Scientific research: Latvia: “Who is Unemployed, Inactive or Needy? Assessing Post-Crisis Policy Options”

Policy Options for Improving Performance

European Social Fund Activity „Complex support measures” No. 1DP//1.4.1.1.1./09/IPIA/NVA/001
Latvia: Who is Unemployed, Inactive or Needy? An Assessment of Post-Crisis Policy Options

The World Bank
Contents

- Context For Study
- Who Are Those Who Have Experienced Persistent Labor Market Difficulties?
- Is There Evidence of Benefit Dependency?
- How Much Does Latvia Spend On Social Assistance? How Do Programs Perform?
- What Options Are There For The Tax And Benefit System To Increase Protection And Work Incentives?
- How Does The Design of The Guaranteed Minimum Income Program Compare To Other EU Member States?
- How Are ALMP Programs Performing and What Lessons Can Be Drawn for Future Policy Directions?
I. Context for the Study

Why do a study on unemployment and the tax-benefit system?

Background Papers/Presentations:
Motivation for Study

- Labor market has recovered since the crisis, but unemployment still high and participation lower than pre-crisis
  - Concern on long-term unemployment and benefit dependency
  - Growth issue—particularly given aging demographics—need to maximize labor market participation and labor productivity
- Aim to increase living standards (given high poverty and inequality)
  - Strategy of shared prosperity and to support families
  - Government expanded safety net during the crisis and increased spending:
    What policies moving on from crisis measures (emergency social safety net)?
Motivation for Study

- In collaboration with World Bank, Government of Latvia embarked on study to look at long-term unemployment
- Objective is to have background analysis to inform tax, benefit and ALMP Design
- Evidence-based policy marking
  - Build on approach of Government-supported evaluation of crisis measures (emergency public works program)
  - Government of Latvia invested significant effort in producing a detailed database on benefits and employment-unemployment spells
- Latvia joins countries such as the U.K., the Netherlands and Nordic countries in using administrative data for evidence-based policy analysis
Big Effort by Government to Build Database Linking Information From Multiple Sources

1. Population Registry
   - Family relationships

2. Social Assistance Registry (SOPA)
   - Access to social assistance programs

3. State Employment Agency (BURVIS)
   - Unemployment registration

4. Social Security Registry (VSAA)
   - Wages and employment status
Economic Recovery Has Begun, But Unemployment Remains High

- Economy has begun its recovery from recession (positive real GDP growth resumed in 2011)
- Effects of the crisis on the labor market and social situation are far from over
  - Unemployment situation has improved a bit, with unemployment falling from 19.8 percent in 2010 to 14 percent in 2012.
  - Registered unemployment echoes LFS-based data
  - Share of the working age population has fallen sharply since before the crisis
  - Between last two population censuses (2000-2011), 13 percent fall in population (negative net migration = around 190,000)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth rate</td>
<td>-3.3</td>
<td>-17.7</td>
<td>-0.9</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Employment rate*</td>
<td>75.8</td>
<td>67.1</td>
<td>65.0</td>
<td>66.3</td>
<td>...</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.0</td>
<td>18.2</td>
<td>19.8</td>
<td>16.2</td>
<td>14.0</td>
</tr>
</tbody>
</table>

*The employment rate is calculated by dividing the number of persons aged 20 to 64 in employment by the total population of the same age group. Source: Eurostat online
Getting More People Back to Work is Critical for Long-run Growth, and Reducing Poverty and Inequality

- Getting more people back to work is critical for reversing the deepening of poverty and increasing polarization that has occurred since 2007.

- Nearly two-thirds of the poor population is made up by people who live in households with low work intensity. 28% of the poor population are unemployed.

- “Working poor” do exist in Latvia, even though the share of employed people is lower (26%) within the poor population than in the general population (46%).

