or microcredit, their capacity and experience in working with vulnerable groups at the community level makes them a promising delivery channel for linking beneficiaries with graduation interventions, in particular in low capacity settings or in response to a crisis.

### ***Patterns in Activation Programs in Higher Capacity Settings***

**In MICs, as in the OECD, the activation agenda is also increasingly prominent, but the approaches and the delivery models have large regional variation.** At one extreme are the social assistance systems in ECA where the activation strategies focus mostly on incentive compatibility: low benefit levels, frequent recertification, mandatory community works, and mandatory registration with employment services (e.g., Bulgaria and Romania). In most middle income countries in this region, the social assistance is still characterized by a relatively high degree of fragmentation, passivity, and disconnect from labor market policies and programs. At the other end of the spectrum are some of the newest initiatives in LAC. There, countries are exploring different models of bridging and integrating existing programs to link beneficiaries with a larger array of support services, and by tailoring the activation programs to respond to the needs of SSN beneficiaries.<sup>72</sup> In-between are the middle income countries from the East and South Asia Regions with developing strategies of linking beneficiaries to other programs and services, but constrained by a relatively scarce supply of these services and thus mostly focused on non-wage employment (i.e., microfinance and entrepreneurship support). The Philippines is such an example. There are

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<sup>72</sup> In such countries, the menu of available activation programs is comprehensive, ranging from active labor market programs to financial inclusion.

ongoing efforts to better integrate the existing safety net (*Pantawid Pamilyang Pilipino* Program – 4Ps) with financial services and entrepreneurship training. In particular, existing linkages are being strengthened between the 4Ps and the Self-Employment Assistance–*Kaunlaran* (SEA-K) Integrated Program, which aims at improving the capacity of the economically active poor to create micro-enterprises.

**Linking SSN beneficiaries to active labor market programs and services seems a promising approach to overcome welfare dependency and achieve self-sufficiency; nevertheless, the results are mixed and dependent on implementation arrangements.** In 2003, Bulgaria introduced a program (From Social Assistance to Employment) to (i) generate temporary employment and promote the social integration of the unemployed receiving social benefits and (ii) increase the employability of persons within the program. The program provided wage subsidies for employing long term unemployed social assistance beneficiaries for a period of at least nine months. In addition, beneficiaries could access literacy/vocational courses combined with part time employment.<sup>73</sup> A non-experimental evaluation covering the period 2003-2004 suggests mixed effects.<sup>74</sup> The study found that participation in the program reduced significantly the unemployment spell, increased self-confidence and job search motivation of beneficiaries, and also had positive results for the local communities (through the creation and maintenance of public goods, including social services). However, the gross impact on employment was rather small, and the net impact was estimated to be negative. Furthermore, the evaluation found that 14% of the projects (and the subsequent effect on employment) would have occurred even in the absence of the program. In addition, findings also show that the program did not increase the chances of participants to find a regular job, attributing this to the low levels of training provided before or during employment under the project and to a tendency of participants to stay in subsidized

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<sup>73</sup> Priority was given to the long term unemployed (registered with the Employment Bureaus for more than 24 months) receiving social assistance benefits for more than 18 months, members of a family with children in which both parents were unemployed, and unemployed single parents receiving social benefits.

<sup>74</sup> Koning et al. (2007) do not explore an experimental design but rather an ex post evaluation based on a cross-section survey. Despite the challenges in sampling and comparability of the treatment and control group, the evaluation may provide indicative information about the program impact.

employment. Another example of activating safety net beneficiaries with a wage subsidy comes from *Proempleo*, a pilot launched by the Argentinean government in 1998-2000. *Proempleo* targeted *Trabajar* workfare beneficiaries and offered training and job vouchers entitling private sector employers to a wage subsidy. Experimental evidence shows that the program helped voucher recipients transition into a temporary employment but had no effects on income gains in the short term.<sup>75</sup> Anecdotal evidence suggests that the temporary employment outcome was driven by a “demonstration effect” of the voucher. In particular, beneficiaries holding the voucher may have made beneficiaries more confident than the average *Trabajar* beneficiary. Alternatively, holding the voucher made beneficiaries more confident in approaching employers and active in finding a job.<sup>76</sup>

**Evidence shows that the success of activation strategies also heavily depends on capacity.**

In 2006, the Government of Argentina implemented the program *Seguro de Capacitación y Empleo*. The program combines a non-contributory unemployment benefit with a set of activation conditions and requirements such as attending a training course and enrolling in public employment services.<sup>77</sup> Upon registration with the municipal employment offices (EO), beneficiaries receive labor intermediation services and technical assistance to start small businesses. Beneficiaries sign an agreement to: (i) accept job offers received through the EO; (ii) participate in interviews and job placement workshops organized by the EO; and

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<sup>75</sup> The level of the subsidy was designed to avoid displacement effects and was received by hiring firms conditional on registering the worker formally. Galasso et al. (2004) provide estimates of the program impact on the probability of employment on the order of six percentage points with respect to the control group, mostly among women, younger and more educated workers. There are no effects on labor earnings since the program helped workfare beneficiaries access temporary employment in the formal labor market at wages similar to those obtained in the *Trabajar* program.

<sup>76</sup> Few rigorous evaluations of activation programs focus on SSN beneficiaries. Following the crisis in the late 90s, the Government of Argentina experimented with multiple programs targeted to the *Jefes* beneficiaries. Results from rigorous evaluations led by the Bank show that promotion of self-employment activities and provision of wage subsidies are effective channels to transition at least some of the beneficiaries. Almeida and Galasso (2010) show that providing women with technical assistance and in-kind grants to support self-employment activities may be an effective way to foster employability. The self-employment support, however, produces greater results for the younger and more educated beneficiaries, and for those with previous self-employment experience.

<sup>77</sup> While income transfers were managed centrally by the Ministry of Labor, services were provided at the municipal level. By July 2010 nearly 200,000 workers had participated in the program, through more than 300 employment offices across the country.

(iii) join training activities (both basic and professional) offered to them by the EO. In October 2010, only 26% of *Seguro* beneficiaries received employment and training services and nearly 47% exited the program because they reached the maximum time limit (two years). Only 20% exited the program into formal employment. This experience suggests that the establishment of a network of public employment services requires a longer term effort in capacity building. The incipient nature of public employment offices, including the reduced staff and low administrative capacity, were important constraints in the implementation of the program.<sup>78</sup>

**Some countries are also moving towards more integrated systems ensuring better coordination of the supply of support services and providing customized assistance to address specific needs of beneficiaries.** *Chile Solidario* and *Juntos* in Colombia are among the most structured examples of integrating social assistance with activation policies. Box 8 describes in detail the case of *Chile Solidario* (CHS) first introduced in 2002. Appendix 2 describes *Juntos*, a very recent pilot in several Colombian municipalities.<sup>79</sup> On the supply side, programs are integrated in the sense that different government offices and local service providers coordinate in assessing beneficiary needs and in adapting existing programs and services to the needs of the poorest population in each municipality. For some programs, this is likely to require substantive adjustments, both in terms of expanding and reorganizing the supply of services.<sup>80</sup> On the demand side, beneficiaries – the extreme poor – are ensured “preferential access” meaning that they have priority access to the

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<sup>78</sup> A survey of employment offices was carried out at the end of 2009 to evaluate the program implementation processes and the quality of service delivery. Data show that only 50% of offices had a computerized guide to resources and that about 35% of offices never used the national computer platform to register training courses or to make training referrals. In most of the cases, information about the local labor market is obtained through informal conversations with employers and municipal analysis.

<sup>79</sup> Other countries are trying to implement similar approaches including Brazil, Ecuador, and El Salvador.

<sup>80</sup> Often the existing supply of services is not adequate for the target population. For example, access to microcredit services can be problematic for some of the extreme poor who do not have the financial literacy to use those services. *Chile Solidario* and *Juntos* try to rationalize the supply of public institutions by adapting the existing services to the target population. Moreover, to support the employability of people in extreme poverty, it is not just enough to know the beneficiary’s profile and working trajectories. Knowledge of the demands of the local labor market is essential. It is thus necessary to have an updated analysis of local markets, often micro-markets, where the beneficiaries develop their economic activities.

supply of social programs and services available to them and for which they apply. Social workers play a key role in the activation strategy by informing, counseling, and encouraging beneficiaries to access employment programs tailored to their needs and capabilities. Early evaluations of *Chile Solidario* show that in the short run the program has significantly improved the take-up of transfers and social programs related with housing, training, and employment.<sup>81</sup> A more recent evaluation of CHS also finds a positive and significant impact on the employment and income of spouses of heads of households (but not among men and female heads of households).<sup>82,83</sup> The impact is greater in rural areas, in municipalities with a good network of social services, and among families assisted by social workers with a low caseload.

**The most important implementation challenges of the integrated approaches relate to the institutional coordination and the creation of the “right set” of incentives to include the “hardest to serve”.** Effective activation programs in MICs usually imply institutional coordination across the different ministries and implementing agencies. This represents a challenge in many countries. For example, in Colombia, the coordination of existing programs is organized in partnership with local authorities at the departmental and municipal levels through formal agreements. The coordination is led by the Ministry of Social Protection (MSP) and the National Planning Department (NPD) but the program administration remains housed in the respective institutions/agencies. A key element in implementation is the collaboration and coordination between the central agency running the *Juntos* strategy, national public agencies providing services in the key dimensions of the

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<sup>81</sup> Galasso (2011) and Carneiro and Galasso (2007) document the short and medium term effects of the program on cohorts in the first two years, before the program was completely phased-in nationally. They exploit the exogenous geographic variation in the assignment of the program to estimate the impact of the program on a large array of socio-economic outcomes (including health and education outcomes) and on access to programs and services.

<sup>82</sup> Carneiro et al. (2010) expand previous analysis and use a panel of CHS beneficiaries. They analyze the impact of CHS on take-up of subsidies and employment programs (only some of the available employment programs are evaluated), income and employment of family members, improvement in housing conditions, and psycho-social variables such as self-esteem, optimism toward the future, work and school self-efficiency scenario, and perceived family and work support.

<sup>83</sup> Nonetheless, it is important to note that most male heads of households were already working when the program started, and there was limited room for improvement.

strategy, local or departmental service providers, and the municipal governments. The government engaged in partnerships with 80% of the municipalities and developed instruments to support the coordination of agencies at the national level.<sup>84</sup> Another key element of the integration strategy is the approach to program financing. In *Juntos*, resources are hosted at the NPD and channeled to the different ministries involved. A budgeting mechanism is in place, according to which the government disburses resources to the public agencies conditional on whether services are provided to the targeted population and whether services need to be redesigned.

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<sup>84</sup> For instance, the central service providers are expected to specifically set aside some of their resources (number of spots) for *Juntos* beneficiaries in their annual budget proposals, and to adapt their services to the poorest groups (adapting the nature of a training course, for instance, to reflect the lower literacy prevalence amongst the *Juntos* population).

**Box 8: Promoting Employment in the Labor Market: A More Sustainable Exit Strategy –  
The Case of *Chile Solidario***

*Chile Solidario* (CHS) is a system of social protection programs targeted to the extreme poor that combines social assistance with activation policies and services aimed at fostering employability. The program targets to meet a set of pre-defined criteria related with seven dimensions of the quality of family life: identification, health, education, family dynamics, housing, work, and income. For each of these seven dimensions, the family is expected to achieve a minimum set of welfare conditions throughout the lifetime of the intervention.

CHS has four different dimensions: (i) an intense phase of psycho-social support implemented by local social workers or technical staff in a personalized way to each home to help families achieve the minimum conditions; (ii) cash transfer conditional on the family meeting the contract; (iii) guaranteed cash subsidies families are entitled to (family allowances, old age pensions, and water subsidies); and (iv) preferential access to social services related to the minimum conditions. It is worth noting that families get "preferential access" to programs related to these conditions for five years, but their coverage under the social protection system is not limited to five years. Families obtain coverage as long as they meet the eligibility conditions for the various benefits.

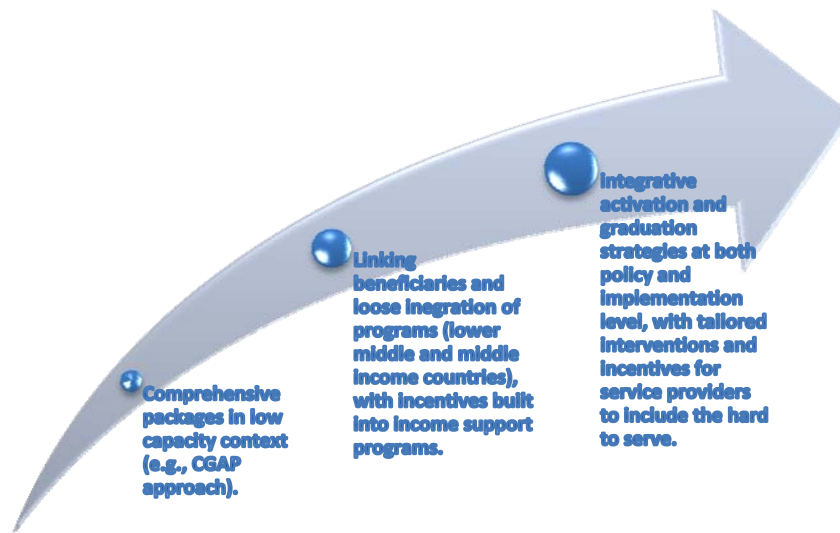
Within the work dimension, CHS has set three minimum conditions to be achieved by the beneficiary families: (i) at least one adult family member works regularly and earns a steady income; (ii) no child or young family member under 18 years drops out of school; and (iii) all unemployed family members are registered with the Municipal Office for Labor Information. Over the past eight years of program implementation, CHS has faced many challenges in the promotion of this work dimension. Below are some of the main lessons accumulated:

- i. Knowing the work trajectory of individuals provides important signals for the design and organization of social support services.
- ii. A wide range of programs is needed to support employability to ensure that the supply side is relevant to the beneficiaries' characteristics and needs. These include, job training, especially for young people, which may include completion of primary or secondary education; training for work, especially for those who have not worked or have had a long period of unemployment. This includes the development of socio-emotional skills for job performance; labor intermediation; seed money for self-employed in the form of grants in order to improve an ongoing business or to start a new one; technical assistance for small businesses, including support in the design and implementation of a business plan; and links with options for microcredit and/or small business loans.
- iii. Labor intermediation is essential in the supply of programs to support employability and labor inclusion.
- iv. The local context significantly influences the type of support required and the results to achieve.
- v. Supporting second income earners is a very effective strategy in overcoming extreme poverty and creates a more balanced power relation within the family.

Source: Carneiro et al. (2011) and Galasso (2011).

**The institutional and administrative capacity determines to a large extent not only the approach to be used to deliver graduation interventions but also their outcomes.** Integrating safety nets with activation and graduation interventions and programs can be achieved at different levels. In low capacity settings, with a low supply of services able to improve employability of the poor, integration of graduation measures in safety nets is done mostly at the program and beneficiary levels through comprehensive packages. In higher capacity settings with more complex social assistance systems and with supply of employment services, the integration is increasingly being done at multiple levels – policy, systems, programs, and beneficiary, whereby a framework defines the roles, responsibilities, and incentives of institutions, service providers, and beneficiaries.

