

EXECUTIVE SUMMARY



International
Labour
Organization



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A woman wearing a blue long-sleeved shirt and a straw hat is sitting at a desk, working on a laptop. The scene is overlaid with a digital globe made of white lines and dots, and a white rectangular frame highlights the woman's face and the laptop. The background is a teal color with a grid pattern and circuit-like lines.

WHAT WORKS
PROMOTING PATHWAYS
TO DECENT WORK

EXECUTIVE SUMMARY

Temporary and structural barriers limit access to decent work in emerging and developing countries. This report studies how income support and active labour market policies (ALMPs) can be combined as part of an integrated approach to tackle a significant number of those barriers. A conceptual framework is first outlined to improve the understanding of the potential benefits of an integrated approach. The report then presents the findings of an extensive empirical analysis. An innovative country mapping shows that ALMPs and income support measures have been combined in a multitude of ways in emerging and developing countries, where they are indeed already a cornerstone of labour market policy. A literature review and a global macroeconomic study highlight how income support and ALMPs lead to better results when provided together, but different combinations of policies can drive different outcomes. These insights are complemented with evidence from impact evaluations of two programmes in Mauritius and Uruguay, which have combined ALMPs and income support in distinctive ways. Overall, the report finds that approaches exploiting the complementarity between ALMPs and income support are effective in improving the labour market perspectives of vulnerable workers while reducing some of the unintended negative effects that these policies may have when implemented in isolation. The empirical evidence suggests that the success of such approaches depends on certain key implementation features, including a transparent and inclusive governance system, appropriate targeting to ensure the participation of those in greatest need, and sufficient intensity of, and strong linkages between, the income support and activation components.

Aggravated by global drivers of change, a number of obstacles continue preventing people from accessing decent work in emerging and developing countries.

Gainful employment remains the most reliable way of escaping poverty. However, access to jobs and decent working conditions continues to be a major challenge. In emerging and developing countries, 159 million people are unemployed, while another 730 million are working but not earning enough to lift themselves out of poverty. The problem of working poverty becomes even more striking if all people whose livelihoods depend on these

“working poor”, such as their family members, are taken into account. It is clearly not only inactivity or unemployment that prevents households from shaking off poverty. Rather, a lack of decent work opportunities continues to beset emerging and developing countries, as further evidenced by their persistently high rates of underemployment and informality. Moreover, the inability to access decent work affects disproportionately the most vulnerable segments of the population, thus widening economic and social inequalities within countries.

The challenge posed by uneven access to quality employment in emerging and developing economies is being aggravated by current transformations in the world of work, which are affecting the availability and distribution of jobs. At the global level, both structural transformations (associated with globalization and the introduction of new technologies) and other drivers of change (such as environmental and demographic factors) have implications for the quantity and quality of jobs that people are able to access, and also for the income distributions within societies.

Yet, a significant number of barriers to decent work can be tackled by the policy approaches studied in this report.

Understanding the barriers that limit access to decent work is vital if appropriate policy measures are to be taken. These barriers are complex because they have several causes (ranging from deficiencies in educational systems to the absence of social and labour rights), and also because they have crosscutting effects (at the community, household and individual level) that may persist or change with time. In any case, obstacles to decent work translate into deficits in employment opportunities – in terms of both the availability and quality of jobs – and generally have repercussions on people’s wellbeing and living standards.

In this report, we study how income support and ALMPs can come together to tackle a specific, yet significant, set of barriers to decent work. At the individual level, these barriers include lack of education and skills, insufficient work experience, and information constraints, as

these factors can limit access to higher quality jobs and tend to reduce both the level of pay and the prospects of earnings growth. Moreover, they also limit labour mobility and reduce the scope for job matching. At the global and national level, existing dualistic economic structures (i.e. where a large traditional informal sector co-exists with a modern but smaller formal sector, usually located in urban areas) are a common obstacle to generating and accessing decent employment, particularly in emerging and developing economies. Finally, temporary shocks affecting labour demand continue to undermine access to, and the availability of, decent work opportunities. Such shocks may arise from economic or financial downturns, an overreliance on volatile exports, or the negative consequences for employment that are associated with extreme climatic and environmental events.

Policy approaches combining income support and active labour market policies protect workers while enabling them to seize decent work opportunities.