**Low work intensity is strongly associated with being poor**

At-risk-of-poverty rate of specific social groups in Latvia (%), 2009

![Graph showing the at-risk-of-poverty rate of specific social groups in Latvia in 2009.](image-url)
Labor Demand Has Yet to Fully Recover and Long-term Unemployment is a Concern

- Labor demand has yet to recover fully recover
  - Few businesses report labor shortages
  - The level of vacancies in Latvia is very low – in comparison both to the pre-crisis levels and to other European countries
  - The available vacancies are filled quickly which is not consistent with the idea of notable mismatches between supplied and demanded skills

- Long-term unemployment and drop in labor market participation is a concern and protection/increasing skills of workforce crucial for future growth
Enterprises report insufficient demand rather than a shortage of labor as limiting factor in Latvia, 2010-2013

Source: Business Tendencies (Economic Sentiment) survey, CSB
Since 2009, Job Vacancy Rates are Extremely Low; Despite the Need to Replace Emigrants
Demographic Changes Increase the Impetus to Maximize Labor Force Participation

Latvia: Age Distribution of Population, 2012 vs. 2060 (in percent)

Source: WB calculations based on CSB population data and Eurostat.
Unlike in some other countries with large austerity programs, the safety net in Latvia did expand during the crisis.

...but policy adjustments were needed.

Source: Administrative data.
II. Profiling Those with Persistent Labor Market Difficulties

Which groups are suffering from no or unstable work?

Background Papers/Presentations:

1. World Bank (2013). Profiling of People with No or Limited Labor-Market Attachment (Céline Ferré and Herwig Immervoll).
Four Types of No/Unstable Work...

- Not working at all
- Low earnings
- Informal work
- Low work intensity
2007-2010: Broad Categories of No/Unstable Work

- Not persistently vulnerable: 70%
- Cycling ("no pay - low pay"): 10%
- Informal: 5%
- Low wage: 3%
- Low work intensity: 2%
- Not working: 10%
<table>
<thead>
<tr>
<th>Group Size</th>
<th>Group Description</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>22%</td>
<td>“single older unemployed/disabled”</td>
<td>Old/Middle-aged 45-61 y.o., Single, 10+ yrs. experience, Low education, Many disabled/unemployed, Chronic illness</td>
</tr>
<tr>
<td>18%</td>
<td>“single young males with low education”</td>
<td>Young 20-29 y.o., Men, Never married, Very low education, Unemployed, No children, Rural</td>
</tr>
<tr>
<td>14%</td>
<td>“older unemployed, fit for work”</td>
<td>Older 50+, Married, 10+ yrs. experience, Low education, Unemployed/Low earnings/Infrequent work</td>
</tr>
<tr>
<td>11%</td>
<td>“poorly educated, rural male breadwinner”</td>
<td>30-39 y.o. men, Married/union, Very Low education, 10+ yrs. experience, Child &lt; 6 y.o., Rural, Partner not working</td>
</tr>
<tr>
<td>9%</td>
<td>“self-employed older men”</td>
<td>Older men 40-54 y.o., Married, 10+ yrs. experience, Self-employed, No child in household, Informal</td>
</tr>
<tr>
<td>6%</td>
<td>“disabled older women with working partner”</td>
<td>Older women 50+, Married, Lower education, 10+ yrs. experience, High disability (most in sample), inactive, Chronic illness, Working partner</td>
</tr>
<tr>
<td>6%</td>
<td>“highly educated stay-at-home mums”</td>
<td>30-39 y.o. women, Married, Higher education (most), 10+ yrs. experience, Children, Urban, Working partner</td>
</tr>
<tr>
<td>4%</td>
<td>“disabled older women, partner not working”</td>
<td>Older women 50+, Married, Lower education, 10+ yrs. experience, Unfit for work, inactive, Large share retired early, Chronic illness, Partner not working</td>
</tr>
</tbody>
</table>
Policy Options

- Desirable targeting mechanism: combined strategy that aims at tackling those at risk of persistent labor market difficulties and economic hardship
  - Hardest to activate: Older and/or disabled pre-retirement age group; and large group of young, less educated unemployed
  - Easier to activate?: the more educated older male self-employed population and well-educated stay-at-home moms

- Use the link between benefits and activation policies as an instrument to bridge unemployed to employment services
- Implement an activation strategy to target each of the identified groups
### EXAMPLES OF EMPLOYMENT SERVICES AND MEASURES TO TARGET PARTICULAR GROUPS OF JOB SEEKERS