**Figure 5: Integrating Safety Nets and Activation/Graduation Interventions As a Function of Capacity Context**



#### **4.2 More General Active Labor Market Programs**

This section reviews the evidence on the effectiveness in fostering employability and productivity of other active labor market programs that are not necessarily targeted to safety net beneficiaries. These programs are usually available to those who are willing and interested in their take-up (as long as they fulfill some of the predefined conditions). We



initially cover the evidence for skills building and signaling programs, including comprehensive trainings for youth, second chance literacy and numeracy programs, and vocational and technical education. We then proceed by looking at the evidence for wage subsidies to the private sector, employment support services, and entrepreneurship support. This section draws on several World Bank reports for country projects, selected journal articles, and several meta-analyses.<sup>85</sup>

### ***Comprehensive Training Programs for Youth***

**Comprehensive training programs, combining vocational and life skills with hands-on experience, are increasingly popular to reach out to vulnerable youth.** Comprehensive programs targeting unskilled youth were a popular approach in several regions of the world including Latin America.<sup>86</sup> Possibly their most relevant feature, which remains attractive today to many countries, is the comprehensiveness of the trainings in the interventions covered.<sup>87</sup> It includes strong investment in technical or vocational skills, often coupled with life skills and followed by a period of on-the-job work experience (promoted through private sector internships). Many programs especially in middle income countries tend to be followed by a period of counseling and job placement assistance (provided through

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<sup>85</sup> See Dar and Tzannatos (1999), Betcherman et al. (2004, 2007), and Ibarra and Rosas Shady (2008). Throughout the paper, we chose to restrict attention to programs outside the OECD. There is extensive work on the OECD, especially in Europe (see Kluge 2006, Martin 2000, Martin and Grubb 2001). The evaluations of the reforms in Germany, the United Kingdom, Australia, and Sweden have proven to be especially relevant for developing countries.

<sup>86</sup> The *Jóvenes* type of model was developed in several countries Argentina (*Proyecto Joven*), Chile (*Chile Joven*), Colombia (*Jóvenes en Acción*), Dominican Republic (*Juventud y Empleo*), Peru (*Projoven*), and Panama (*PROCAJOVEN*). More recent experiences include the Kenya Youth Employment program; the Argentina Youth Internship Subprojects where work experience is combined with education and training, with the possibility of assessment and certification of competencies; and the job voucher and training pilots in Jordan.

<sup>87</sup> Several design characteristics were common to these programs. First, is the coordination by the state, civil society, and the private sector. The state assumed the responsibility for the design, supervision, technical control, and full or partial financing of programs. Implementation was done by state agencies and civil society, which received support services to develop their operational, technical, and administrative capacity. The private sector provided spaces for work experience and in so doing, ensured that the training delivered met real market needs. Second, the targeting, included geographical location, duration of the training package, qualification level achieved, conditions for work experience and the amount of subsidies was intended to ensure that it reaches the target population and not "borderline" social groups. Third, the decentralized implementation was regulated by market mechanisms. Finally, the training went beyond specific occupational skills and incorporates curriculum to improve communications, personal relations, and self-esteem. See Betcherman et al. (2004).

employment services). They were also characterized by private sector contracting of training and work experience.

**Trainees of more comprehensive programs are more likely to find a job and tend to have better quality jobs than non-trainees, although differences in labor earnings are mixed.**

Evidence has shown that in many middle-low income Latin American countries, comprehensive trainings tend to be effective programs in promoting employability, especially among women and younger groups.<sup>88</sup> Table 4 summarizes the post-training effects on employability and earnings. Even though the results are mixed for labor earnings, the results from the evaluation of the Colombian *Jóvenes en Acción* show significant effects, particularly for women. In addition, the evaluation also shows that youth move up the “career ladder” with a greater percentage of women and men having access to jobs with written contracts and health and social security coverage. In sum, the overall average impact on earnings seems to be driven both by a combination of increased employment and an increase in the productivity of those employed through greater access to better jobs.<sup>89</sup>

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<sup>88</sup> Most of the evaluations to date have focused on testing the overall effectiveness of the programs (all components). A focal point of the more recent wave of evaluations (e.g., Dominican Republic Youth Employment Training and Kenya Youth Employment programs) is the importance of individual program components, including technical versus life skills and classroom versus on the job training. In reference, see Attanasio et al. (2011).

<sup>89</sup> See Attanasio et al. (2011).

**Table 4: Comprehensive Training Programs in Latin America**

<b>Program/ Country/ Implementation Period</b>	<b>Number of Beneficiaries</b>	<b>Effect of Program on Employability</b>	<b>Effect of Program on Wages</b>	<b>Effect of Program on Job Quality</b>
Argentina <i>Proyecto Joven</i> 1994-1998	100,000 and 180,000	0% and 11%, 10- 30% for those less than 21 years old).	No significant pattern.	0 -3%; 6-9% for youngest in one cohort.
Chile <i>Joven</i> 1992- 1997	100,000	18-22%; effect is larger for youngest groups.	22-25% but imprecisely estimated.	15-23% larger for youngest groups.
Colombia <i>Jóvenes en Acción</i> 2000- 2005	100,000	5% for women; no effect for men.	18% for women; 8% for men.	6-7% for women; 5-9% for men.
Dominican Republic <i>Juventud y Empleo</i> 1999-ongoing	30,000 (through 2006)	No effect; approx. 5% but not significant in the East and Santo Domingo.	17%; larger for males under 19 years old.	Health insurance 9% higher for men than for women (43% vs. 34%).
Panama <i>PROCAJOVEN</i> 2002	11,400	No effect; between 10% and 12% for women and in Panama City.	Little or no effect; 38% for women; 25% in Panama City.	Positive effects (10-20%) since 2002.
Peru <i>Projoven</i> 1996	160,000	13%; 20% for women and no effects for men.	Between 12% and 30%.	Overall not significant.

Source: Authors' adaptation from Ibararan and Rosas Shady (2008).

Note: The table reports the effect of participation on the likelihood of being employed, having a high quality job, and average labor earnings. Job quality is measured by whether the program promoted the integration into a formal job as defined by receiving a contract and/or receiving health insurance. Estimated impacts are expressed in percentage changes.

**Although the evidence is still weak, comprehensive training programs tend to be cost-effective interventions.** Estimates for the unit cost range from the upper USD 600s to about USD 2,000 per participant. Some back of the envelope calculations have also shown that, for Latin America, these programs have been cost effective. For example, internal rates of return are above 4% in the Dominican Republic. The Colombian version of the program,

*Jóvenes en Acción*, has also shown large returns assuming that that some of the skills depreciate overtime but that individuals have a working life of another 40 years.<sup>90</sup> The most costly programs in this wide-ranging Latin American experience is *Proyecto Joven*, which subsequently hampered its sustainability.

**Complementing selected vocational trainings with non-cognitive skills (also known as soft or life skills) is a promising approach to reach out to the most vulnerable youth.** Following the trends in the demand for labor, the most recent comprehensive training programs often complement technical and vocational trainings with soft or life skills.<sup>91</sup> The latter are intended to develop basic skills on livelihood and social interactions as well as work-related practices and attitudes.<sup>92</sup> One example of a program blending the technical and life skills is *Juventud y Empleo* in the Dominican Republic. This intervention offers training courses and apprenticeships in private firms to the unemployed, under-employed, and inactive youth between the ages of 16 and 29 years old. The success of the program stems from the combination of training courses divided in two modules: a module of basic life skills to strengthen life skills and non-cognitive skills such as self-esteem, conflict resolution, and communication. A second module of vocational training developed with the private firms, aims at providing technical needs to the beneficiary during an internship. Between 2008

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<sup>90</sup> Attanasio et al. (2011) estimate a lower bound to the benefits of the program by looking at alternative patterns of the gains in wage and salary earnings. They consider two alternative scenarios: (i) earnings gains are permanent but do not grow over time; and (ii) a 10% depreciation rate in these gains (which is more realistic since some of the skills acquired also depreciate over time). They assume that the working life of these individuals is another 40 years, given that their average age is about 22. On average, the costs of the program tend to be about one eighth of the lifetime benefits.

<sup>91</sup> Almeida et al. (2011a) reflect on optimal skills development policy around the developing world. They show that skills are considered by many employers as a key constraint to growth and productivity. Furthermore, employers are looking for people who have good technical (cognitive) skills, giving them the ability to think creatively and solve problems, but also with strong non-cognitive skills, who can communicate effectively with co-workers and managers, resolve disputes and conflicts constructively, work in teams, understand employer expectations for behavior on the job, and keep their working lives on an even keel through their financial and health practices. These are known as "soft" or "life" skills. Anecdotal evidence shows that these are increasingly important as to whether a young person is viewed favorably by an employer.

<sup>92</sup> The latter includes skills like how to perform in job interviews, personal strategies for looking for jobs, interview techniques, and curricula preparation, as well as techniques to improve the beneficiary's self-esteem. The modules usually range from 40 to 200 hours of training.

and 2009, the program offered 650 courses and covered 13,000 beneficiaries.<sup>93</sup> The ongoing experimental impact evaluations of the Dominican Republic *Juventud y Empleo* and the Kenya Youth Employment program are designed to determine whether these skills alone increase employability. Anecdotal evidence from the *Entra 21* program also shows that participants have greater ability to take responsibility and work in teams.<sup>94</sup>

**Strong collaboration with the private sector, both in the selection of the training contents and in the provision of workplace internships, is a critical component of success.** A core component of these programs is the accentuation of demand-driven skills training. This has been ensured by ex ante agreements between training providers and the private sector that hosts the internships for graduates. Many programs either provide a wage subsidy or a subsidized training period – especially for young mothers – to promote learning by doing. And, the benefits of the on the job experience can be dramatic. Evidence from a recent impact evaluation shows that the benefits of participating in *Jóvenes en Acción* are greater the larger is the time spent with on-the-job training. The total hours spent in the classroom training have no impact on the overall rate of return of the program.<sup>95</sup> In addition, the promotion of a competitive market for training providers may have played an important role in the success of these vocational trainings. Through a competitive bidding process, many programs in Latin America selected training providers based on experience and the quality of their training proposals. To be eligible for funds, providers were required to lineup internships and identify the types of skills that are needed by the private sector. Anecdotal evidence suggests that developing strong counseling services (prior to program enrolment)

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<sup>93</sup> Tesliuc et al. (2010) describe in detail the program and the methodology for the ongoing impact evaluation.

<sup>94</sup> One of the most recent skills training programs for youth is *Entra 21*. These programs include a behavioral (life) skills component, covering the improvement of a range of personality traits such as motivation, socio-emotional regulation, time management, and the ability to work with others (see *Entra 21* 2009). This initiative was developed in 2002 by the International Youth Foundation to improve employability of disadvantaged youth by providing training in information and communication technology. Program evaluations in El Salvador, the Dominican Republic, Peru, Panama, Colombia, Paraguay, Bolivia, and Brazil have shown not only improved chances of a participant getting a job but also a higher quality job.

<sup>95</sup> Attanasio et al. (2011) show that the employment and earnings gains are greater the longer the duration of on-the-job training. Moreover, the study also shows that the when the skills taught in the classroom and on-the-job training were the similar there are larger employment and earnings gains.

and job search assistance following training completion are important complementary steps.

**Nevertheless, currently the public sector remains largely involved in the provision of these trainings, both through full financing and by defining the overarching regulatory and monitoring framing.** In most countries, these vocational trainings are fully publicly funded with bilateral and international donors playing a more important role in low income countries. For example, internship financing usually would be shared between the Ministry of Labor and the employers offering internships. Employers would finance some portion of on-the-job training and a stipulated minimum remuneration for youth during their participation in the internship while the Ministry would finance a stipend for participants and arrange training outside of the workplace. Regardless of financing and delivery methods, governments are usually responsible for setting an overall skills strategy, priorities, and monitoring and evaluation.

### ***Second Chance Education and Trainings***

**When many of the most vulnerable frequently lack the most basic functional literacy and numeracy skills, second chance programs become a priority to promote employment and further skills development opportunities.** While literacy rates continue to improve they are still as low as 72% for Sub Saharan Africa, and far lower in specific countries (e.g., Benin 39%). Second chance training programs allow youth and adults to finalize their basic and/or secondary education through part-time schooling. Literacy and numeracy programs, equivalency degrees, and accelerated learning programs are designed to teach basic skills who did not acquired them by the time they left school. Around the developing world, programs are very diverse. They may be as simple as adult literacy programs or as complex as a package of cognitive and non-cognitive capacities.<sup>96</sup>

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<sup>96</sup> Second Chance programs are usually classified into *second chance education programs* and *second chance training programs*. Within the first category, there are two types of programs: (i) programs that provide primary education level knowledge and skills to enable access to secondary education; and (ii) programs that

**Second chance programs are effective in promoting skills, and possibly employability, especially when the program is certified.** The most well-documented and -analyzed second chance programs are for OECD countries.<sup>97</sup> For example, evidence from the JOBSTART program in the United States shows that participants had a higher likelihood of earning their General Education Degree (GED), which is the equivalent of a high school diploma, as opposed to a matched control group of non-participants.<sup>98</sup> The long-term economic benefits of earning a GED have been refuted by some economists.<sup>99</sup> Second chance programs are more successful when they provide some certification. Certification provides proof to the potential employer that the person has acquired basic skills and thus mitigates informational problems.<sup>100</sup>

**Second chance component of *Chilecalifica* is probably one of the most successful programs in the context of a middle income country.** It was designed to provide beneficiaries with basic education and/or technical and vocational training. Unlike a GED, the degree in Chile is indistinguishable from an ordinary school diploma. The fact that the initiative is free, well-promoted, and supported with its own materials and flexible services customized to poor youngsters and adults proves that formal education is considered key in training for work. Preliminary impact evaluation results suggest an increase in wages and greater post-program schooling of *Chilecalifica* beneficiaries, particularly for women; though the small sample size and selectivity issues may positively bias the results.<sup>101</sup>

### ***General Technical and Vocational Trainings***

**General technical and vocational training programs are the most common type of activation programs in the majority of countries around the world.** An important barrier to employability for many of the most vulnerable, regardless their income or age, is the lack of

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provide general secondary education level knowledge and skills such as accelerated learning programs to primary education graduates (Mattero 2010).

<sup>97</sup> See Mattero (2010).

<sup>98</sup> See Cave et al. (1993).

<sup>99</sup> See Heckman and LaFontaine (2006).

<sup>100</sup> See Crawford and Mogollon (2010).