The complexity of the changing world of work and the urgency of tackling the barriers to decent employment call for innovative solutions, capable of fostering opportunities to access decent work while protecting workers throughout working-life transitions. Traditional solutions only partly address the challenges that emerge from the interplay of labour market barriers and the contemporary drivers of change. Thus, income support (both contributory and non-contributory) is key to protecting jobless workers' incomes, but it does not equip them with the tools that they need to access better quality jobs or to achieve speedy re-entry into the labour market. Similarly, ALMPs, if well designed, can equip jobseekers with the necessary skills to benefit from decent work opportunities; however, participating in activation programmes can be costly and time-consuming, and very often individuals simply cannot afford to do so.

Adequately implemented approaches that exploit the potential complementarity between these two policy types can be particularly effective in

tackling the labour market barriers described in this report. While the combinations of income support and ALMPs can take multiple forms, their integration often results in an overall effect that is greater than the sum of the effects of individual policies. Three factors may be explaining this phenomenon.

First, a combination of income support and ALMPs can remove structural barriers and help jobseekers to find new and better employment opportunities quickly. This is because, by promoting labour market mobility, some of these combinations contribute to reducing spatial and intersectoral inequalities in access to decent work. However, the combination of ALMPs and income support can take place within different policy configurations. To leverage their full potential, neither of these two components should be implemented at the expense of the other. Second, measures such as training or employment subsidies can be used to address the lack of education, skills and work experience that often characterizes the workforce of many emerging and developing countries. These ALMPs, if combined with income support, can reduce skills mismatches and raise the productivity of the labour force while protecting people from poverty. Third, comprehensive interventions that combine the two policy types can facilitate fair and sustainable transitions for workers when these are faced with labour demand shocks driven by global factors, such as economic crises, seasonal activities, climate-related disasters (e.g. droughts or cyclones) and technological change. Such integrated approaches are able to mitigate the negative income effects associated with labour demand shocks while enabling workers to adapt to the changing world of work.

Importantly, these approaches are being used ever more frequently in emerging and developing economies. In line with recommendations made in recent years by academic and policy experts and by international organizations, governments in some of these countries have begun to embrace a policy shift towards combining income support measures with ALMPs as a means of addressing a wide range of labour market and social challenges. As a result, integrated approaches are becoming a cornerstone of labour market policy in emerging and developing economies.

Despite their conceptual relevance and increasingly common use, little is known about the role and effectiveness of integrated approaches in emerging and developing economies. Accordingly, this report seeks to answer the following questions: what forms have these policy combinations taken so far in different emerging and developing countries? How have they contributed to improved labour market outcomes? How can governments maximize their beneficial effects? The answers to the last two questions will obviously vary depending on the actual policies selected (e.g. contributory versus noncontributory schemes), the national context (e.g. the share of informal employment in a given country), and the interaction with other policies and institutions (e.g. vocational training).

Integrated approaches can take various forms and are already a pivotal element of labour market policy in emerging and developing countries across the world.

There are various types of ALMPs and income support measures, which can be combined in a multitude of ways. Additionally, the degree of integration between individual policies varies. Some programmes are intended to coordinate more effectively the implementation of existing policies, while others are based on complete integration of the various measures. The ways in which the policies are administered are also manifold: in some countries, activation measures are embedded in an income support programme and participation is compulsory, while other countries provide activation measures as voluntary components of conditional cash transfer schemes.

The two case studies presented in this report illustrate how policy-makers can design different integrated approaches that are tailored to the needs of their country's labour market. In Uruguay, the approach we evaluated took the form of a safety net designed to protect the most vulnerable households during an economic crisis. The conditional cash transfer programme that was introduced for this purpose included a public works scheme in which certain groups of beneficiaries could participate on a voluntary basis. Mauritius adopted a different approach: there, the combination of

income support and active support was not meant as a temporary response to a crisis but, rather, as a structural measure for facilitating sustainable transitions out of unemployment. The Government introduced a new unemployment benefits programme, giving both those who had previously been in formal employment and those who had been informally employed access to income support and to three different activation measures (training, job placement assistance and start-up support).

Understanding how different policy combinations have been put into practice is essential if we are to gauge the effectiveness of an integrated approach as such. The innovative mapping of integrated approaches across the world undertaken for this report suggests that such approaches are already a pivotal element of labour market policy in many emerging and developing countries.