<table>
<thead>
<tr>
<th>Target Groups</th>
<th>Relevant Employment Services and Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals with unfavorable labor market prospects</strong></td>
<td>Job search courses, job clubs, vocational guidance, counseling and monitoring, and sanctions in the case of noncompliance with job search requirements (see the potential list of employment services below)</td>
</tr>
<tr>
<td><strong>Most job seekers, in particular, for participants with better labor market prospects and for women</strong></td>
<td>Training, including classroom training, on-the-job training, apprenticeship and internship programs, and work experience. The measures can either provide a more general education (such as e.g. language courses, basic computer courses or other basic courses) or specific vocational skills (e.g. advanced computer courses or courses providing e.g. technical and manufacturing industry skills)</td>
</tr>
<tr>
<td><strong>Long-term unemployed and more disadvantaged individuals; the disabled, first-time jobseekers, the long-term unemployed, persons over 50 years of age who are capable of work</strong></td>
<td>Wage subsidies: financial incentives are either provided directly (through direct wage subsidies) or indirectly (through social security waivers and reductions in labor taxes)</td>
</tr>
<tr>
<td><strong>A higher-skilled segment of the unemployed, and unemployed workers who have entrepreneurial skills, such as highly educated prime-aged men</strong></td>
<td>Small business assistance programs, self-employment grants and sometimes also advisory support for a fixed period of time</td>
</tr>
<tr>
<td><strong>The most disadvantaged individuals</strong></td>
<td>Direct employment programs in the public sector, focusing on the direct job creation and provision of public works or other activities that produce public goods or services</td>
</tr>
</tbody>
</table>
### EXAMPLES OF EMPLOYMENT SERVICES AND MEASURES TO TARGET PARTICULAR GROUPS OF JOB SEEKERS (continued)

<table>
<thead>
<tr>
<th>Target Groups</th>
<th>Relevant Employment Services and Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Youth programs comprising specific programs for disadvantaged and unemployed youth</strong></td>
<td>Training programs, wage subsidies and job search assistance; graduate practice for jobseekers up to 25 years of age, including reimbursement of the necessary personal expenses associated with the implementation of graduate practice; provision of employability and training plans, job and career counseling services, various aptitude tests, and vocational assessment tests; voluntary service with the aim of jobseekers to obtain practical experience on the job market, an allowance in a lump-sum amount of the subsistence minimum to cover necessary expenses for meals, accommodations, and travel expenses from place of residence or temporary residence to place of voluntary service</td>
</tr>
<tr>
<td><strong>Measures for the disabled</strong></td>
<td>Vocational rehabilitation, sheltered work programs or wage subsidies for individuals with physical, mental or social disabilities; an employment quota for the disabled, and in some countries, for other categories of workers. groups with limited work capacity, such as improving their job search skills, subsidies to private employment, sheltered employment, or adaptation of the workplace and post-employment counseling; reimbursement to the employers and employees of the costs of health insurance and social insurance premiums and contributions to retirement pensions</td>
</tr>
<tr>
<td><strong>Older job seekers</strong></td>
<td>Vocational rehabilitation, adaptation of working places, further training, retraining, and active employment services</td>
</tr>
<tr>
<td><strong>Long-term unemployed</strong></td>
<td>A combination of temporary employment (public works or subsidized employment), on-the-job training, and regular job-placement assistance</td>
</tr>
</tbody>
</table>
Benefit Dependency: Is There A Benefits Trap?

Is there evidence of widespread benefit dependency? Do those on benefits stay on them for long?

Background Papers/Presentations:


Evidence Does Not Support Widespread Benefit Dependency

- Coverage of both the unemployment insurance and the Guaranteed Minimum Income (GMI) program remains low.
- After unemployment benefits run out, many of those that collect GMI beneficiaries do so as a temporary stop-gap.
- There is scope for improving adequacy of benefit provision.
Unemployment Benefit Still Covers Few

Sources: Eurostat for Latvia, OECD Employment and Labor Market Statistics for all other countries.

Ratio of unemployment benefit recipients to the number of unemployed (2010)
Relatively Few People GMI Have Benefited From GMI Compared to Unemployment Insurance

Share of People Receiving Different Benefits in Latvia for at Least One Month
(percent of population who received a benefit for at least one month over January 2006 to July 2012)

- GMI: 6.9%
- Housing: 11.1%
- Disability: 5.5%
- Unemployment: 23.6%
- Other benefits: 24.3%

Percent of persons receiving benefits at least one month
GMI has Grown Since 2010; But a Maximum of 4 Percent Have Participated In Any One Month …
40% of People Have Only One GMI Spell In 2006-2012

Note: A GMI Spell is defined as one continuous period when a person receives GMI benefits.
... and Spell Durations Appear to be Short…with A Lot of Spells of One to Three Months
IV. Tax and Benefit Policy: Social Assistance Spending

How much does Latvia spend on social assistance compared to other EU countries? How do programs perform?

