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A woman wearing a blue long-sleeved shirt and a pink headscarf is shown from the side, working with a large, round, woven basket. The basket is filled with a textured material, possibly wool or yarn. The image is overlaid with a digital grid pattern and a wireframe globe, suggesting a connection between traditional labor and modern technology. The background is a vibrant blue with a grid pattern.

**WHAT WORKS**  
PROMOTING PATHWAYS  
TO DECENT WORK

STUDIES ON GROWTH WITH EQUITY

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**2019**



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**2019**

INTERNATIONAL LABOUR ORGANIZATION

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*What works: Promoting pathways to decent work*

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## FOREWORD

This synthesis report presents the main findings from a multi-year research project conducted by the ILO to assess how income support and active labour market policies (ALMPs) can come together to improve the employment and life trajectories of workers, particularly in emerging and developing countries. The research question was derived from an earlier ILO project entitled “Active labour market policies in Latin America and the Caribbean” ([www.ilo.org/alm-p-america](http://www.ilo.org/alm-p-america)), specifically from the project’s conclusion that, while ALMPs are indeed able to improve workers’ labour market prospects, the success of such interventions hinges on their accessibility. In several cases, a critical missing piece seemed to be adequate income support, which appeared to be a prerequisite for workers in the region to participate fully in activation programmes. The purpose of the present report is thus to shed light on how approaches based on a combination of income support and active support can be used to respond effectively to contemporary labour market challenges in developing and emerging economies.

The report is being issued at a time when governments are faced with the challenge of creating better quality employment opportunities in a world where rapid changes are compounding long standing labour market problems. In this respect, the report shows that the policy combinations studied can make a difference, even in the challenging context of contemporary labour markets. The new evidence presented indicates that the joint implementation of ALMPs and income support measures, if organized properly, can achieve the dual aim of protecting workers while improving their access to decent work. Multiple policy combinations are possible, and so it is important to identify the factors that determine the success (or otherwise) of such an integrated approach, particularly in emerging and developing countries, where labour markets are characterized by high rates of underemployment and informality.

The report (and the project behind it) builds on a multidisciplinary conceptual framework and on an extensive empirical analysis conducted using

a number of methods, including a literature review, a cross-country mapping, a comparative macroeconomic study, and two case studies based on microeconomic impact evaluations and qualitative research. The first case study looks at the unemployment benefit scheme of Mauritius, which combines unemployment benefits with mandatory participation in various activation measures; the second deals with Uruguay's National Social Emergency Response Plan (PANES), which combined cash transfers with voluntary participation in public works. The report is intended for a general readership; more technical details and accompanying materials related to the parent project can be found on the ILO website ([www.ilo.org/pathways-decent-work](http://www.ilo.org/pathways-decent-work)).

A central objective of this project was to provide member States with research that is relevant from a policy perspective – research that promotes debate on “what works?” and helps improve labour market and social conditions for women and men. Accordingly, the project team held consultations with government officials, representatives of workers’ and employers’ organizations, national statistical institutes and the entities responsible for administering the programmes studied, and also with United Nations specialized agencies, universities and research centres. This constant dialogue was essential to ensure that the research reflected the socio-economic contexts in which the various policies were designed and implemented. The consultations were facilitated by relevant ILO Regional and Country Offices, which provided unflinching support during all phases of preparation of the report and its accompanying materials.

We hope that this report will stimulate the debate on “what works?” and help policy-makers understand better how labour market interventions can address employment and social issues around the globe. The world of work is undergoing momentous transformation. The way in which governments and other institutions respond to current and future changes will play a decisive role in the creation of new opportunities for decent work and sustainable development.

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## LIST OF ACRONYMS

ALMP:	active labour market policy
BTM:	Bono al Trabajo de la Mujer [Chile]
C-BED:	Community-Based Enterprise Development [ILO]
CCT:	conditional cash transfer
CEPAL:	Comisión Económica para América Latina y el Caribe [=ECLAC]
CIL-ProEmpleo:	Red de Centros de Intermediación Laboral (Labour Information Centres Network) [Peru]
CMPHS:	Continuous Multi-Purpose Household Survey [Mauritius]
CV:	curriculum vitae
DiD:	difference-in-differences
DSD:	Department of Skills Development [Thailand]
ECLAC:	Economic Commission for Latin America and the Caribbean [=CEPAL]
EIC:	Employment Information Centre [Mauritius]
EPWP:	Expanded Public Works Programme [South Africa]
EU:	European Union
FAO:	Food and Agriculture Organization of the United Nations
GDP:	gross domestic product
ICC:	Índice de Carencias Críticas (Critical Deprivation Index) [Uruguay]
IDB:	Inter-American Development Bank
IDS:	Bulletin of the Institute of Development Studies
IER:	Institute for Employment Research [UK]
ILO:	International Labour Organization
IMF:	International Monetary Fund
INE:	Instituto Nacional de Estadística (National Institute of Statistics) [Uruguay]