<sup>101</sup> See Santiago Consultores (2009).

relevant technical and vocational skills to engage in a productive occupation.<sup>102</sup> This is often the result of the lack of information on which skills are most valuable in the labor market or due to the lack of resources to invest in their own human capital. The main objective of large scale training programs is to promote employability through the public provision of technical and vocational skills to the unemployed or those in low productivity activities.<sup>103</sup> In countries with limited social assistance, publically sponsored trainings may be an important social protection instrument.<sup>104</sup> Traditionally, they have been organized and provided by the state but increasingly they are being privately provided. An example of an ongoing World Bank collaboration is the vocational trainings for the unemployed offered by ISKUR, the Turkish employment offices.

**Program success is deeply related with the content of the skills provided and how well they serve the local labor demand.** The Mexican *Probecat* was an influential program, shaping more demand-driven vocational trainings, which are currently present in many Latin American countries.<sup>105</sup> *Probecat* is characterized by three features. First, there is complete separation of the financing and the provision of training. The government selects training courses competitively, through a process where private but also public firms/training institutions may also participate. Second, the government does not

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<sup>102</sup> According to the Enterprise Surveys, the share of firms worried about inadequate worker education and skills averages about 25% among countries in the OECD and in Europe and Central Asia, 40% among countries in Sub-Saharan Africa, and 50% among countries in East Asia and the Pacific. Even in Europe and Central Asia where the countries have enjoyed a legacy of high skill endowments, the great majority of firms surveyed in 2008 considered deficits in education and skills to be a major or severe constraint. For a discussion see Almeida et al. (2011a) and Banerji et al. (2010).

<sup>103</sup> Publically financed vocational and technical trainings are in most middle income countries the most popular activation programs. In the early 2000s, training represented the largest category (or 36% of total expenditure in ALMPs among OECD countries). Public employment services and job subsidies accounted for 25% and 20%, respectively. far below what countries generally spend on micro-enterprise development and self-employment support programs.

<sup>104</sup> Usually, a small income support to cover transportation and other dietary costs – stipend – is granted to the beneficiaries in exchange for attending the trainings. They are usually a strong incentive to participate.

<sup>105</sup> In 1984 the Mexican Ministry of Labor launched *Probecat* as a job training program targeted to unemployed workers. The program aims at providing training skills to unemployed workers to help them find a job and a subsistence stipend during the training period. Individuals among 15 and 55 years old are eligible to participate (Wodon and Minowa, 2009) showing that program reducing the length of unemployment and increasing earning participants in the short term. However, it does not represent medium to long run effects in the participants.



autonomously set the contents of the trainings thus making them more demand-driven. Third, classroom training is always followed by private sector internships where trainees acquire on the job training. *Probecat* was very effective in placing the short term unemployed, and internships were essential to the success of the program. Most evidence also suggests increased training effectiveness when there is a strong consultative process involving employers and business associations, providing general direction on which trainings are offered.<sup>106</sup>

**In countries with greater implementation capacity, promoting a close follow up of trainees and disseminating the information to prospective students may be important ingredients of success.** One should not downplay the relevance of conducting a rigorous follow-up of trainees on the labor market and the importance of disseminating this information for prospective students. Having information will allow students to do a more careful and informed selection on which courses to take. Although the evidence is still scarce, developing a competitive market for training providers could be associated with higher overall quality of the trainings. For example, in ECA very few public employment services still run their own trainings. Rather, they seek training services from other public and private sector agencies. Contracts are usually competitive.<sup>107</sup> Public employment services typically contract for a selected number of training slots or days of training. In some countries, the training contractor may provide additional counseling services. Often the training contractor is required to accept a negotiated placement of a portion of the trainees

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<sup>106</sup> In addition, most OECD countries have highly structured processes to determine the demand for skills and different occupations. Most sophisticated projections explore multiple data sources, including labor market data, employer surveys, and focus groups.

<sup>107</sup> For example, in Bulgaria, Hungary, Poland, Romania, Serbia, and Slovenia public employment services purchase training programs from various providers through public tenders. In Ukraine or Azerbaijan, public employment services run training centers but the training provider provides flexible modular training. The employment services provide the premises and cover the costs while the provision of training is contracted out to private providers.

in jobs.<sup>108</sup> Although evidence is still lacking, countries where providers are incentivized with well-designed incentive contracts may perform better in the placement of their trainees.

**Complementing trainings with a personalized counseling and customized job search assistance also increases program performance.** As discussed above, important components of successful vocational trainings are well-designed incentive contracts and strong links between the training providers and local employers. The ex ante and ex post links with employment services are also increasingly important. The most vulnerable individuals often have very limited information on which occupations are in highest demand and offer the highest returns. Having a comprehensive profiling assessing the skills required to find a job with prospects is very important to promote the right set of investments. In addition, most programs in the OECD and some Latin American and Eastern European countries are also incorporating at the end of trainings strong links with job search assistance. A recent meta-analysis suggests that this training model has more success in improving employment outcomes.<sup>109</sup> An ongoing impact evaluation of the ISKUR vocational trainings is also shedding light on this.

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<sup>108</sup> See Kuddo (2009).

<sup>109</sup> See Betcherman et al. (2004).

### **Box 9: Turkey ISKUR Vocational Training Programs**

Skills upgrading of the labor force is central to enhancing productive employment in Turkey. Although skills are best acquired the first time around and reforms to improve skills while in school are the most cost effective, their impact materializes only in the long run. Meanwhile, there is a large share of the working-age population (15-64) that does not have the basic skills to find a job or to get out of informal/low productivity jobs. The expansion and improvement of the ISKUR vocational training program since 2008 have been instrumental to the government employment reform agenda.

The 2008 labor package allowed, among others, all registered unemployed to benefit from Active Labor Market Programs (ALMP). The coverage of ALMP, mainly of the vocational trainings, has expanded significantly since 2009: the number of beneficiaries is expected to be around 400,000 in 2011, from just over 17,000 in 2006. In addition, a number of reforms to improve the quality and relevance of vocational training have been introduced, including the development of a national qualifications framework for vocational education and training (ongoing), the introduction in 2010 of quality criteria in the selection of training providers, and the launch of the UMEM project, which will provide quality vocational training in technical schools and internships at TOBB businesses.

The World Bank is currently engaged in the evaluation of vocational training programs provided by the Turkish Public Employment Agency (ISKUR). The ISKUR impact evaluation is the first rigorous evaluation of a nationwide, public training program in Europe and Central Asia (ECA). The sample consists of more than 5,000 beneficiaries across 95 training courses in more than 20 ISKUR provincial offices. The main objective of this evaluation is to shed light on the average effect of participation in an ISKUR training program on job placement, labor earnings, and employment quality.

The evaluation takes measure of the effects of the program on beneficiaries with different profiles. The evaluation will, in addition, identify the main channels through which ISKUR trainings may influence the beneficiary's labor market outcomes. For example, ISKUR trainings may increase individual productivity (or wages) through the acquisition of relevant vocational skills (either cognitive or non-cognitive skills). Alternatively, they may contribute to increased employment through reduced costs of searching for a job (through better connections with employment services) or a greater effort in searching or networking. Understanding the impact of the program on these intermediate outcomes is important not only to understand how public trainings may actually make a difference in Turkey but also help regional offices improve the effectiveness of these vocational programs by linking them with other services (like counseling and job intermediation).

Source: Almeida et al. (2011c, 2011d).

#### ***Skills Certification and Provider Accreditation***

**Certification contributes to mitigate an important information problem in the labor market by making the quality of individual skills more transparent to potential employers.**

Even when individuals have the right set of skills, an obstacle to individual employability may be the difficulty in signaling these skills to potential employers. The most commonly

used signals of a person's employability are whether a person has held a job or has a school or training certificate. Both are especially challenging for the most vulnerable groups in the population because of the unstable integration in the labor market, leading to large periods of unemployment, and the high dropout rates. Certification is also valuable to workers; it provides them with wider access to a national labor market, promoting geographic and occupational mobility, and possibly more effective job matching and placement. It is also likely to improve labor earnings, enhance self-esteem, and augment psychological well-being.<sup>110</sup>

**Although evidence on the effectiveness of technical skills certification in increasing access to employment is scant, most OECD countries have established some sort of skills certification scheme and many developing countries are following suit.** Some of the most successful examples of the value of job skills certification seem to originate in the information technology industry. There, certification seemed to have added significant value to the holder and may even partially substitute for formal education. It has also been shown to be associated with job- and industry-specific wage premiums.<sup>111</sup> Indeed, most OECD countries have established skills certification schemes.

While many middle income countries are starting to create certification systems, in low income contexts certifying skills may be a better option than certifying courses. The best example of certification of training programs is *Chilecalifica* (see Figure 6 below). The program was designed to provide beneficiaries basic education and/or technical and vocational training. Unlike the GED in the United States, the degree in Chile is indistinguishable from an ordinary school diploma. Preliminary impact evaluation results suggest an increase in wages and greater post-program schooling of *Chilecalifica*

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<sup>110</sup> See Crawford and Mogollon (2010).

<sup>111</sup> In the United States, job certification in the information technology industry has focused on ensuring high quality knowledge and skills of vendors. Companies such as Microsoft and Cisco provide certifications based on their specific products. Evidence shows this has an impact on worker performance and wages. Quan et al. (2007) look at 10,630 IT certified workers to estimate the wage premiums. Based on seven job functions, results indicated that the value of specific certification varies depending of the job function. For example, wage premiums for data communications/telecommunications was 46%, while for Engineering/Integration/Technical Services it was 14%.

beneficiaries, particularly for women.<sup>112</sup> However, this likely overestimates the program's success due to selection problems. In markets with extensive informal skills acquisition, such as the informal apprenticeship system in many Africa countries, certifying skills – as opposed to a completed course – may be particularly useful.

**Figure 6: Chilecalifica: Certifying Basic Education and Technical and Vocational Training**

PROGRAM PRINCIPLES	OBJECTIVE	BENEFICIARIES	GOVERNANCE / FUNDING	CHARACTERISTICS	RESULTS
<ul style="list-style-type: none"> <li>• Offers skills certification organized in national qualification framework.</li> <li>• Defines a single set of criteria for specified levels of learning.</li> <li>• Increases transparency and eases recognition of qualifications.</li> <li>• Provide flexible and dynamic system of lifelong learning and training.</li> </ul>	<ul style="list-style-type: none"> <li>• Offer a flexible mode of education to people with incomplete primary and secondary education in order to improve their skills through free services.</li> </ul>	<ul style="list-style-type: none"> <li>• Youth and adults with incomplete primary and secondary education between the ages of 15 and 18 years old for primary education, and over 18 for secondary education.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation : Ministries of Education, Labor and Social Welfare, and Economy.</li> <li>• <i>Unidad Coordinadora de Ejecución del Programa (UCEP)</i> coordinates and monitors implementation of program.</li> <li>• Financial support: USD 75 million from the World Bank and USD 75 from local contribution. Total cost: USD 150 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulated by the Chilean Quality Assurance Standard.</li> <li>• Catalogue with 1,000 competencies for 315 occupational profiles in 12 sectors of the economy.</li> <li>• <i>Phases of the Program</i> <ul style="list-style-type: none"> <li>- Initial phase: Courses of 6 months (basic education) and 8 months (middle school education).</li> <li>- Reinforcing phase: Educational reinforcement in each learning sector for students that could not reach objectives.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 349,642 students registered during 2003-2008.</li> <li>• More than 29,000 workers certified since 2003.</li> <li>• Average age registered between 2003 and 2008: 33 years.</li> <li>• Av. monthly income in participants that took secondary education courses increased by 10%.</li> <li>• Taking the courses increases the probability of getting a job by 4%.</li> </ul>

Source: Government of Chile, Ministry of Education (2009).

Another important intervention to improve the signaling of skills in the labor market is the accreditation of training providers. In many middle income countries, individuals spend significant resources on job-related training that is delivered by unregistered, small scale,

<sup>112</sup> See Santiago Consultores (2009).

and often informal institutions.<sup>113</sup> Having a sound national system of training providers accreditation may provide information to individuals to make better decisions about which institutions to attend and information to potential employers about the types of skills that an institution's graduates should possess. The impact of training center accreditation on employment has not been measured.

### ***Wage Subsidies to the Private Sector***

**There are multiple types of wage subsidies but in a growing number of OECD and also middle income countries, they are offered directly to specific groups to encourage hiring.** Wage subsidies have the main objective of subsidizing the employer's cost of hiring. They may be targeted to ongoing workers or to the hiring of new workers, including youth in their first job, women, or welfare beneficiaries. They may take various forms but all types aim at promoting the participation in the labor market of the beneficiaries, while compensating employers for screening, orientation, and initial training costs. The underlying assumption is that the learning and training acquired on the job will foster the productivity of the beneficiary by the time the subsidy is over. This will motivate the firm to continue the employment relationship without the subsidy.<sup>114</sup> A well-known example is the SIVP (or *Stage d'initiation a la vie professionnelle*) in Tunisia. SIVP is a subsidized internship where beneficiaries receive 150 TND monthly and employers have full coverage of social security and training costs. The subsidy targets recent university graduates who have been looking for a job for six months, a group especially affected by unemployment.<sup>115</sup> Following the financial crisis, several middle income countries introduced targeted wage subsidies. For example, the Slovak Republic introduced a temporary exemption from health insurance

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<sup>113</sup> See Van Adams (2008).

<sup>114</sup> Wage subsidies may also be given to employers to stimulate the demand of specific workers or to employees to provide incentives for re-employment. They can take the form of direct transfers, reductions in social security contributions, or income tax credits. They can be targeted to the most vulnerable workers or be provided across the board. And they can focus on those already employed or only on new hires. Choices at all these levels determine their impact on employment and their costs. For a discussion, see Banerji and Robalino (2009).

<sup>115</sup> In 2010, there were 67,881 beneficiaries for SIVP. Firms need to pay employees a minimum wage payment of 150 TND and are mandated to recruit at least 50% of interns over a three-year period.

payments for up to 24 months for persons entering self-employment after a period of three months on the jobseekers register. The World Bank is also currently supporting a randomized evaluation of a South Africa pilot targeted to youth (see Box 10).

### **Box 10: South Africa Youth Wage Subsidy Pilot: Evaluating Program Effectiveness**

Youth unemployment rate in South Africa is high (35%) and reaches 72% of overall unemployment. Pockets of unemployment in urban areas exceed 50% and in the post-apartheid era (post-1994); high unemployment has been persistent. Results of recent studies show that once individuals get a job they are more likely to remain employed. Based on those findings, the International Growth Advisory Panel (IGAP) proposed to target a wage subsidy intervention for young individuals, aged between 20 and 24 years old. Eligible beneficiaries will receive a letter offering the subsidy. Subsidies are paid directly to firms but are attached to workers.

The World Bank is currently supporting the impact evaluation of this pilot to assess the effectiveness of the program in improving the probability of finding and keeping jobs, the quality of post-unemployment jobs, and its influence on firm decisions regarding labor and hiring. The baseline survey relied on the labor market survey (LMES). The LMES serves as the baseline survey for the impact evaluation of the targeted wage subsidy on the employment of young people. In order to do this, the sample was randomly split into two groups – treatment and control. The treatment group was allocated a voucher that entitled any registered firm that employed the holder for more than 20 hours a week to a payment of R5,000 (approximately USD 670) over a period of at least six months should the employee remain employed. The monthly subsidy amount was calculated as half the employee's wage up to a maximum of R833 per month. Subsidies were paid to the firm on a monthly basis until exhausted. The national median monthly wage for youth aged 20-24 was R1,500 (approximately USD 200) in 2007.