Background Paper:
Turning to Total Spending, Expenditure on Universal Programs is Larger Than On Means-Tested Programs

Source: Administrative data, Staff calculations.
Spending on Means-tested Income Support for the Poor Remains Quite Low in Latvia

Source: ESSPROS data, Administrative data from Ministry of Welfare, Staff calculations.
Indicators of Performance of Social Assistance

We use household survey data to assess performance of cash transfers:

- **Coverage**: percent of those in the *poorest quintile* who receive benefits

- **Targeting accuracy**: percent of benefits going to the *poorest quintile*

- **Generosity (Adequacy)**:
  - **Contribution to consumption**: Average transfer amount as a fraction of average income for beneficiary households in *poorest quintile*
  - **Unit transfers** as a fraction of minimum/average wage/poverty line
GMI is Well-Targeted (91% Goes to the Poorest Quintile), But Coverage and Adequacy Are Low

Coverage of the poorest and richest quintile by programs targeting social exclusion, 2009

GMI benefit as a share of minimum and average wages, and the needy level

Source: EU-SILC 2010, World Bank staff calculations.

Poverty Impact is Low Due to Low Generosity and Coverage

Increase in 'at risk of poverty' rate in the absence of social exclusion benefits in percentage points, 2009

Source: EU-SILC 2009, World Bank Staff calculations.
Does the tax-benefit system provide sufficient protection from poverty? Is there evidence of work disincentives? Are there options to increase the pay-off of work for those of lowest income?

Background Paper:

Does the Current Tax-Benefit System “Make Work Pay”? 

- Work disincentives are unlikely to be the main employment barrier after a deep recession, however:
  - Those on means-tested benefit recipients face high marginal effective tax rates (for every LVL1 earned, a LVL1 of benefits is withdrawn)
  - Financial incentives to take up employment can be improved for low-wage earners
Does the Current Tax-Benefit System Provide Sufficient Protection Against Poverty?

- There is a scope for improving adequacy of benefit provision
  - Coverage of both the unemployment insurance and the GMI program remains low
  - Those on the GMI benefit are at a high risk of poverty
  - Recently passed reforms exacerbate income losses for the poorest
Unemployment Benefit Still Covers Few

Unemployment benefit coverage
% of ILO unemployed receiving benefits, selected countries

GMI Program Recipients with No Other Incomes are at a High Risk of Poverty

Maximum entitlements for different family type
Net income value in % of median household incomes, 2010

- Family benefits
- Cash housing assistance
- GMI, no housing assistance
- Eurostat at-risk-of-poverty threshold
- "Needy" threshold (as % of median income)
Recent Policy Changes Improved Situation of Many; But Reduced Incomes for Lowest Income Groups Due to GMI Changes

**Couple (2 children)**

(\% change of net income in base year)

<table>
<thead>
<tr>
<th>Gross Earnings (% of average wage)</th>
<th>0</th>
<th>25</th>
<th>50</th>
<th>75</th>
<th>100</th>
<th>125</th>
<th>150</th>
<th>175</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings (p90)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social assistance (GMI + Housing benefits)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It Might Not Always Pay to Take a Low-Paid Job

Participation tax rate (average effective tax rates) in 2011
One-earner couple, with 2 children
Earning one-third or two-thirds of the average wage (AW)

Sources: World Bank calculations using OECD tax-benefit models
GMI Recipients Lose All Social Assistance On Moving to a Job in Latvia

In–work benefits for low income households allow after-benefit and tax income to increase as work effort increases, selected countries

OECD Policies To “Make Work Pay”

- Many countries operate **gradual benefit phase-outs** for individuals who manage to earn only limited amounts, e.g. Earned Income Tax Credits in Korea, United Kingdom, United States or tapered withdrawal of Social Assistance in France, Australia
- Increase of minimum wage and non-taxable minimum
- Employment-**conditional** (“in-work”) **benefits** or **tax credits** that support the incomes of workers in non-marginal employment
  - Reduced social security contributions and/or taxes for low-wage employment
  - Temporary benefits (“back to work bonuses”)
  - Permanent benefits (periodic payments via benefit or tax system)
Policy Options to Improve Protection and In-Work Benefits