This mapping shows that as economies become more developed (measured by per capita income), they tend to introduce contributory social protection mechanisms to safeguard workers' incomes during unemployment and combine these with a growing variety of activation measures. The provision of public employment services or public works alongside unemployment insurance tends to be more common among the less developed emerging economies, while more developed emerging economies frequently offer a combination of activation measures, including also training and start-up incentives. Although participation in activation measures is mandatory in most cases, programmes based on the voluntary participation of particularly vulnerable workers have been implemented by some countries.

Unemployment benefit schemes enshrined in national legislation do not exist in developing countries, but integrated approaches do play a role there too. Typically, some of these countries' cash transfer schemes incorporate ALMP components. As the per capita income of such countries increases, so does the variety of activation measures embedded in the schemes.

Regardless of a country's income level, the activation measures are generally more diverse when provided as part of cash transfer schemes

than when provided together with unemployment insurance. However, the fact that in developing economies integrated approaches are based on cash transfer schemes rather than unemployment insurance has implications for their reach and coverage. Cash transfers are usually directed at groups with specific vulnerabilities and thus tend to involve means testing.

The joint provision of income support and ALMPs is beneficial, but the effectiveness of such an approach depends on how they are integrated.

The existing literature that we reviewed for this report generally indicates that integrated approaches have a positive effect not just on the labour market and social outcomes of individuals but also at the aggregate level. Our review, however, revealed two aspects that call for further research. First, there are hardly any macroeconomic studies of the effectiveness of integrated approaches in emerging and developing countries. Second, the few impact evaluations that assess the effects of these policies on participants in such countries cover only part of the wide spectrum of interventions that can be included in an integrated approach. They tend to look at the interplay of either training or micro-enterprise promotion with conditional cash transfers, but there is very little on other types of ALMPs (e.g. employment incentives, public works) and income support (e.g. unemployment insurance).

To fill these knowledge gaps, we conducted a macroeconometric analysis specially for this report. One of the key findings is that programmes combining income support with ALMPs can indeed improve labour market performance in emerging and developing countries. Additionally, the analysis confirms that exploiting the complementarity between income support policies and ALMPs is crucial to ensure their effectiveness. When implemented in isolation, each type of policy may have limitations. For example, income support slightly reduces the employment rate and increases the unemployment rate, possibly due to a reduced motivation to look for work. Meanwhile the mere provision of active support has small beneficial effects, as it may not eliminate the risk of poverty

that many jobless individuals face. However, when governments invest in both income support and active support, the beneficial effects tend to be unequivocal.

Even when provided jointly, however, different forms of income support and different types of activation measure will lead to different outcomes, as indicated by our literature review and the macroeconometric analysis. For instance, labour market services have the most immediate effect on re-employment probability. While the beneficial effects of training, on the other hand, take time to materialize, they eventually result in greater employability and higher earnings. Similarly, integrated approaches that incorporate ALMPs into unemployment insurance schemes tend to be more effective than those based on unemployment assistance schemes. Nonetheless, many exceptions exist, as shown in this report.

Apart from their integration, the success of these two types of policy clearly also depends on design and implementation characteristics. What, then, are the factors that contribute to the success of integrated approaches in emerging and developing countries? The two impact evaluations conducted for this report – on Mauritius and Uruguay – yield important insights in this regard.

Certain enabling conditions are required for the successful implementation of integrated approaches, notably a transparent and inclusive governance system.

If the potential of an integrated approach is to be fully harnessed, a number of enabling conditions need to be in place. The empirical evidence points to three that are particularly relevant:

- **Ensuring that there is sufficient institutional capacity to administer the policies:** Combining and implementing policies of a different nature under a single framework requires administrative entities that are capable of carrying out numerous (and complex) institutional and administrative tasks, such as identifying and contacting the beneficiaries, monitoring their participation in the programmes, and ensuring smooth monetary

transfers. The qualitative research carried out as part of the Mauritian case study indicated how efficient and transparent management of the scheme would have been key to keeping its stakeholders – workers, employers and the various government bodies – engaged. In Uruguay, too, effective management of the policies under the integrated approach played a crucial role in achieving an extremely high coverage rate and smoothing the transition to the new intervention, which is now in place.