Results show that targeted youth in urban areas are more likely to be unemployed than inactive. Furthermore, 63.7% of the total jobless youth are actively searching for a job, as opposed to 13.19% non-searching jobless. Women are more likely to be jobless than men. Most of the targeted youth are relatively skilled. Less than 1% did not complete primary education; 1.6% completed primary education; 45.2% finished secondary; and 14.5% tertiary education; 38% did not complete secondary education. In addition, schooling is linked with chances of getting a job. Having an incomplete secondary education clearly reduces the likelihood of being employed. This is not the case for the tertiary education. In fact, young people with tertiary education are less likely to be employed than secondary graduates. For example, 23% of tertiary graduates are wage employed, whereas 23% of the secondary graduates are employed. This suggests that youth with tertiary education may be selective in the type of employment they apply for.

Source: Schöer and Rankin (2011).

**Even though the evidence in developing countries is still thin and risks are high, anecdotal evidence suggests that the success of wage subsidies may depend on the target group and on the economic context.** For example, in Slovakia, evidence shows that neither men nor

women benefited from wage subsidies. An evaluation of wage subsidies in Poland is particularly unfavorable for males showing that beneficiaries of the wage subsidies are less likely to be employed. This is likely explained by a stigma effect where beneficiaries are perceived by the employers as inferior workers than otherwise identical workers. However, evidence suggests that wage subsidies may work better for welfare beneficiaries. In the *Proempleo* experiment beneficiaries of wage subsidies seem to have exerted more effort in searching for jobs than before (“empowerment effect”) and/or were perceived as more trustworthy than other workers. This was especially true for women and young participants.<sup>116</sup> In spite of this, most employers actually did not take up the wage subsidy even though they ended up hiring the workers with the voucher. Wage subsidies also seem to be effective tools for the skilled youth in contexts of high taxation of formal labor. For example, in Morocco evidence shows that *Idmaj* was effective in placing beneficiaries into jobs. Furthermore, the program also had positive effects on the quality of the jobs (captured by having social security coverage and by the level of earnings).<sup>117</sup> However, while wage subsidies seemed to be cost-effective in Morocco, and Argentina, the costs are likely to be underestimated. Deadweight losses (i.e., wage subsidies placing a worker in a firm that would have hired the worker in the absence of the subsidy) and substitution effects (i.e., employers substituting workers with subsidized ones) were not considered in most evaluations. Overall, more convincing and rigorous evidence is needed to acknowledge the cost effectiveness of wage subsidies in actually promote sustainable employment relationships.<sup>118</sup>

**Restricting wage subsidies to specific subgroups in the population – like skilled or unskilled youth – may reduce the negative stigma effects and minimize the deadweight loss to the economy.** The design of the wage subsidies is important to promote employability among those who need it the most while minimizing inefficiencies. Subsidies that are more finely targeted to the most vulnerable low pay workers, especially women

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<sup>116</sup> See Galasso et al. (2004).

<sup>117</sup> See World Bank (2011c).

<sup>118</sup> See Betcherman et al. (2004).



and youth, are more likely to minimize deadweight losses than across the board subsidies. Across the board wage subsidies tend to be more expensive and possibly end up subsidizing workers who would have stayed in their jobs or would have been hired anyway. The evidence from the United States shows that wage subsidy may also stigmatize the targeted population in the eyes of employers. This is likely to be less of a concern when the subsidies are more finely targeted to specific groups in the population.

**Corruption and fraud are common concerns, especially in countries with low implementation and enforcement capacity.** One risk of promoting wage subsidies to foster the employability of the most vulnerable is that firms may have an incentive of “gaming the system”, by firing and rehiring subsidized workers.<sup>119</sup> Some countries have developed special design features in the wage subsidies to explicitly avoid this. For example, Eastern European employers often are mandated to keep subsidized workers on the payroll for at least two years to be eligible to receive a full year of subsidy. Nevertheless, this type of arrangement is hard to enforce in countries with low capacity. Another frequent problem relates to fraud. In some countries wage subsidies are financed through the general budget but many fake beneficiaries enroll to benefit from the program. While no program is going to be completely immune to fraud, a well-designed and enforced program will be less subject to this problem.

### ***Employment Services***

**In countries and regions where labor markets become more complex, the coordination and intermediation functions of employment services become increasingly important.** With increasingly complex labor markets, workers and firms find it harder to find the best worker–job matches. Employment services are present in many countries but often remain

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<sup>119</sup> Wage subsidies usually have a probationary period during which recipients of the wage subsidy may be freely dismissed. This could be “abused” by employers. Anecdotal evidence from program implementation in some countries shows that firms may hire subsidized workers, keep them for the period of the subsidy, and re-hire them again as there are probably many available people ready to supply labor.

undeveloped.<sup>120</sup> They are also very heterogeneous in their degree of sophistication. At one end of the spectrum are the most basic centers. There, potential employers post job openings and potential employees reply directly to employers of interest. At the other end of the spectrum are full service centers, such as the British Jobcentres Plus or the Korean Employment Services. The latter offers a wide range of services, including career counseling, training, and education program placement assistance, job matching, labor exchanges, and other related services. Appendix 3 describes in detail the different services available in the better performing employment services in European countries.<sup>121</sup> Depending on the country, these services may be publically or privately provided.

**In contexts of large formal labor markets, and compared with other programs, employment services tend to be relatively inexpensive and cost effective, particularly for the short term unemployed.** Evidence from the United Kingdom shows that employment services are especially effective at transitioning short term unemployed males back into employment.<sup>122</sup> In Romania, a recent empirical analysis shows that employment services were among the most cost effective interventions implemented in the late 90s within a broad package of active labor market policies. They are followed by trainings and by wage subsidies.<sup>123</sup> Peru *Pro Empleo* is another example of a well-run and diverse program

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<sup>120</sup> Kuddo (2011) shows that currently around 80 countries are members of the World Association of Public Employment Services (WAPES): 15 countries in Africa; 13 countries in the Americas; 8 countries in Asia and the Pacific; 39 countries in Europe; and 4 countries in the Middle East and Arab region. Not all the PESs are members of WAPES. More information is available at: [www.wapes.org](http://www.wapes.org).

<sup>121</sup> The most successful employment services offer activities to three distinct groups: unemployed, inactive, and employers. The services to the unemployed include: (i) early identification and intervention; (ii) support employability and lifelong learning; (iii) balance extensive support/self-help strategy; and (iv) career planning/advice/guidance; and (v) work trials and supported entry for long term unemployed. The services to the inactive persons include: (i) early identification and intervention; (ii) support employability and lifelong learning; (iii) career planning/advice/guidance; and (iv) work trials and supported entry. Finally, the services to the employers include: (i) anticipation of skills needs; (ii) support timely job-to-job transitions; (iii) promotion of internal flexicurity; (iv) enable transitions following company restructuring; and (v) promotion of entry points for the long term unemployed and inactive persons. Appendix 3 lists a more detailed menu of services.

<sup>122</sup> Blundell et al. (2004) evaluate the effectiveness of the New Deal for Young People in the United Kingdom. The program provided a combination of wage subsidies to the private sector and job search assistance. They find that approximately one fifth of the effect was explained through improved job search assistance (instead of the wage subsidy component).

<sup>123</sup> In Romania, employment services provide job and social counseling, job search assistance, job placement services, and relocation assistance. In the late 90s and early 2000s, beneficiaries had access to the services up

reaching vulnerable low-income youth, low-skilled workers, and the disabled. The cost of the program is estimated at only 0.4% of GDP.<sup>124</sup> In spite of this developing countries have not yet amassed rigorous empirical evidence on the respective cost effectiveness. Furthermore, in lower income settings with fewer formal sector jobs available, the most common functions in the employment services can hardly be expected to have a low cost effectiveness. Furthermore, some studies go a step further and recognize that, in some settings, informal networks can be as effective as formal networks.<sup>125</sup>

**The success of employment services depends on their outreach to employers and in how well they meet their needs.** By identifying job-related skills, knowledge, and abilities needed by the employer, the local employment offices can match applicant skills and refer the best qualified applicants to employers. Typically, employer contacts are established through workplace visits, telephone contact, direct mail, or local employer group meetings. This involves establishing good relations with employers and the gradual transformation of the employment agencies into a relevant service for enterprises.<sup>126</sup> This is especially challenging in developing countries where most of the jobs are in household, micro, and very small firms. Recent World Bank projects in Serbia, Armenia, and Azerbaijan have evaluated some of these services. The Austrian PES are a best practice example in the provision of these services: They provide specialized free services to employers, including referrals of suitable candidates for job vacancies, assessment of staff qualification needs,

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to nine months and were entitled up to two months of salary at the ongoing minimum wage. Implementation of ALMPs is done by the National Agency for Employment and Vocational Training and the county agencies for Employment and Vocational Training.

<sup>124</sup> *Proempleo* provides advisory services to jobseekers as well as employers. Jobseekers receive information about job openings but can also request advisory services (counseling) for career choices and support in preparing Curriculum Vitae (CV) and preparing for interviews. If appropriate, jobseekers can also be referred to alternative training programs to improve their employability. Employers get access to a database of jobseekers and receive services, including the prescreening of potential candidates and support with official administrative procedures related to preparing and registering labor contracts.

<sup>125</sup> See World Bank (2011e). The study shows that, after controlling for differences across skills, there are no significant differences in earnings (or job satisfaction) associated to the use of formal or informal job search methods. In addition, workers' self-reported perceptions tend to favor the latter as the most effective means to find jobs.

<sup>126</sup> This includes the modernization of the range of services, creation of specific enterprise and sector desks, improvement of its public image, and use of information technologies.

grant schemes for job training, customized solutions for mass layoffs, and information and financial support for disabled employees. Counselors keep in close contact with firms, frequently requesting vacancies notifications.

**In most middle income countries, employment services are independent bodies from relevant ministries, with a decentralized geographical structure where local offices operate under the general supervision of the central office.** Public employment services function as an independent and autonomous government implementing agency in many countries (e.g., Lebanon, Syria, and Tunisia). They operate autonomously within the established legal framework and operating budgets defined by the ministry. The central PES office defines service standards and guidelines for employment programs; information systems (including collection of labor statistics); labor market analysis and research; financing of particular programs including unemployment insurance; contracting out services to NGOs and the private sector; quality control and internal auditing; international cooperation and public relations; and human resources (staffing of PESs). It also performs other functions. Local offices of PES operate under the general supervision of the central office and in close collaboration with local administration. They are directly involved in interacting with the unemployed and jobseekers. In other countries, like such as in Egypt, Jordan, and Yemen public employment services depend on the relevant ministry and, thus, have a much reduced autonomy.

**In countries with high institutional capacity, the British one-stop shop model is effective in making available a wide set of services to the registered unemployed under one roof.** For middle income countries with higher institutional and coordination capacity, developing a centralized employment service delivery under “one roof” may be the most effective. The British Jobcentre Plus is probably the best known example for bundling employment offices and benefit windows in a one-stop shop. Others include Norway (as noted in Box 6) and Germany.<sup>127</sup> In the United Kingdom, the counseling services intervene quickly to match

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<sup>127</sup> Jacobi and Kluge (2007) and Kluge (2010) show that the Hartz reform in Germany has produced positive effects of one-stop shops on the integration of beneficiaries into regular employment, even though the effects

beneficiaries with the most suitable programs and lay out an action plan for higher employability and productivity. Since 2001, the main objective of the Jobcentre Plus has been to improve the assessment and delivery of benefits such that clients receive efficient and needs-tailored services. The evaluation shows that it succeeded in raising the number of job entries among the unemployed.<sup>128</sup> Another important function is to disseminate information on the economic returns of the available programs. A recent analysis in Kenya suggests (no studies document) that simply disclosing early information on returns to skills may affect individual's occupational choices.<sup>129</sup>

**Increasingly developing countries follow the trend of OECD countries, where the public sector no longer has the monopoly of the employment services.** The Jobcentre Plus is in many regions a very light triage and counseling structure that subcontracts most of its programs to the private sector. In the Netherlands, jobseekers are also referred to private providers, while the public authorities are responsible for benefit payments and remain gatekeepers to a private quasi-market. In the Danish market for employment services, private service providers work in parallel with public system. There, private providers are mainly used for subcontracting particular services, which include recruitment agencies and private agencies for guidance and counseling.<sup>130</sup> A good example from Latin America is Peru *Red CIL Pro Empleo*. Created in 1996 and managed by the Ministry of Labor and Employment Promotion, it operates through a network of labor information centers managed by the private sector, including NGOs and religious centers.<sup>131</sup> Many countries in Eastern Europe have already started this trend with the ultimate objective of reducing

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are not statistically significant due to the small number of agencies used in the analysis. Furthermore, the effects seem to be more positive in East Germany, where labor market conditions are closer to the developing country contexts. They also seem to work better for men than for women.

<sup>128</sup> See Blundell et al. (2004) for an evaluation.

<sup>129</sup> The *Jua Kali* voucher program in Kenya provided female beneficiaries with information about wages in various occupations. Preliminary results (Hjort 2009) suggest that more than 10% of those who received the information switched to more lucrative, traditionally male occupations (compared to girls not receiving this information).

<sup>130</sup> See Bredgaard and Larsen (2008).

<sup>131</sup> Although it has not been subject to formal evaluations, implementation reports suggest that *ProEmpleo* is serving the registered unemployed effectively. In 2006, its placement rate was estimated at 28% of job-seekers, or 68% of the demands placed by employers.

budgetary pressure while increasing economic efficiency.<sup>132</sup> Interestingly, the empirical evidence from subcontracting in employment services is still rare and somewhat mixed in developed country settings.<sup>133</sup> For example, the Hartz reform in Germany fails to show that the outsourcing of placement services to the private sector has produced statistically strong results for the prospect of entering employment.<sup>134</sup> Most likely the gains from subcontracting emerge over time. For example, in Australia, public officials can exclude poorer performers, increase competition and improve the performance management of subcontractors.

**While the move towards private service provision may entail greater efficiency, when aimed at serving the safety net beneficiaries, a good regulatory framework is needed to avoid the tendency of “creaming off.”** Although evidence is still scarce on the effectiveness, the outsourcing of services to competent providers is a growing trend in many countries, especially in high income OECD countries.<sup>135</sup> Private agencies usually charge fees for their services from PES. They are typically registered with PES or the Ministry of Labor, depending on the country and provide their services based on the respective contract. Private agencies tend to offer a more specialized search, better screening, and faster response times than most public services. They also are to a larger extent oriented towards the employers’ requirements than the needs of the unemployed. Nevertheless, they also pose risks to the service delivery. They can secure services within smaller and more targeted segments of the

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<sup>132</sup> For example, Kuddo (2010) shows that in 2009, 587 private employment agencies were registered in Bulgaria, 63 in Latvia, 41 in Lithuania, 51 in Slovenia, but 2,176 in the Czech Republic and over 2,800 in Poland.