- Benefit adequacy could be improved, while simultaneously pay off from work can be increased
  - Increase coverage and generosity of means-tested benefits
- Financial incentives to take up low-wage employment could be enhanced
  - e.g. “back to work” bonuses (for long-term unemployed/GMI beneficiaries, etc.)
  - A permanent in-work benefit scheme can be designed and implemented along with measures aimed at combatting under-reporting
- Tax benefit models allow to simultaneously assess theoretical effect of different measures above
  - Distributional analysis would be needed to assess full impact and costs of any reforms
  - Informality and under-reporting could present a challenge in designing targeted make-work-pay policies
Main design characteristics and comparison with minimum income schemes in other EU member states

Background Paper:
Latvia Minimum Income Scheme Compared to Other EU Countries

- Centrally designed—as in most EU countries—with similar objectives (protection/activation)
- As in many countries, implementation delegated to municipalities
- But big difference is that financing is also delegated to municipalities (except for co-financing 2009 (October) until end-2012)
- Latvia GMI framework gives more discretion to municipalities in the field of benefit design than in many EU
  - State sets only a ‘minimum standard’ for GMI eligibility and adequacy
  - Municipal authorities have discretion to decide to grant higher GMI benefit levels (but with ceiling)
  - GMI provision likely to be a function of financing capacity and not just social assistance needs
Advantages and Disadvantages to Decentralizing Social Assistance Financing; But full Decentralization of Financing Rare in EU

<table>
<thead>
<tr>
<th>Centralized Financing</th>
<th>Mixed Financing</th>
<th>Decentralized Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria, Cyprus, Czech Republic, Estonia, France, Ireland, Lithuania (piloted local financing), Poland, Portugal, Romania (administrative cost covered by local budgets), Slovakia, Slovenia, U.K.</td>
<td>Belgium, Denmark, Hungary (5-20% from local governments), Germany (assistance for those who cannot work provided by municipalities), Italy, Netherlands (municipalities can provide other allowances), Spain</td>
<td>Austria, Finland, Latvia, Sweden</td>
</tr>
<tr>
<td>Strengths</td>
<td>Centralized Financing</td>
<td>Decentralized Financing</td>
</tr>
<tr>
<td>----------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>• State can ensure equal financing standards (same eligibility criteria, amounts of benefits and implementation rules) irrespective of the financial status of the municipality</td>
<td>• Better accounting of local needs / local government level discretion</td>
</tr>
<tr>
<td></td>
<td>• State financing flows based on legally binding ‘state responsibility’ makes them more stable and predictable</td>
<td>• More flexibility in prioritizing benefits with change in needs and nature of vulnerability</td>
</tr>
<tr>
<td></td>
<td>• State has higher capacity for risk pooling</td>
<td>• Provides a link between beneficiaries and taxpayers</td>
</tr>
<tr>
<td></td>
<td>• State has better access to a wider range of financing sources (budget reallocations, tax increases, foreign grants and/or borrowing)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• State is better positioned to provide counter-cyclical financing for the safety nets, and for last resort social assistance (LRSA) in particular</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• State is better able to protect spending on LRSA in economic downturns (reallocate funds from other budget categories)</td>
<td></td>
</tr>
<tr>
<td>Weaknesses</td>
<td>Centralized Financing</td>
<td>Decentralized Financing</td>
</tr>
<tr>
<td>----------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>• Limited knowledge of local needs and priorities</td>
<td>• Less scope for countercyclical financing which becomes even more problematic at the times of crises and economic downturns</td>
</tr>
<tr>
<td></td>
<td>• National eligibility criteria and financing standards are more rigid; it takes more time to adapt to the changing demand</td>
<td>• Local government spending may be less and less secure because of lesser stability of municipal revenues</td>
</tr>
<tr>
<td></td>
<td>• Local governments have no incentives to raise own revenues for LRSA</td>
<td>• Interregional disparities in coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Higher risks of cutting benefits in poorer municipalities despite that their population is most in need/less scope for risk pooling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Risks of ‘benefit-driven migration’ across municipalities</td>
</tr>
</tbody>
</table>
Design Options to Consider for GMI (coming from a comparison with other EU countries)