- **Ensuring that there are sufficient resources:** The success of an integrated approach also depends on whether enough resources are devoted to it. As shown by the macroeconomic analysis, the level of spending on unemployment benefits and ALMPs is currently below the threshold that would allow for maximum effectiveness in most countries. Significantly, if properly designed and executed, the policies under an integrated approach can, at least to some extent, be self-financing in the medium term because they will result in reductions in social transfers as people move to better jobs. This is the case even during recessions because, when implemented countercyclically, ALMPs can significantly mitigate the negative labour market effects of economic shocks. There are, moreover, ways in which countries can make these policies more effective without depleting the public purse – in particular, by tailoring the support provided according to the demographic and income characteristics of individuals and households. Most advanced economies use this calibration of benefits, which however does not take place in the majority of emerging and developing economies that we studied for this report.
- **Ensuring the full involvement of the social partners:** Together with the government, both workers’ and employers’ representatives should be involved in the design and implementation of integrated approaches. This ensures that relevant decisions are taken in a fair and transparent manner and that they take into account the specific needs of workers and employers. The qualitative analysis carried out for the case studies of Mauritius and Uruguay highlights the importance of strengthening the involvement of workers’ and employers’ organizations, as this makes it possible to design policies that reflect the real needs of the market while respecting workers’ rights and aspirations. The involvement of

workers' and employers' representatives is also key to addressing skills deficits, improving the delivery of training, and directing such activation measures as public works towards sectors with the capacity to absorb surplus labour.

The policies under an integrated approach must genuinely reach all those who are in need.

Transparency in the management of an integrated approach makes it easier to identify those in greatest need and to ensure that they participate in the relevant programmes. If adequate coverage and take-up rates are to be achieved – another critical challenge for policy-makers – two important aspects need to be borne in mind:

- **Correctly identifying the target populations:** The eligibility criteria for participation have to be defined carefully to ensure that support is available to all those in need. For example, the innovative unemployment benefit scheme in Mauritius and its integrated activation measures are open to jobless individuals regardless of whether they were previously in formal or informal employment. The Uruguayan programme analysed in this report specifically targeted the poorest quintile of the population and succeeded in helping a large share of Uruguayan households at risk of extreme poverty which previously had had no access to social protection. These two examples show that widening the coverage of integrated approaches to populations that are usually hard to reach is indeed possible.
- **Ensuring participation by the target groups:** Even when programmes are targeted appropriately, ensuring that everyone who is meant to benefit from them has the opportunity and the incentives to do so can be difficult. The case study of Mauritius suggests that relaxing overly strict eligibility criteria could reduce disparities in coverage across different target groups. By not requiring, for example, that individuals should previously have been in full-time employment, policy-makers can make it easier for young people and informal workers to join relevant

programmes. Moreover, as suggested by our evaluation of the integrated approach in Uruguay, individual characteristics play a significant role in determining participation. For instance, people with family responsibilities are less likely to self-select into activation programmes. It is, therefore, important to adapt the various components of an integrated approach to individuals' needs.

Additional measures may be necessary to increase participation rates among more vulnerable population groups. As suggested by the case studies, first, awareness-raising campaigns are important because people in those groups are less likely to know about the benefits available to them. Second, simplifying registration and reporting procedures would make enrolment in relevant programmes less daunting. Third, under certain circumstances, establishing mandatory participation in the activation measures may be necessary to guide participants towards full integration into the labour market.

Certain key aspects of policy design and implementation deserve particular attention.

The two programmes in Mauritius and Uruguay differ substantially in terms of eligibility criteria, the types of income support and active support provided, and the characteristics of the labour markets in which they operate. While these case studies and our review of the literature dealing with previous evaluations of integrated approaches confirm that a combination of income support with ALMPs can help overcome obstacles to decent work, certain key aspects of policy design and implementation need to be taken into account if the beneficial effects of these approaches are to be maximized. Our main conclusions in this regard are as follows:

- **Ensure that income support is sufficiently generous to keep individuals out of poverty:** Determining the right level for the income support to be provided to jobless individuals is crucial. The case study of Uruguay suggests that cash transfers designed to mitigate the effects of a crisis need to be sufficiently generous both to reduce the risk of poverty in the short run and to enable households to make investments leading

to desirable longer-term outcomes, such as keeping children at school for as long as possible. The unemployment insurance scheme in Mauritius is based on a decreasing schedule of monetary transfers – a feature that is also found in many developed economies, and which is meant to increase incentives for beneficiaries to seek work. Our evaluation suggests that it is important to ensure that the minimum replacement rate and the lower bound of unemployment benefit entitlements are both set so as to enable unemployed individuals and their households to sustain living standards. A tailored approach whereby the level of income support is adjusted depending on the needs of households can increase the effectiveness of the support provided while ensuring the financial sustainability of such programmes.