<sup>133</sup> Finn (2011) reviews literature and impact studies on employment services subcontracting in Britain, Germany, the Netherlands, France and Sweden. In each of these countries the Ministry, PES or local government used a competitive bidding process to select providers to deliver job matching, reintegration and other employment services with successful providers awarded contracts with varying amounts of provider income dependent on placing participants in jobs. The impact evaluations show mixed results, with the most positive found in the United Kingdom and more negative findings in Germany, France and Sweden. The findings suggest, however, that private providers can, under certain contractual arrangements, improve outcomes for particular groups and bring innovation to service delivery. The competitive pressure they bring may also prompt improved PES performance.

<sup>134</sup> Furthermore, Jacobi and Kluge (2007) show that, in East Germany, those who found a job using a placement voucher remain in employment for a significantly shorter period than those who did not use placement vouchers.

<sup>135</sup> See Finn (2011).

labor market. They typically address only a few labor market niches and will offer more proactive employment policy by tailoring it towards labor demand. They are often more likely to operate in large metropolitan areas. In the absence of public regulation, private employment services may tend to concentrate on the beneficiaries that are easier to place, i.e., “creaming off”.<sup>136</sup> This is especially a problem when services are being contracted by the government to work with SSN beneficiaries. One way to avoid this tendency is, for example, through the differentiated fee structure for the different categories of clients served.

**Performance-based contracts are needed to promote the accountability of the service providers, leading to increased and more sustainable employment outcomes.** In many developed countries, the contracts with private providers typically include a performance-based element providing placement incentives for the service providers.<sup>137</sup> In Germany and the United Kingdom, performance-based contracts are also a function of the *sustainability* of the jobs obtained. The German voucher system entitles the jobseeker to use a private agency. If the placement results in employment, the agency receives payment in the beginning of employment with the remaining being paid only after six months of the start of the employment period.<sup>138</sup> The British Jobcentre Plus also pays contractors on the basis of the job outcome and the sustainability of jobs after 13 to 26 weeks following start of the employment. In Australia, performance-based contracts also differentiate across the easiest and hardest clients to serve.<sup>139</sup>

**Advanced MIS and M&E systems complemented with high technical staff are necessary ingredients for developing more effective employment services.** Planning and decision-making in the most effective employment services are supported by advanced management

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<sup>136</sup> For some years, the Jobcentre Plus in the United Kingdom focused on the hardest to place and lower skilled individuals while private agencies selected to the more educated. This has now changed with other subcontractors, like Action for Employment (A4E), also dealing with the hardest to place.

<sup>137</sup> The rationale is to cover the financial costs of the service provided but provide an incentive for placement through a bonus (which is a function of the placements).

<sup>138</sup> See Schneider (2008).

<sup>139</sup> Tergeist and Grubb (2006) show that in Australian payments are higher for the long term unemployment than for the short term unemployed clients.

information systems, based on unified registries and producing real-time data for managers. The labor market monitor pilots in Germany are a recent “innovation” in this field, and look for promising ways of diagnosing current and near-future skills needs. Job intermediation and counseling need to be supported by effective information systems sharing data on available job vacancies. Staff also needs to be proficient in the evaluation of what are the most binding constraints to employability. The Bank experience in many Eastern Europe countries shows that limited resources and difficulty in defining a meaningful set of traceable indicators are important obstacles to building stronger monitoring systems. Although more work is needed in identifying the best indicators, evidence from the United States shows that attention should go both to the performance of: (i) individual and regional offices, and (ii) individual programs and providers. Finally, rigorous scientific evaluations of program effectiveness are needed to be able to continuously optimize programs on the basis of microdata and evidence. This was recognized early by German policymakers vis-à-vis the recent Hartz reforms, which implemented a corresponding evaluation mandate.<sup>140</sup>

### ***Entrepreneurship Support Interventions***

**Entrepreneurs boost the economy by exploiting new ideas and business models in order to turn a profit.** Although the evidence is still scarce, this section reviews some of the most promising programs aiming to foster entrepreneurship. Entrepreneurship support programs typically package both training on entrepreneurial-related skills with some financial support (either in credit or grants). They can be targeted to the inactive or unemployed or to existing low productivity self-employed workers. Especially among OECD countries, entrepreneurship education and training is starting earlier in life, often while the youth are still in the formal schooling system. This type of preventive active labor market program has been implemented in Tunisia and Colombia, and we review this experience. Finally, we also

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<sup>140</sup> See Jacobi and Kluge (2007) and Fahr and Sunde (2009). The Hartz reforms are the first major reform in the history of the German welfare state that is accompanied by a comprehensive scientific evaluation on behalf of the government. The process started with two pilot studies developing a conceptual framework for the evaluation and subsequently was put out to tender. Currently more than 20 economic and sociological research institutes with about 100 researchers are involved in the evaluation.



discuss briefly microfranchising programs, a promising and innovative way of promoting entrepreneurship in the developing world. Microfranchising programs provide comprehensive support to existing small entrepreneurs and small businesses with the ultimate objective of replicating existing successful businesses in other settings/regions. Even though there are many other examples of entrepreneurship support programs, including joint ventures, business expansion programs, support to technology transfer, small business networks, and associations and business incubation, we do not cover them here.<sup>141</sup>

**In low income settings with large informal sectors, promoting and supporting entrepreneurship and self-employment is often the most promising approach to promote, in the short run, sustainable employability and productivity of the most vulnerable.**<sup>142</sup>

Most entrepreneurship support programs include business trainings tailored to self-employment activities. In addition, they may be complemented with other business services and/or access to credit. In low-middle income countries, with very large informal sectors, the training is often targeted to craftsmen and their apprentices, where the focus is on the use of improved production techniques that are better adapted to market demands. This type of entrepreneurship program for unskilled youths has several advantages: it provides trainees with flexible and demand-driven skills, and tends to be self-regulating. The low take-up rates of often expensive entrepreneurship support programs in many countries, including among the unemployed, shows that they are unlikely to be implemented on a large scale as a reaction to structural unemployment.

**In the OECD and higher income settings, governments work with private sector firms in the promotion and support of startup businesses through multiple entrepreneurship education and training programs often combined with financial assistance.** An example of

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<sup>141</sup> The World Bank has several ongoing analytical projects in entrepreneurship including: Margolis et al. (2011), Lederman et al. (2011), and World Bank (2010d).

<sup>142</sup> Evidence for Latin America actually suggests that the self-employment rates naturally decline with the level of development probably as the opportunity cost of higher labor productivity in salaried work goes up. Therefore, in the medium and longer run the question of whether policy should target more entrepreneurs more generally or fewer but with higher quality is still pertinent.

a successful program combining entrepreneurship education, business counseling, and financial assistance is the project in the United States, Growing America through Entrepreneurship or “GATE”.<sup>143</sup> A randomized evaluation found that the enrolment in the program increased the likelihood of owning a business by 3 to 5 percentage points (see Benus et al. 2009). Enrolment is also associated with higher earnings in the long run. Interestingly, there is evidence that the impact on business ownership was higher for those receiving the unemployment insurance at the moment of application.

### *Entrepreneurship Trainings and Financial Support*

**The most successful programs complement entrepreneurship trainings with access to microcredit or grants and with a number of other services.** The most effective programs also tend to complement training with grants or credit, providing the means of either starting up a small business or increasing the productivity of an existing business. In addition, entrepreneurs need creativity and managerial skills that enable them to “sort out good ideas from bad ones, find the resources and means to create a prototype, and take the idea through its growth phases.”<sup>144</sup> Therefore, these programs usually include a wide range of entrepreneurial-related skills, covering basic, technical, but also behavioral skills. Among these are specific business skills including, mentoring, marketing or bookkeeping, and life skills training (including counseling to improve risk behavior). As discussed above, program success heavily depends on the specific course content.

**The sparse rigorous evidence to date suggests that more comprehensive programs, including both human and financial support, are most effective, although their cost-**

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<sup>143</sup> For a detailed review of the program see Benus et al. (2009). GATE was implemented in three states between 2003 and 2005. It served employed and unemployed individuals interested in creating, sustaining and expanding a small business. The program provides the applicants an initial assessment of their business needs, classroom training, one-on-one business counseling, and assistance in applying for business financing. Individuals interested in the program could apply at any GATE kiosk, a one-stop career center providing employment services. They also could apply through email, mail, or phone. Following application, individuals were invited to attend an orientation session explaining the positive and negative aspects of self-employment. After the beneficiary has been assessed, the application is considered complete and the beneficiary is considered eligible to receive GATE services.

<sup>144</sup> See Banerji et al. (2010).

**effectiveness is still questionable.** These provide a combination of business management and leadership skills, financial literacy, and microcredit and/or insurance schemes. Recent work in Peru evaluated FINCA, a lending program serving poor women with little formal education. FINCA added a short module of business training to its existing microfinance clients, and a randomized experiment found that entrepreneurship skills training increased new entrepreneurs' business knowledge, improved their business practices, but failed to produce a higher level of productivity in the short run. Similar evidence is available for Bosnia-Herzegovina.<sup>145</sup> A recent evaluation that focused on poor women in Sri Lanka has also shown that International Labor Organization (ILO) entrepreneurship trainings alone are effective in improving business practices; however, only when trainings are complemented with grants are they able to increase in the short run firm sales or productivity.<sup>146</sup> Evidence from Argentina also shows that entrepreneurship support and micro-grants can be a good tool to foster a more sustainable living, especially for women beneficiaries of social assistance.<sup>147</sup> Furthermore, the Argentina program has also shown that these interventions tend to be more effective for beneficiaries with previous self-employment experience or experience in the sector through another job.

**The World Bank currently supports a number of promising projects in low income settings, particularly targeted to the unskilled and at-risk youth.** Unskilled youth, relative to the general population, have specific limitations vis-à-vis self-employment. Youth tend to have limited life and work experience, limited financial resources, and fewer networks and contacts. The Bank is currently supporting a number of initiatives targeted to youth. These include, for example, the adolescent girls initiative in Afghanistan, Liberia, Nigeria, Rwanda, and South Africa. The Northern Ugandan Social Action Fund (NUSAF) entrepreneurship support program and the Entrepreneurial Support for Vulnerable Youth in Malawi are other

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<sup>145</sup> Karlan and Valdivia (2011) studied the impact of training on women through a microfinance project in Peru and found improvements in business practices as well as a rise in sales during bad seasons. Similarly, Bruhn and Zia (2011) measured the impact of business training for female microfinance clients in Bosnia-Herzegovina, finding some improvements in business practices but no increases in business profits or in business survival rates.

<sup>146</sup> See De Mel et al. (2011).

<sup>147</sup> See Almeida and Galasso (2010).

examples.<sup>148</sup> In order to jumpstart self-employment, many of these interventions combine trainings with some sort of business support or financial support, either in the form of grants (cash or in kind) or microcredit. Unfortunately few interventions have been rigorously evaluated and many open questions remain regarding their optimal design and implementation.<sup>149</sup>

### **Box 11: Promoting Entrepreneurship among Youth in Uganda: NUSAF**

The Youth Opportunities Program (YOP) was launched by the Government of Uganda in 2005 as a component of the Northern Uganda Social Action Fund (NUSAF). The YOP currently provides trainings to unemployed youth through vocational skills, trade skills, leadership abilities, community reconciliation, and conflict resolution. The program is targeted to the most vulnerable unskilled youth (aged 15-35 years old) who are unemployed or under-employed. The Program covers 29 of the most vulnerable districts of Northern Uganda, facing low access to education and health services, physical insecurity, political instability, and geographical constraints to reach the area of commercial activities.

The vocational trainings focus on skills that are relevant to start small business. The youth are asked to gather into small groups and identify a common vocational skill of interest, a vocational training institute, and apply for cash transfer up to USD 10,000. The cash is directed to a community bank account. These funds are used to enroll in vocational training, buy training materials, and provide tools and start-up costs to start trading after graduation. Other activities offered are life skills (family/kin support, self-esteem, depression & stress management, and self-reported health) and psychosocial counseling, and monitoring services through the provision of additional payment assigned to groups to hire a monitoring advisor. The advisor is expected to provide guidance on monitoring services in order to improve the capacity, and maintain empowerment to youth. The World Bank is currently supporting the evaluation of this program.

Preliminary results show a positive impact of the YOP program on Vocational Training and Business Inputs in the beneficiaries as opposed to the control group. Furthermore, the program has caused a positive impact in the participation of youth in the number of group memberships (35%) and in social support (43%). For gender disaggregated impacts, the impact of the YOP total profits increased in 52.3% for men and 18.8% for women. Returns on investment were registered as 2.9% per month or 35% per year.

Sources: Bigirimana and Namara (2010) and Muzi et al. (2011)

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<sup>148</sup> Entrepreneurship training interventions targeted to adolescent girls and young women (ages 16-27) aim to increase employment, income, and well-being as well as contribute to improving the incidence of victimization and risky behaviors (e.g., sexually transmitted diseases and teenage pregnancy). The activities developed by these interventions include training of technical skills, professional and non-cognitive skills, mentorship, and life skills. The Apprenticeship Training Program and Entrepreneurial Support for Vulnerable Youth in Malawi (Technical and Vocational Skills Training (TVST) for Orphan Vulnerable and Affected Youth (OVAY)) aims at providing training and entrepreneurial support to vulnerable youth (orphans and out-of-school) in order to enhance their employability and earning potential, and to reduce their high risk behavior that increases HIV infection.

<sup>149</sup> For more information on skills programs in Africa see, Johanson and Van Adams (2004), Garcia and Fares (2008), and Rother (2007).

**Several challenges remain in the scaling up of entrepreneurship support for the less skilled, ranging from the *ad hoc* nature of most of these programs to the small take-up rates of the reduced business support structures in most countries.** Entrepreneurship education is likely to become more effective if it becomes integrated into the school curricula at different schooling levels. Small and fragmented efforts are likely to be insufficient to build a stronger entrepreneurial culture. In many countries, the business support infrastructure is usually limited, typically including small business development centers providing counseling, advisory and business planning services, and access to financial and technological resources. Program take-up in low income settings is also a major challenge. Evidence from recent evaluations also shows that when programs offer an attractive daily stipend that compensates for travel costs and any foregone income take-up rates are higher.<sup>150</sup>

**Especially in low income settings, program administration is most successful when capacity building and collaboration across different players is strong.** Having an involved government, NGOs, and the private sector in the implementation of the program produces better effects than administration arrangements based solely on a centralized government administration and implementation. To succeed programs also require adequate funding, well-trained and properly supported staff, and an operational style that is flexible, adaptable, and responsive to the needs of young women and men in each country. One good example of this is the Benin Support Project. The program reached 20,000 beneficiaries and focused on the informal sector, especially on women entrepreneurs. In the agricultural sector, training components aimed at increasing the competitiveness of small producers and improving their purchasing power. For craftsmen and their apprentices, training components focused on strengthening productivity of micro-enterprises, including enhancing capacity for the adoption of improved production

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<sup>150</sup> Mass media coverage may be a very effective tool for creating widespread awareness of entrepreneurship in society and increasing its legitimacy. Media coverage about the role of entrepreneurship and entrepreneurial activity in general may also stimulate discussion to demystify and raise awareness of the entrepreneurial process. In some regions of the world, role models could also be used to inspire and motivate other youth.

technology to better respond to market demand, while encouraging a transition to the modern sector. About 40% of the project financing (USD 2.1 million) was dedicated to capacity building for the institutions involved in the project. The project also featured a marketplace for training proposals, leading to a more competitive selection process. In addition, the analysis of specific training needs and skills mismatches in selected areas lead to more targeted training curricula, hence better matching the demand and supply in the labor market. Finally, the field supervision of the impact of the program's different subcomponents helped policymakers select the right program components and adjust in real-time.