- GMI provides same benefit for children and adults (no explicit or implicit equivalence scales)
  - Apply implicit or explicit equivalence scales to account for the shared use of resources within a household; Anchor GMI level to an objective welfare standard such as minimum subsistence level

- GMI income test has allowed less disregards over time and includes a larger number of state benefits, particularly the child care benefit, the child care benefit supplement and the full parental benefit

- Many EU countries allow overlap of last-resort social transfers and child benefits in an effort to strengthen the support for families with children (as they tend to have a higher risk of poverty)

- Gaps in legal definition of the GMI asset test and the large scope for municipal discretion in proving social assistance could have significant impact on access to GMI
Design Options to Consider for GMI (Coming From A Comparison With Other EU Countries)

- ‘Make work pay’: Introduce gradual withdrawal of benefits after GMI beneficiaries start working to cushion the abrupt loss of income from benefits.
  - e.g. beneficiaries could continue receive the full benefit or a fraction of it for six or more months after taking a job.
- Similar effects achieved when threshold for exit from the GMI is set at a higher nominal level compared to entry.
Devolved Financing and Implementation Presents a Challenge For Coordination and Monitoring

- Overall recommendation to ensure an integrated system with common objectives is good coordination of design and implementation, along with common mechanisms and information systems for program tracking and evaluation.
- Develop information system for Ministry of Welfare to track the performance of GMI with administrative, qualitative and household budget data.
- Bring dividends in terms of understanding how to adjust the design of GMI in order to improve targeting accuracy, coverage of the poor and welfare impact.
- Also, as a system of control and monitoring (including audit).
- Will necessitate information tools, oversight staff and other resources.
VII. ALMP Programs

How are ALMP programs performing and what lessons can be drawn for future policy directions?

Presentation:

1. World Bank (2013). Evaluation of active labor market programs in Latvia (Mihails Hazans and Jekaterina Dmitrijeva)
Questions on Active Labor Market Programs (ALMPs)

- Which ALMP programs (if any) helped to improve subsequent labor market outcomes of the treated (trained) in comparison to otherwise similar untreated unemployed?

- How do different types of programs (occupational training, employer provided training and informal education programs) differ from each other in terms of their performance?

- Does employer provided training perform considerably better than the traditional (out-of-the-job) occupational training? Is there a case for a substantial expansion of subsidized employer provided training in Latvia?

- How do different programs within each type (e.g. training in different occupations, or informal education in different languages or at different levels) differ from each other in terms of their performance?
Exit to employment hazard, Males

by unemployment duration

by unemployment duration, excluding training time
Exit to employment hazard, Females

by unemployment duration

by unemployment duration, excluding training time

Occupational Training and Informal Education Programs: Duration excludes training time
Programs Covered

- Occupational training for unemployed and (since 2011) training for unemployed with coupon method (OT)
  - vocational training, requalification and qualification improvement
- Employer provided training leading to professional qualification (EPT)
- Informal education programs (IEP),
  - state and foreign language courses,
  - IT and software training,
  - training in business and record keeping,
  - services,
  - car, bus, tractor and other vehicle driving
Data

Individual data from two administrative data sources:

- SEA register data - information related to registered unemployment episodes and participation
- SSIA monthly records – for constructing full employment history between 2005 and 2012 for all individuals

Aggregate data from official statistics

- Conversion of nominal wages gained in 2005-2011 to real 2012 Lats
Sample

We consider:

- Flow sample of 508,437 individuals entering registered unemployment between 01/01/2008 and 31/12/2011
- First unemployment spell occurring in this period and subsequent employment outcomes;
- Robustness check - all unemployment spells

Excluded:

- Individuals with other important treatments (subsidized jobs). Short ALMP such as MIC (measures to improve competitiveness) allowed
- Individuals with multiple treatments (several training programs completed during the considered unemployment spells)
- Non-participants with training in future unemployment spells (a very small group anyway)
Final sample - 78% of initial sample (399 928 individuals):

- 9% (35 458 individuals) treated (= trained) unemployed – participants in a single training program.
- 34% (134 481 individuals) untreated unemployed, who have not undergone any ALMP - “No ALMP” group.
- 58% (229 989 individuals) untreated unemployed, only involved in short term ALMP (MIC) “Short ALMP only” group.
- Robustness check – 517 484 spells; 9.6% treated; 35.1% untreated “No ALMP”; 55.3% untreated “Short ALMP only”
Analysis outline