- **Increase the attachment of beneficiaries to the active components of integrated approaches:** It is essential to increase beneficiaries' attachment to the activation measures provided under an integrated approach. This means supporting them both during their participation in the activation programme and during their subsequent search for jobs. As shown by our case study of Mauritius and the literature review, regular reporting and follow-up meetings are particularly important when the active component takes the form of start-up support. At such meetings, participants can discuss the development of their business ideas with counsellors who may refer them to other activation programmes if necessary. In the case of other types of active support, a careful initial assessment of jobseekers' background and interests is important, as it allows counsellors to recommend the most appropriate option. Significantly, in many of the advanced economies and in some of the upper-middle-income countries that we analysed (e.g. Azerbaijan, Bahrain, Chile and Thailand), jobseekers are required to meet with the caseworker assigned to them every two weeks or once a month.

Increasing participants' attachment to activation programmes may also involve enhancing the content and delivery of these. For example, the case study of Uruguay suggests that extending the length of participation until jobseekers have found a job might be a way to increase the beneficial effects of such programmes – though in the case of public

works the extensions should not be indefinite because there is otherwise a risk that the schemes will turn into permanent work. This is in line with recent evidence, which indicates that the effectiveness of ALMPs increases when the intervention is long enough to provide adequate support. Moreover, training is key to improving employability, and the overwhelming majority of studies dealing with programmes that provide training alongside income support in emerging and developing economies (e.g. Colombia, Nicaragua and Sri Lanka) have indeed found positive labour market and income effects. For these beneficial effects to materialize, it is important that the training should have an adequate skills content and be of sufficient intensity, as discussed in the case studies of Mauritius and Uruguay.

- **Strengthen the linkages between income support and active support:** The findings from our two case studies indicate that any labour disincentive effect arising from income support is more than counterbalanced when it is coupled with participation in an activation programme. Even if the level of integration of individual policies may vary, it is important that income support schemes should always include activation measures to foster labour market participation. Earlier studies (dealing with e.g. Colombia and Norway) have highlighted that providing both sufficiently generous income support and follow-up during jobseekers' participation in activation programmes is critical to the success of integrated approaches. Turning to our case study of Uruguay, the analysis suggests that making participation in the activation programme mandatory for income support beneficiaries who are job-ready can improve effectiveness. Meanwhile, the case study of Mauritius suggests that it could be helpful to arrange for an institution, such as a country's public employment service, to accompany beneficiaries throughout their participation in the programme and help them comply with the requirements before entitlements are paid out. Of course, such comprehensive support and monitoring require a high level of financial resources and organizational capacity. This makes it imperative to achieve a good balance between the various incentives: income support should be provided throughout the unemployment spell, but beneficiaries should be expected to participate

in programmes that enhance their employability, and the benefits should be progressively reduced as participants transition into employment.

Evidence-based policy-making is key to the success of integrated approaches.

In a context where governments are increasingly held accountable for their decisions, and where the resources available for the implementation of policies are continuously scrutinized, there is a growing need to provide credible and transparent evidence on whether a policy intervention achieves its expected outcomes. Understanding which policies are most effective in tackling the barriers to decent work is essential, yet the majority of studies so far have concentrated on advanced economies, while those that have looked at emerging and developing economies do not cover the whole gamut of policy combinations that have been tried by these countries.

A rigorous evidence-based methodology needs to be followed in determining what kind of integrated approach works best and under which specific circumstances. In particular, policy practitioners and researchers should work together to: (a) collect the data required for rigorous impact evaluations; (b) incorporate into the design of policies certain elements that facilitate a subsequent impact evaluation (e.g. the introduction of comparison groups); (c) perform the evaluations bearing in mind that the effects of an integrated approach will depend on the exact components of the policy mix, the target groups and the point in time at which the evaluation is undertaken; and (d) build into the implementation of an integrated approach the possibility of adjusting the constituent policies on the basis of the evaluation results.

The quality of impact evaluations and of the ensuing policy recommendations depends on governments, public bodies, and employers' and workers' organizations working together to collect and disseminate relevant data. This confirms once more the need for all the stakeholders to be fully involved in the various stages of the design and implementation of integrated approaches.