**Countries differ widely in the access to microfinancing and seed capital, which are a core component in the development of successful entrepreneurship among vulnerable youth.**

Countries differ markedly in the wide range of government assistance, the choice between loans and equity, and the extent to which public policy directly minimizes information asymmetry in this market. Some governments engage directly in SME financing programs through grants and subsidies, while others play an indirect role preferring financial resources to be allocated through the market mechanism. Diverse financing measures include the creation of small business banks, loan guarantee schemes, microloan funds, research and development seed capital programs, venture capital funds, angel investor networks, investment tax credits, start-up grants for unemployed persons, and financing information programs. In most countries, the trend is gradually shifting from grants and subsidies to repayable loans and equity arrangements, from formal venture capital to informal angel investments, and reducing the cost of small business lending by simplifying loan approval procedures, using online applications and credit scoring techniques, and pre-qualifying loan approval.

*Entrepreneurship Education in Formal School System: A Preventive Activation Policy*

**Shaping a successful entrepreneurial culture is a deep and complex process, and the main and most successful channels to drive it remain controversial.** Changing an entrepreneurial

“spirit” of a country necessarily involves changing values, aspirations, and cultures. This is inevitably a long-term and complex process. Developing countries are only now starting to take the first steps with specific initiatives to create positive attitudes towards entrepreneurship and entrepreneurs. Best practice countries in this field are Australia, Canada, and the United States. There entrepreneurship is promoted through a combination of approaches including the promotion of role models, entrepreneurship events, competitions, and awards together with an explicit target of promoting entrepreneurship through education. The early evidence on the effectiveness of these programs is positive, although this is not always the case. For example, a recent evaluation of the Junior Achievement Young Enterprise student mini-company (SMC) shows that the self-assessed entrepreneurial skills and intentions of beneficiaries are close to non-beneficiaries. However, these results can be perceived as the students having a more realistic perception of themselves in becoming entrepreneurs.<sup>151</sup>

**In OECD countries, enterprise and entrepreneurship education programs are increasingly proliferating in the formal education system, while youth are still in schools, colleges, and universities.** For example, in the United States in 2000, more than 1,500 colleges and universities offered some form of entrepreneurship training. More than 100 active university-based entrepreneurship centers were established and more than 270 endowed positions in entrepreneurship were created. Moreover, we observe a clear move towards a holistic approach focusing on introducing entrepreneurial curricula at several educational levels – starting from basic through to secondary and tertiary education.<sup>152</sup> For example, the German EXIST competition program promotes entrepreneurial environment in universities through skills promotion and support for technology, and grants to startup self-owned business. The grant aims at encouraging university students to develop business plans and

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<sup>151</sup> Oosterbeek et al. (2008). The program has been implemented in 40 European countries and more than 2 million students have benefited. It aims to teach secondary school and college students to put in practice the theory on entrepreneurial skills acquired during in-class training.

<sup>152</sup> In 2004, the European Commission proposed introducing entrepreneurship into the national curriculum from primary school to the university. One of five key actions to foster entrepreneurial mindsets should be the introduction of entrepreneurship into the national (or regional) curriculum at all levels of formal education, either as a horizontal aspect or as a specific topic.

convert them into real products and services.<sup>153</sup> The evaluation of the program showed that program participation increased competencies and entrepreneurial intentions among the students participating in the program.<sup>154</sup> The intervention is considered an effective educational method to entrepreneurship training and is well accepted not only by students but also by trainers and managers of companies involved in the competition as jury members.<sup>155</sup>

**Developing countries are also increasingly interested in promoting entrepreneurship in the graduate curricula and some are adopting innovative projects at different stages of formal schooling.** The development of business plans and business plans competitions among university graduates has become a popular way of promoting entrepreneurial culture among OECD countries. One important aim of this type of programs is the promotion of entrepreneurship as a viable career path for educated youth. Learning about business development, administration, and management as well as learning the necessary skills, attributes, and behaviors creates positive attitudes towards entrepreneurship and will likely impact the decision to become an entrepreneur. Although in many developing countries, there are still major cultural barriers to entrepreneurship, especially among women, countries like Colombia, Tunisia, and some Central American countries are investing in the promotion of business plans. Winners of business plan competitions usually receive honors and some start-up credit to develop their own enterprises. The World Bank is currently supporting the Government of Tunisia in the first rigorous evaluation of this type of program around the world (see Box 12).<sup>156</sup>

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<sup>153</sup> See Federal Ministry of Economics and Technology of Germany (2011). Students receive a grant between 800 to 2,500 Euro per month to cover living expenses for a year, between 10,000 and 17,000 Euro for materials and equipment, funding for coaching of 5,000 Euro, and child benefits of 100 Euro if it applies.

<sup>154</sup> See Auchter et al. (2010).

<sup>155</sup> Ibid.

<sup>156</sup> See Klinger and Schündeln (2007).



### **Box 12: Business Plan Competitions in Tunisia: Promoting Self-employment Among Skilled Youth**

Pressured with high unemployment among university graduates (reaching 22% in 2009), Tunisia reformed the education system so that graduate students could graduate with a business plan instead of a more academic thesis. The program aims at enhancing graduates' employability and entrepreneurial skills through writing a business plan as their thesis to startup an enterprise project. The business plan could then apply to a business plan competition denoted *Concours de plans d'affaires entreprendre et gagner*. Winning students receive monetary prizes. The implementation of the program is done through cross-sectoral cooperation between different institutions: Ministry of Vocational Education and Employment, Ministry of Industry, Ministry of Higher Education, and the self-employment directorate of the public employment office (ANETI). The latter has general oversight.

All students in the final year of a *licence appliquée* in 162 university programs across Tunisia can participate. During the final academic semester, students receive training courses on entrepreneurial skills through the public employment office, supervision from university professors, and external private sector coaching from entrepreneurs or professionals from an industry relevant to the student's business idea. At the end of the academic year, a jury at the regional and national level formed by academics, employment offices officials, and representatives of the private sector select 50 thesis among which 20 receive a grant and some follow-up from local start-up offices. In the academic year 2009-2010, a total of 1,702 students applied (approximately 10% of the total students). About two thirds of the winners were women with projects in the service sector such as elderly care, educational activities for children, fashion, interior design, tourism, and recycling. On the other hand, men winners presented business plans in computer, technical, or production areas such as computer-based architecture, solar energy, construction, and computer networks.

The World Bank is supporting the intervention and the evaluation. Results show that students have very high expectations for the program. Three fourths of the students thought it would help them find a job and earn higher earnings. More than half of the applicants were women and more than two thirds of the applicants have had some past professional experience, some of which was related to the field of the project. Another appealing fact is that 74% of the students show high willingness to take risks in the labor market. After the business plan competition, students reveal new aspirations and goals for the future, as well as a higher willingness to create their own enterprise: A young entrepreneur from Tunis explained his success during the training, "Now I want to do better." Preliminary results show that the program significantly fostered self-employment both among males and females.

Sources: Almeida et al. (2011), Brodmann et al. (2011) and World Bank (2010d).

**In many regions, entrepreneurship programs are offered by private and non-governmental agencies.** In some regions, like the Middle East and North Africa, some entrepreneurship programs are implemented by NGOs, donors, and multilateral agencies. Most of them work independently but in a few cases they are implemented in collaboration with the government. One interesting example is the Know About Business Program,

implemented in Syria by *Shabab* and the Ministry of Education. The program has provided entrepreneurial education and training to thousands of young people since 2006. It is targeted to youth from all income groups and provides entrepreneurial skills to startup a business and to work productively in SMEs. The program offers 100 hours of training in secondary schools, universities, and vocational education institutes. Teachers are trained by the local non-profit organization *Shabab*, which is trained by the ILO. The program has been provided to men and women in both urban and rural areas. Findings from a recent evaluation show that the program had a significant effect in the learning of participants. For example, self-assessed knowledge about business is higher for participants. Proxies for the participants' impressions about the role of small business, attitudes towards entrepreneurship, and perception about obstacles while starting up a business are also higher.<sup>157</sup>

#### *SME Trainings and Microfranchising*

**A promising intervention targeted to the most vulnerable are the microfranchising programs providing a more comprehensive support to entrepreneurs and small business.**

The main purpose of microfranchising is to replicate a successful business in another setting/region. Due to this replication, there is usually a lower risk of failure. Microfranchising could be an interesting tool especially for those that are more risk averse. The down side is that it usually requires greater implementation capacity and larger investments. Small firms taking part in a microfranchising network may increase their productivity as a result of the economies of scale achieved through the joint purchases of inputs, the investment in sector-specific job trainings, or marketing strategies. The international experience shows that microfranchising has been used for a large variety of products and services. Some examples include ice cream brands, pharmaceutical drugs, solid waste collection, domestic service, phone services, and the provision of water.

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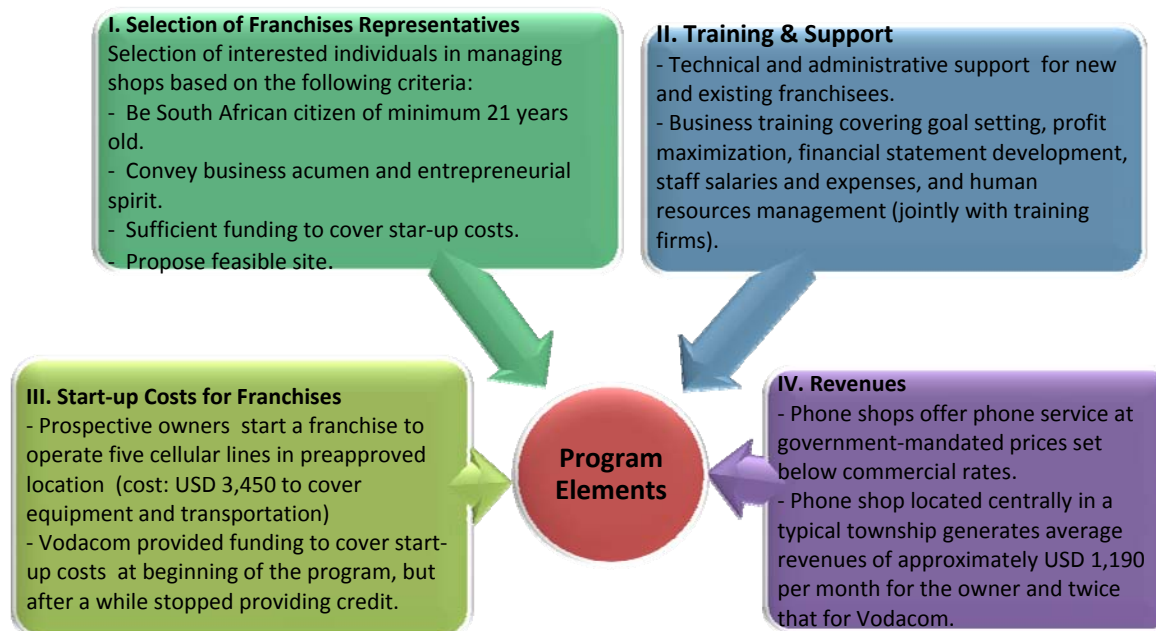
<sup>157</sup> See Angel-Urdinola et al. (2010).

The main components for the microfranchising programs generally include business specific trainings, soft skills training, microfinance, and mentoring. The specific content of the program depends on the constraints faced by the beneficiaries (e.g., rural settings, unskilled individuals, or women). Microfranchising programs tend to be implemented jointly by NGOs, microfinance institutions, and private companies. The role of the implementing organization might be to: (i) create a microfranchise themselves; (ii) invest in an existing microenterprise and support its replication; and (iii) build, own, operate, and transfer to promising microfranchisees.

### Box 13: Vodacom Community Services in South Africa

A microfranchising program that has contributed to rural connectivity and local business development through the use of cell phones is Vodacom in South Africa. A joint venture between the state-owned Telkom and the UK-based private company Vodafone, Vodacom was granted a license to build and operate a cellular network in 1993. Vodacom was required by the South African government to provide affordable phone services to underserved areas. In order to expand the services to these areas, the company used microfranchising as a business model. By 2007, the entrepreneurial program had reached over 1,800 owners and over 4,400 phone shops nationwide. The main elements of this program are described in the following figure.

**Figure 7: Elements of Vodacom Community Services Program in South Africa**



Sources: Jones et al. (2007).

## V. LOOKING FORWARD: BUILDING A KNOWLEDGE AND OPERATIONAL AGENDA

This paper has developed a simple conceptual framework identifying some of the main constraints and barriers to productive work and selectively reviewed some of the most relevant policy instruments (incentives and programs) in developing countries to address them. The review has highlighted the typology of incentives and programs around the world, reviewed the evidence on its effectiveness, and identified key issues in terms of design and implementation (e.g., governance, financing, administration, M&E, and IT). This section summarizes the main messages and discusses the main implications for the World Bank's work on social protection and labor.

### 5.1 Main Messages

**The ongoing activation and graduation agendas call for more integrated social protection and labor systems.** In essence, both of these agendas are bringing together social insurance, social assistance, and active labor market programs. Unfortunately, in most middle and low income countries, social protection systems are fragmented with little articulation between functions and lack a coherent framework to design and implement active labor market programs. Good examples of strong articulation between welfare and employment systems are still very rare. Exceptions include the examples reviewed in the paper, as Chile (through *Chile Solidario*) or Argentina (through different activation programs). Systems that promote the integration of social insurance, social assistance, and active labor market programs will enhance not only their performance but also the overall provision of social protection. Furthermore, operating costs are likely to be lower as more integrated programs share resources and tend to have more efficient management, administrative, and financing arrangements due to their larger scale.

**The large variation in activation and graduation policies around the world shows that there is a “no size fits all” solution to the activation and graduation agenda.** The interplay

of several factors should be considered when thinking about the optimal design of activation and graduation policies. These include the size of the informal sector, the nature of the job loss, the size and complexity of the country's social protection system, the design and implementation arrangements of income support programs, the country's administrative capacity, the profile of the beneficiaries, and, not least, the political economy context. Last, but not the least, there is a critical dependence of the impacts of most activation interventions on broad labor market conditions, particularly the dynamism of labor demand.