I - **Timing of participation** (how programs are implemented)

II - **Selection into training** (who chooses and/or is chosen)

For each of 3 main training types (OT, IEP, EPT):

- Composition of participant groups (distribution of main characteristics)

- Estimation of a selection equation: Binary outcome (*Probit*) model is fit to estimate the probability to undergo a training program T conditional on a set of individual and socio-demographic characteristics (sex, age, region, education, work experience, language skills, etc.)
III – **Evaluation** (who benefit from training) using adequate econometric approaches:

- Duration models – modeling duration until job is found

- Statistical matching approach comparing main employment outcomes of treatment and control groups based on estimated treatment probability (propensity score). We use both nonparametric estimator (ex. kernel) if the form of relationship between treatment and outcome is left flexible or parametric (ex: OLS) if the assumed form is linear.

- For outcomes that involve selection (wages only observed for those who found jobs) – Tobit model (total time worked or total earnings over a time period)
Outcomes (1)

Two alternative measures of time elapsed:

- **R** - Time elapsed since registration (post-registration outcomes) for both treatment (T) and control (C) groups
- **T** - Time elapsed since the end of training (post-training outcomes) for T group

Three alternative measures of unemployment duration:

- **D1**: Duration from registration till job is found (or end of observation period)
- **D2** = D1, excluding duration of training (if any)
- **D3** = D1 for non-treated, while D3 = Duration from the end of training till job is found (or end of observation)
Outcomes (2)

Four principal outcomes:

- Y1: Employment by time horizon: employed in month X (since registration or since end of training)
- Y2: Transition to employment (3 or more months) at different time horizons.
- Y3: Number of months worked within time horizon
- Y4: Average monthly earnings, by time horizon (gross earnings within X months since start/number of months worked Y3)

*Values of X – time horizon: 6-9-12-15-18-21-24 months*
Outcomes (3)

Three secondary outcomes:

- **Y5**: Earnings at exit to job (1st or 2nd month of employment)
- **Y6**: Number of subsequent unemployment spells (job stability)
- **Y7**: Number of subsequent employment spells (job stability)
Results of ALMP Evaluation

- All types of professional training and informal education programs for unemployed significantly improve participants' employment rates—both soon after training completion and in the medium term.

- A substantial variation in terms of various labor market outcomes is found both between types of programs and within each type.

- Overall, the best performing programs for men include:
  - Professional training in manual, as well as service and sales jobs
  - Employer provided training in non-manual jobs
  - Informal education programs in project management and software
  - Informal education programs for professional drivers of transport and industrial vehicles

- For women, the best performing programs include:
  - Employer provided training in manual jobs
  - Professional training in manual jobs
  - IT (basic skills)
  - State language (categories 2 & 3) and English (intermediate level)
  - Professional training in manual, as well as service and sales jobs
Results of ALMP Evaluation (2)

- For **most of the employer-provided training programs** (service and sales sector for both genders; manual jobs for men, and non-manual jobs for women), the **participants who keep their jobs have much lower wages than otherwise similar participants of other programs or non-participants**; for females, these programs also do not show a long-term effect on employment.

- There is no case for expanding subsidized employer provided training.

- While short (non-training) measures to improve competitiveness of the unemployed are useful, they cannot substitute training and education, especially in the medium and longer term.

- Evaluation of new ALMP programs using micro-level data should become a normal practice.
Estimated ALMP effects on:
- **employment rates** 6 and 18 months after training (% points, lower scale)
- **average earnings** in months worked over 18 months (%, upper scale)

### Males

<table>
<thead>
<tr>
<th>Informal education</th>
<th>6 months, employment</th>
<th>18 months, employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short ALMP only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers - other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers - cars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business &amp; services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT (basic skills)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other languages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>English - 2, 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>English - 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State language - 2, 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State language - 1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Females

<table>
<thead>
<tr>
<th>Informal education</th>
<th>6 months, employment</th>
<th>18 months, employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short ALMP only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers - other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers - cars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business &amp; services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT (basic skills)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other languages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>English - 2, 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>English - 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State language - 2, 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State language - 1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Thank you!