- In MICs, where the supply of employment services and programs is more developed and the administrative capacity to monitor incentives is higher, the most successful approaches to promote employability and productivity are based on integrated employment services, with strong results-based management system, where activation/graduation measures are aimed at both the unemployed and social welfare recipients and where offices can be held accountable for their performance.
- Often programs are also targeted to informal sector workers who are not eligible for formal insurance and who do not benefit from social assistance. Challenges remain though. The coordination and inter-institutional dialogue across different ministries and implementing agencies is probably among the most important one.
- In LICs and fragile countries, the widespread labor informality and a more constrained labor demand set the policy and labor market context. In addition, in LICs, programs tend to be more difficult to administer because many of the targeted population live in rural areas or urban slums where the poorest are harder to reach, connect, and track. Some of the main constraints to the design of effective programs are the insufficient means to identify the most vulnerable, disconnection from the banking system, seasonal migration, and low levels of literacy and access to information. There, the most common approach to promote higher employability and livelihoods is through more “active” and integrated social programs, focusing on productivity enhancement of beneficiaries through asset-building together with other services and better designed incentives. In

LICs and fragile countries, social protection programs tend to be ad hoc, duplicative, and inconsistent across or even within agencies. Donor coordination is also a common challenge.

**Successful activation policies place strong emphasis on the assessment of the beneficiary's main constraints to employability, through beneficiary profiling and program customization.** Activation and graduation policies are targeted to a very diverse set of individuals, with different needs and constraints. The latter includes the lack of appropriate skills (cognitive, non-cognitive, and technical), incomplete or no information (poor signaling and lack of networking), working capital constraints, and mobility restrictions. The diversity of needs of unemployed and poor workers requires a comprehensive service model in with a diverse set of activation measures tailored to these needs (by combining training with work experience and employment services, cognitive with non-cognitive training, training with personalized counseling, and customized job search assistance). The development of an “individual action plan” laying out the activation programs and services promoting individual employability is now current practice in many OECD countries. For example, in Germany, the Netherlands, and the United Kingdom public employment offices adopt this approach to an early identification of major constraints. Increasingly programs in middle income countries are following this trend.

**Effective activation policies need to pay attention to incentive compatibility.** A fundamental issue when trying to activate the dependents of public transfers is the incentives built in their design. In MICs, with developed unemployment insurance and complex social assistance systems, the main concerns are to “activate” beneficiaries by introducing measures that would prevent inactivity traps and to minimize the risk of unintentionally increasing the attraction of the informal sector. In LICs, policymakers need to address the possible dependency effects of safety net benefits and the challenges of recurrent costs under constrained budgets. Various activation policies have been conceived and implemented to mitigate disincentive effects of income support schemes. The most common relate to: (i) program design features (duration and level of benefit payments); (ii)

co-responsibilities (job search and other requirements combined with monitoring and sanctions); and (iii) financial incentives. The impact of these schemes is not yet well assessed, and evidence is scarce, especially for non-OECD countries. For social safety nets beneficiaries, the evidence suggests that limited benefit duration and decreasing level of benefits are not effective policies if not accompanied by complementary employability/graduation measures. The use of co-responsibilities is increasingly attractive for countries where the administrative capacity and supply of job intermediation and training services exist. In countries where public employment services are not available, their role may be substituted with the use of social workers or social promoters.

**The success and sustainability of activation programs depends deeply on their implementation arrangements, including governance, financing, and administration.** Even though it is hard to draw overall conclusions, some patterns emerge and many open questions remain.

- To improve the governance of programs, it is important to balance roles and responsibilities between the central and local levels. In order to give local service providers the managerial flexibility to identify needs of the local labor markets, it is also crucial to build institutional capacity. For instance, strengthening the coordination of multiservice programs can reduce operational costs. In many LICs, community participation for accountability and transparency of programs has been determinant to their success.
- Greater support of performance-based contracts in activation programs represents also an important recent shift. This implies a move away from financing merely program inputs (including infrastructure for training centers, curriculum development, and materials) to funding the outputs (often measured by the number of beneficiaries placed in a job after the completion of the program). At the national level, most activation programs are still financed exclusively through government support or subsidies, with financing in LICs relying more on donors and NGO support. Looking

ahead, the sustainability of these systems will imply a more self-contributory approach especially for the more skilled who can afford to pay.

- Private sector involvement in the design of activation programs may be increasingly linked to program success. For example, demand-driven training programs where training content is linked to the workplace seem to be more effective, as the provided skills are those with higher chances to match private sector employers' labor demand. In addition, encouraging a "market" for program provision has been generally associated with greater cost effectiveness, lower pressure on public budgets, and a wider array of services. Unfortunately, evidence is still very thin in this area. Furthermore, challenges are also involved, including the design and enforcement of contract execution.
- Improving monitoring and evaluation systems is critical for better planning and decision-making. A key factor behind good performance is having a results-based management system where the local units can be held accountable for their performance. Programs need to be adjusted and optimized continuously, and this can only be done if real-time data are available on operations and performance. However, in some LICs and fragile states, where baseline data are not available and data are still reported manually, building a functioning M&E system is particularly challenging.

## **5.2 Implications for the World Bank's Work on Social Protection and Labor**

**Understanding Employability Constraints: Instruments and Analytical Methods.** A strong assessment of the main constraints to higher employability and productivity is a necessary condition to match individuals with the "right" set of interventions. Most countries do not yet have good analytical tools allowing them to shortlist the most important constraints. Looking ahead, the development of tools that facilitate this diagnostic is a promising area of work. In particular, specific sets of instruments and analytical products could be developed, including a stock-taking on the most successful profiling methodologies in high income countries, a statistical toolkit to analyze the main constraints to employability across different groups and based on alternative data sources, sample terms of reference (TORs)



for the competencies of the staff profiling beneficiaries, and providing individual counseling services across different programs and settings.

**Developing monitoring and evaluation (M&E) systems and measuring program results, especially in LICs.** It is crucial to improve administrative data within and across programs and to strengthen statistical capacity to collect M&E data for social protection programs. Even though literature abounds on the effectiveness of ALMPs, evidence on the cost-effectiveness for different groups in the population is limited. Closing this knowledge gap should continue to be an important dimension of the Bank's social protection agenda over the following years, specially concentrating on fewer but more ambitious and strategic evaluations in MICs.<sup>158</sup> In addition, this continued work program should give increasing emphasis to evidence on program effectiveness in low income settings and fragile states. For example, priority should be given to: supporting client countries in setting up M&E systems and data collection, and focusing on impact evaluations aiming to: cover undocumented programs, particularly in LICs and fragile states, disentangle the effect of individual activation policies in different integrated models, identifying the design and implementation features that lead to positive impacts, achieving external validity and program sustainability, collecting data on costs to undertake cost-effectiveness analysis, comparing different activation policies (employability programs/support services and incentives), and evaluating long-term development impacts of activation/graduation programs.

**Supporting the evaluation of incentive compatible designs of passive income support schemes.** The review has shown that still little is known about the behavior of individuals in their specific contexts and what kind of incentives lead to higher job search efforts. To address the knowledge gap on what works best for shortening unemployment spells for whom and how, more documented evidence is needed. This involves not only a stock-taking

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<sup>158</sup> Many of the most relevant knowledge gaps in the activation agenda pertain to issues that are most relevant and testable in some MICs. To the extent, that these evaluations will serve a public good purpose, there is a rationale for selective Bank involvement in supporting MICs on the evaluation of relatively more complex innovations in activation programs.

effort of already existing incentive schemes as well as case studies of successful approaches but also learning and testing environments that incorporates findings on how to incentivize human behavior. Even though important, mere cost–benefit approaches cannot help design incentive compatible income support programs or even increase incentives of a given program. Likewise, imitations of pre-existing incentives schemes can help but might not lead to the same effects in different settings. The Bank’s work program should therefore comprise: stock-taking of incentive arrangements and their effects with a strong focus on non-OECD countries; case studies of commendable incentive schemes for selected countries over all regions; and designing and conducting behavioral experiments for: learning how to incentivize the unemployed, testing implementation arrangements of incentive schemes for selected target groups, testing various combinations of incentive enhancing measures for crucial target groups, and providing input for simulation programs to replicate and demonstrate the experiments conducted.

**Developing a new work program on the role of the private sector in the design and service delivery of employability programs: role of contracting, auditing, and payment systems.**

The private sector involvement in the design and provision of programs has been in general associated with greater cost effectiveness, lower pressure on public budgets, and a wider array of services to an increasingly diverse clientele. In spite of the importance evidence of this relevance is still thin. Furthermore, the best contracting, auditing, and payment arrangements remain poorly understood. For instance, public–private partnerships may be present in a very diverse set of arrangements with collaborations ranging from fully privatized service delivery systems (e.g., PES in Australia) to intermediate models where public and private institutions collaborate on the same function (e.g., delivery of trainings) but target different sets of the population. This new work program should focus on: testing in rigorous ways the effectiveness of the private sector in the provision of services, in developing a simple policy frame, laying out the most common public/private arrangements (e.g., vouchers, full private provision, and public–private partnerships) and highlighting the benefits and most common costs of each type; take stock on the evidence in the OECD and

some of the early experiences especially in middle income LAC and ECA countries; and develop an operational manual with a menu of alternative types of contracts for the private providers of employment programs, giving special emphasis to performance-based contracts.

**Improving our knowledge base and supporting new operational approaches to foster firm productivity and entrepreneurship.** This is especially important in LICs, where the labor force is concentrated in micro and very low income activities. Furthermore, around many regions of the developing world, there is also need to develop a stronger entrepreneurship culture. Often youth are heavily dependent upon finding a salaried job as they can strongly rely on informal safety nets. This work program is complementary with the informality agenda and should rely on a strong cross-sectoral team bringing in finance and private sector development (FPD) and education specialists. Building on available country case studies, literature reviews, impact evaluations, this new Bank social protection program should take stock of: the most effective policy interventions, including access to finance/startup financing; the administrative and regulatory framework; and business assistance and support – to foster productivity among the micro and small businesses (jointly with the FPD sector); and develop an operational manual on selected innovative entrepreneurship interventions trying to promote entrepreneurship through change in social/cultural attitudes and in mainstreaming entrepreneurship through formal education (jointly with the Education Sector).

## Appendix 1: Social Assistance in Kazakhstan

In the aftermath of the financial crisis, the Government of Kazakhstan (GoK) set as one of its priorities the formulation of public policies that would protect the poor effectively. However, simply increasing the funding of the existing safety net was hindered by the strong belief that the existing program is neither well targeted nor proactive (i.e., it does not promote welfare through links to activation or human capital accumulation instruments), and might even be causing welfare dependency. In addition, a large segment of the informal workers were deemed as the most vulnerable, at the brink of becoming claimants of the social safety net. Finding ways to rope them into the formal sector became a priority. As a result, the GoK wanted to address such important design and efficiency questions before increasing funding of the safety net programs.

Under the Joint Economic Research Program, the World Bank supported the Ministry of Labor and Social Protection of Kazakhstan through fee for service Analytic and Advisory Activities (AAA) to address these concerns. A comprehensive analytical framework was elaborated along several dimensions: learning about the barriers to work among the poor and non-working beneficiaries of the Kazakhstan Targeted Social Assistance (TSA); analyzing international experience with successful social protection programs that target the poor and include activation and graduation policies; profiling the informal sector, identifying the main obstacles to the growth of formal employment in Kazakhstan; and analyzing international experience with policies that improve incentives for moving informal workers to formal jobs.

To learn about the barriers to work among the poor and non-working welfare beneficiaries, the GoK recently conducted a household survey in the West-Kazakhstan and Kizil-Orda regions, collecting information on TSA beneficiaries and low income households that did not receive the benefits. Among others, lack of jobs and underdeveloped infrastructure seem to be core constraints for the most vulnerable. For example, 31.1% of beneficiaries' households in West-Kazakhstan and 39.1% in Kizil-Orda stated that they discontinued work due to enterprise closure. In addition, 28% in West-Kazakhstan and 10.4% in Kizil-Orda declared that no available kindergartens constituted barriers to work. This factor was two times more common among TSA beneficiaries' than non-beneficiaries' households. Similarly, presence of disease and disability of household members also prevents beneficiaries from job search and continuation to work. In addition, more than a third of the households receiving assistance agreed that there are severe infrastructure constraints to mobilize for work.

Low levels of education also constitute an important barrier to work among TSA beneficiaries' household members. Most household members have general secondary, elementary professional, or specialized secondary education. There is evidence that the inability to continue education is a result of heavy household expenses (food, clothing, etc.) and the need to earn money for living. The lack of professional skills creates a relatively large share of workers in "unskilled jobs". Over two thirds of TSA beneficiaries' household members do not have signed employment contracts, in contrast to only 50% of the non-beneficiaries.

Regarding the development of agricultural opportunities, the low number of TSA beneficiaries with land ownership or rented was identified as a barrier. As a result, most of the agricultural crops are for the household's own consumption. In addition, few households own livestock. These factors naturally limit the possibility for TSA beneficiaries to become self-employed at least in the agricultural sector.

Source: World Bank (2011d).

## Appendix 2: Colombia Juntos: An Example of Improving the Articulation of Social Assistance with Other Services

<b>Country</b>	Colombia
<b>Program Type</b>	Integrated poverty reduction program
<b>Program Title</b>	Social Protection Network to Overcome Extreme Poverty: <i>Juntos</i>
<b>Agencies Involved</b>	Government of Colombia; about 15 public agencies already participate in the <i>Juntos</i> network and this number is expected to increase over time.
<b>Year Started</b>	Pilot stage implemented in 37 municipalities during 2007-2008
<b>Program Description</b>	<p>The government designed a strategy to address extreme poverty through direct family support and preferential access from relevant social programs.</p> <p>The operational strategy is to incorporate extreme poor households into social services and help them to improve their situation by: (i) integrating the timely delivery of relevant social services; (ii) providing these families counseling and preferential access to social services to enable them to meet a set of minimum standards; and (iii) establishing a framework of co-responsibility with the family.</p> <p>In order to guide the work with the family and the inter-institutional coordination, there is a set of 45 minimum standards (goals) grouped into nine dimensions (health, education, identification, legal support, access to the financial system, family dynamics, housing, nutrition, income and employment). These could be thought of as the minimum conditions that ideally a family living in extreme poverty should accomplish in order to improve their situation and escape poverty traps, and build the skills, physical and financial assets they need to grow out of poverty and develop sustainable income-generation mechanisms.</p> <p>The <i>Juntos</i> strategy calls for a particular focus of programs on the poorest of the poor which will require programs to give these families preferential entry into the ranks of their beneficiaries and to adapt their programs to this new population. For some programs, this will likely mean very limited adjustments mostly in terms of a greater focus of resources for particular groups (for instance, for the Subsidized Health Insurance Regime). For other programs, however, this is likely to require more substantive adjustments, both in terms of their focus and in terms of the design of the intervention. Indeed, very often the existing supply of services is not adequate for the target population and needs to be redesigned. For example, access to microcredit services can be problematic for some of the extreme poor who do not have the financial literacy to use those services even when the quality of the service itself is good. The idea behind <i>Juntos</i> is to rationalize the supply of public institutions by adapting the service delivery to the target population.</p> <p><i>Juntos</i> represents the effort made by the government of Colombia to graduate extreme poor households by linking them to a range of services – but not directly integrating services – via the updated national targeting system (SISBEN III) and the national centralized registry of beneficiaries (RUAF).</p> <p><b>Income and work dimension of <i>Juntos</i>:</b></p> <p>As presented above, the situation of the extreme poor and the displaced population</p>

	<p>is rather specific, and calls for interventions which are more focused and tailored, and combine different services. In the area of labor markets, in particular, the level of skills of this population is on average very low, as is their productivity. So, while the government is strengthening the overall training system and promoting active labor market policies for all, it is also important to address the specific needs of the poorest and most vulnerable.</p> <p>In the context of the implementation of the <i>Juntos</i> strategy, the government reviewed in detail the situation of the poorest and the services adapted to their specific needs. The CONPES 3616 presents some characteristics of the extreme poor that are barriers for their participation in labor markets: low human capital, lack of access to capital, need for psychological support (especially the displaced) and need for assistance in launching their own businesses. The diagnostic highlighted that many existing programs do not reach the poorest or displaced, and that coordination between entities remains problematic. To respond to the issue, the government identified the need for an integral approach that would provide a personalized accompaniment for each adult, combining a series of interventions including education, training, psycho-social support, labor intermediation services, access to assets, technical assistance and apprenticeship, among others. It developed the Income Generation Policy for the Extreme Poor and the Displaced (<i>Política de Generación de Ingresos para la Población en Situación de Pobreza Extrema y/o Desplazamiento</i>) approved in the CONPES Document number 3616. The main purpose of the policy is to develop and increase the productive potential of the extreme poor and displaced, developing their skills, and creating opportunities for asset access and accumulation, and in the medium and long term, achieving social and economic stability. The policy builds on the framework of the <i>Juntos</i> strategy and targets young adults aged 18 and older belonging to households in the poorest 1.5 million households, as identified by <i>Juntos</i> on the basis of the SISBEN information system.</p> <p>The policy seeks to provide the mechanisms needed to overcome barriers for generating sufficient and sustainable income to promote the economic independence of the families. The actions will consist of improving, integrating, and targeting existing instruments properly. The current framework for income-generation needs to be improved: efforts are generally isolated and uncoordinated, often without recognizing the particular characteristics of the target population. Overall, the policy focuses on increasing the productive potential of the population (i.e., improving their supply of labor) rather than on enhancing demand for their existing skills (although a few elements of the strategy are designed to encourage the recruitment of the target groups).</p>
<p><b>Program Objectives</b></p>	<p>To improve the quality of life of households living in extreme poverty, to improve the delivery of social services, and to strengthen the institutional capacity of local governments.</p>
<p><b>Target Population</b></p>	<p>The poorest of the poor (bottom 1.5 million households in the SISBEN database) as well as displaced people who are registered in the Information System for Displaced Population “RUPD”. The extreme poor, particularly prevalent in rural areas, include many uneducated youth and unskilled self-employed adults. Over a third of them work in agriculture and almost half are self-employed.</p>

<p><b>Selection of Beneficiaries</b></p>	<p>The strategy uses SISBEN (the national proxy-means targeting system) to select the extreme poor and RUPD to identify the displaced people.</p> <p>The updates of SISBEN III concern: (i) the formulation of the index with the new index capturing dimensions of vulnerability with different indices for large urban centers, smaller cities and rural areas; (ii) the administrative and operational processes, which will ensure greater quality and more regular and agile updating by municipalities; and, most importantly, (iii) the design o program-specific selection criteria. Indeed, each targeted government program will have to define its criteria for the selection of beneficiaries and resulting cut-off point to be applied (alone or in combination with other criteria).</p> <p>But challenges remain. While the decision on the new system was taken in 2008, the critical action for this reform is its actual implementation, which requires the coordination of central government agencies with all the country’s municipalities, and the adaptation of their institutional processes. During 2009, the government set out the responsibilities and processes in the Operational Manual, and has already piloted the new mechanism. Over the coming months, efforts will be required to complete the implementation of SISBEN III.</p>
<p><b>Coverage</b></p>	<p>The government implemented pilots in 37 municipalities in 2008, covering about 142,000 families. After the pilot phase, in 2009 the government started the full implementation of the <i>Juntos</i> strategy to gradually to cover all municipalities and all beneficiaries of <i>Familias in Acción</i> (the core government CCT program). Currently, the distribution of the target population of <i>Juntos</i> shows an overlap with <i>Familias en Acción</i> of only 37%. Another 37% of the extreme poor would be eligible for <i>Familias en Acción</i> but are not enroled and the remaining 26% is ineligible. This means that <i>Familias</i> will need to ensure to include among its beneficiaries those identified by <i>Juntos</i>.</p> <p>By the end of 2010, at least 1,333,000 families were covered by the family accompaniment component in 1,028 municipalities.</p> <p>The program aims at covering about 1.5 million extremely poor households in the 1,103 municipalities, 300,000 of which are victims of forced displacement.</p>
<p><b>Institutional Arrangements</b></p>	<p>Like <i>Familias en Acción</i>, the <i>Juntos</i> strategy is so far housed in the Office of the President for Social Action (<i>Acción Social</i>), rather than in a core sectoral institution. However, the <i>Juntos</i> strategy has been strongly anchored and institutionalized within the broader government apparatus through a series of mechanisms. First, it uses core information systems to identify its beneficiaries (SISBEN) and to identify needs and gaps in coverage (RUAF). Second, the strategy is different from typical programs, as it is based on the actual coordination of existing programs and services to provide preferential access to beneficiaries, including programs housed in of <i>Acción Social</i> like the CCT <i>Familias en Acción</i>, those of the Colombian Institute for Family welfare (ICBF), the Colombian Institute for Educational Loans and Technical Studies Abroad (ICETEX), and the National Service for Job Training (SENA). This coordination is led by the Ministry of Social Protection and the National Planning Department. Third, the strategy is also organized in partnership with local authorities at the departmental and municipal level, through formal agreements.</p>
<p><b>Institutional Tools to Deliver Graduation/Activ</b></p>	<p>The government developed instruments for the articulation of agencies at the national level and engaged into partnerships with 80% of all municipalities (890 out of 1103). The weakest municipalities, in fiscal and institutional terms, benefit from</p>

<b>ation</b>	greater contributions from the central government as well as capacity building.
<b>Monitoring and Evaluation</b>	<p>Under the National System of Evaluation of Public Sector Performance (SNERGIA), the National Planning Department coordinates with other agencies the regular monitoring and evaluation of key programs through a series of process, institutional and impact evaluations and the broad dissemination of findings and recommendations.</p> <p>To promote an effective strategy, the government undertook an evaluation of the operational processes of the pilots and fine-tuned its operational manual prior to the launch of the strategy. The government has also initiated a rigorous impact evaluation to assess the effectiveness of the program in reaching the poorest families, providing the support they need to connect to services, and providing preferential entry into core social protection programs.</p>
<b>Evaluation Results</b>	While the baseline for this impact evaluation has been collected, the results of it are still pending.
<b>Cost</b>	<p>USD 26.5 million from the Colombian government, with 16% of the budget being directed to local governments. A budgeting mechanism is in place according to which the government disburses resources to the public agencies conditional on whether services are provided to the targeted population and whether services need to be redesigned.</p> <p>Local governments are required to co-finance operational costs.</p> <p>According to the NDP,<sup>159</sup> a substantial part of the resources needed to ensure preferential access would be obtained by directing the planned expansion in coverage of social services to <i>Juntos</i> participants. For example, additional places in the subsidized health insurance system were allocated to <i>Juntos</i>.</p>
<b>Implementation Issues</b>	<p>A key element of the <i>Juntos</i> strategy is the collaboration and coordination between the central agency running the strategy, national public agencies providing services in the key dimensions of the strategy, local or departmental service providers, and, last but not least, municipal governments. Indeed, the strategy requires that each municipality commit some of its local resources to the program and provides support for the coordination of programs to participate in the strategy.</p> <p>The central service providers are expected to specifically set aside some of their resources (number of spots) for <i>Juntos</i> beneficiaries in their annual budget proposals, and to adapt their services to the poorest groups (adapting the nature of a training course, for instance, to reflect the lower literacy prevalence amongst the <i>Juntos</i> population).</p>

<sup>159</sup> National Development Plan 2006-2010.



<b>Dimension</b>	<b>Goals</b>
<b>Identification</b>	1. Children aged 0 to 7 have a civil registry, those aged 7 to 18 have an identity card, and individuals over 18 have an official ID
	2. Men aged 18 to 50 have their military documentation
	3. Families in SISBEN has its information up to date in the system
<b>Income and Work</b>	4. Adults over 60 have some income
	5. At least one family member over the age of 15 has a paid job
	6. Working-age individuals who need it have access to labor intermediation, technical assistance, or job training services when available
	7. Families have legal property, rental or occupation of the land or housing it uses.
<b>Education and Training</b>	8. Children under the age of 5 receive integral medical attention
	9. School-age children who have not finished elementary education are enrolled in the formal system, and disabled persons under 22 are enrolled in an adapted system.
	10. Adults between 18 and 65 can read and write
	11. After completion of elementary education, those who want enroll in secondary, technical, technological, tertiary education, or job training.
	12. Children under 15 do not work.
<b>Health</b>	13. Family members are affiliated with the national health system
	14. Families receive services of health promotion
	15. Teenagers and adults know family planning methods
	16. Children under one have full vaccination
	17. Pregnant women receive pre-natal controls and delivery assistance
	18. Children under 10 participate in growth monitoring programs
	19. Adults undergo cancer screening
	20. Disabled individuals have access to rehabilitation services and help for autonomy.
<b>Nutrition</b>	21. Families consume sufficient healthy food that is prepared in a health manner
	22. Children under 5, pregnant and lactating women have adequate food intakes
	23. Children under 6 months receive exclusive breastfeeding
<b>Housing</b>	24. Housing has sewage and water disposal systems
	25. Families dispose of, or transform, garbage.
	26. Housing has energy source
	27. Housing has different areas for cooking, toilets, washing, and sleeping.
	28. There are no more than three persons per room and children sleep separately
	29. Housing does not have earth floor

	30. Family members have furniture and instruments to sleep and eat.
	31. Families have access to a means of communication.
	32. Housing has adequate materials, which allow for a safe and healthy environment.
	33. Housing counts with lighting, natural ventilation, and privacy.
<b>Family Dynamics</b>	34. Families elaborate and follow their “family plan”.
	35. Families have access to information and services to combat domestic violence.
	36. Family members know the spaces and opportunities to benefit from programs in its locality and participate in some of them.
	37. Families with children under 6 know and apply good practice child rearing.
	38. Families have safe spaces for dialogue and conflict resolution
	39. Family members jointly provide care to the disabled.
<b>Banking and Savings</b>	40. Families manage their savings through financial services, and use them as they want.
	41. Families know the characteristics of, and have access to, financial services.
	42. Families are not victims of usury.
<b>Access to Justice</b>	43. Families know their legal needs, the required processes, and their rights and duties
	44. Families with legal needs receive the required assistance.
	45. Displaced families are accompanied in the monitoring of its rights.

### Appendix 3: Clientele of the Public Employment Services

Employment services are at the heart of national Alternative Labor Market Programs (ALMP) strategies in most advanced countries. The most successful Public Employment Services (PES) provide activities to the following target groups:

- Services to employed persons: support occupational and job-to-job mobility.
- Services to the unemployed: (i) early identification and intervention; (ii) support employability and lifelong learning; (iii) balance extensive support/self-help strategy; (iv) career planning/advice/guidance; and (v) work trials and supported entry for the long term unemployed.
- Services to inactive persons: (i) early identification and intervention; (ii) support employability and lifelong learning; (iii) career planning/advice/guidance; and (iv) work trials and supported entry.
- Services to employers: (i) anticipation of skills needs; (ii) support timely job-to-job transitions; (iii) promotion of internal flexicurity; (iv) enable transitions following company restructuring; and (v) promotion of entry points for the long term unemployed and inactive persons.
- Menu of employment services.

In more detail, the menu of employment services provided, as a rule, by the staff of PES but increasingly by private providers as well, may include the following activities:

- Job placement services
- Job search assistance services
- Regular meetings with personal employment advisor (job search follow-up, update of employment plan, identification of unemployed needs or special support within employment programs, etc.)
- Direct referral of jobseekers to vacancies
- Job search skills training programs
- Job application and interview preparation
- CV composition and submittal
- Job clubs
- Job and vacancy fairs
- Informational interviews
- Employer contact (intermediation) services
- Small business advisory meetings
- Sessions on current labor market information and regional jobs
- Job motivation seminars
- Career/job counseling (individual or group-based)
- Vocational counseling
- Legal counseling on PES services and rights as well as obligations for newly registered unemployed
- Social counseling (how to handle the family budget, etc.)
- Medical counseling
- Vocational rehabilitation: services for the disabled include work capacity assessment and vocational planning, exploring employment options, evaluating aptitude and the promotion of job placement
- Setup of individual action plans
- Surveillance of independent job search
- In-depth skills assessments, assessments of abilities (aptitude testing) and occupational skills
- Referrals to ALMPS after a period of unsuccessful job search
- Labor redeployment services (programs for workers who have received redundancy note)
- Cooperation with all relevant stakeholders – the social partners, social benefit organizations, education and training providers, other public organizations, and private employment agencies.

ICT services for jobseekers:

- Viewing jobs and training places on the internet
- National call centre service: a jobseeker can find out about jobs, training, and unemployment security
- Job and training place notification: this service provides clients with information on jobs and training options which interest them by email
- CV net: posting of CVs on a freely accessible online service.

Source: Andersen et al. (2009).

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## Abstract

Throughout the developing world there is a growing demand for advice on the design of policies to facilitate access of the most vulnerable individuals to jobs, while reducing their dependency from public income support schemes. Even though these policies are common to both the activation and graduation agendas, a separation is needed as the graduation of beneficiaries out of poverty is a much more ambitious agenda. This paper proposes a simple policy framework highlighting the most common barriers for productive employment. It also reviews the topic of incentive compatibility of income support schemes and employment support programs that are used to address them. The paper finds that, especially in middle income countries, activation and active labor market programs play an important role connecting individuals to jobs and improving earnings opportunities. In low income countries, these programs are far from being a panacea to graduate beneficiaries out of poverty. Furthermore, only scant evidence is available on the pathways to graduation and significant knowledge gaps remain. More cross-disciplinary research is needed to strengthen the evidence base and develop recommendations for different contexts and capacity levels.

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