IPCC:	Intergovernmental Panel on Climate Change
ISSA:	International Social Security Association
IT:	information technology
J-PAL:	Abdul Latif Jameel Poverty Action Lab
MESP:	Micro-entrepreneurship Support Programme [Chile]
MGNREGA:	Mahatma Gandhi National Rural Employment Guarantee [India]
MLIRET:	Ministry of Labour, Industrial Relations, Employment and Training [Mauritius]
MUR:	Mauritian rupee
NBER:	National Bureau of Economic Research [United States]
NEF:	National Empowerment Foundation [Mauritius]
OAS:	Organization of American States
OCW:	Occupational Centre for Women [Republic of Korea]
OECD:	Organisation for Economic Co-operation and Development
PANES:	Plan de Asistencia Nacional a la Emergencia Social (National Social Emergency Response Plan) [Uruguay]
PPP:	purchasing power parity
RDD:	regression discontinuity design
RKD:	regression kink design
SIVP:	Stages d'initiation à la vie professionnelle [Tunisia]
SIYB:	Start and Improve your Business [ILO]
SME Mauritius Ltd:	Small and Medium Enterprises Mauritius Ltd
SSPTTW:	Social Security Programs Throughout the World [United States/ISSA]
SUNCA:	Sindicato Único Nacional de Construcción y Anexos (Construction Workers' Union) [Uruguay]
TREE:	Training for Rural Economic Empowerment [Bangladesh]

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TUB:	Transitional Unemployment Benefit [Mauritius]
TVET:	technical and vocational education and training
UI:	unemployment insurance
UK:	United Kingdom
UNDP:	United Nations Development Programme
US:	United States
UYU:	Uruguayan peso
WIPO:	World Intellectual Property Organization
WTO:	World Trade Organization



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## 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

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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.

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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

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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

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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

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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

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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.

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## CHAPTER 1

# BARRIERS TO DECENT WORK AND THEIR IMPACT ON LABOUR MARKETS

### INTRODUCTION

Gainful employment remains the most reliable way of escaping poverty. However, access both to jobs and to decent working conditions remains a challenge. In emerging and developing countries, 159 million people are unemployed and another 730 million are working but not earning enough to lift themselves and their families out of poverty. More specifically, 66 per cent of all employed people in developing economies and 22 per cent in emerging economies are in a situation of either extreme or moderate working poverty (ILO, 2018a, p. 8). The problem becomes even more striking if all people whose livelihoods depend on these “working poor”, such as family members, are taken into account. Overall, around 2 billion people in developing and emerging countries are living in poverty.<sup>1</sup> These figures indicate that it is not only inactivity or unemployment that prevents households from leaving poverty behind; rather, they are also held back by a lack of access to adequate employment opportunities (ECLAC, 2016; McCord and Slater, 2015).

Understanding the barriers that limit access to decent work is of the utmost importance when it comes to designing appropriate labour market policy measures. As discussed in this chapter, such barriers have multiple causes, which may be either structural (e.g. underinvestment in skills) or temporary (e.g. political or economic downturns). Their effects are also multifaceted, as they can lead both to a reduction in employment opportunities and to a deterioration of employment conditions, impacting not only on the labour market perspectives of individuals and households, but also on the aggregate labour market of countries and regions. Although such hurdles have existed for a long time, there is a risk that current transformations in the world of work will make them even more formidable. Technological progress, international trade, demographic shifts and

<sup>1</sup> Estimates based on data compiled by the authors from the World Bank's Poverty and Equity Data Portal: <http://povertydata.worldbank.org/poverty/home> [accessed 22 Aug. 2019].

environmental change are redefining production processes and labour markets both across and within countries (ILO, 2019a). While these forces can open up new opportunities and contribute to the eradication of poverty around the world, there is a risk that, unless properly managed, they will make access to decent work even more elusive. The negative effects are likely to be felt disproportionately by specific subgroups of the world population (e.g. low-skilled workers in advanced economies and informal workers in developing and emerging economies).<sup>2</sup>

Urgent policy measures are necessary to forestall significant economic and social costs. Traditional stand-alone measures are inadequate in the changing world of work, in which transitions in and out of work are likely to increase and career changes are expected to become more frequent (e.g. across sectors or occupations). Instead, future labour market approaches should be based on innovative policies that are able to deal simultaneously with both new and long-standing obstacles to decent work. Policy-makers need to create opportunities for people to be able to access decent work while protecting workers throughout their labour market transitions.

Combining income support for jobless individuals with active labour market policies (ALMPs) can contribute to overcoming the above-mentioned challenges. In the present chapter – and in the report as a whole – we look at this specific type of labour market intervention, which has become increasingly relevant over the last decades both in advanced economies and in emerging and developing countries. On the one hand, income support is about protecting individuals and households during periods of joblessness: it fosters “consumption smoothing” and it prevents people from being forced by necessity to accept any job that comes their way, regardless of its quality. On the other hand, ALMPs equip individuals with the necessary skills to aspire to better jobs and help them to find new employment opportunities quickly. Such a combined approach can potentially be used to tackle many of the barriers that limit access to decent work.

Accordingly, the aim of this report is to shed light on the importance and effectiveness of policies that combine income support with ALMPs as part

<sup>2</sup> Here and in the remainder of the report, we refer to economies as “advanced”, “emerging” or “developing” on the basis of the World Bank classification of countries into high-, middle- and low-income groups. Additionally, emerging economies can be subdivided further into lower-middle- and upper-middle-income countries. See table 2.2 in the Appendix to Chapter 2 for the full list of countries by income group.

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of efforts to promote access to decent work in a rapidly changing labour market. We analyse also the various factors that can enhance the beneficial effects of such policy combinations, such as their governance framework, the appropriateness of targeting rules, the effective participation of the target population, and specific aspects of policy design and implementation. In order to set the scene for this analysis, the present chapter starts by describing the existing barriers to decent work that can be tackled by policies combining income support with ALMPs. It then considers how these barriers interact with current transformations in the world of work (section A). Additionally, the chapter looks at the impact that these barriers are already having on the quantity of jobs and on working conditions both in advanced and in emerging and developing economies (section B). The overall picture that emerges is one of significant existing decent work deficits in the world of work, which may be aggravated by current transformations. Unless innovative and comprehensive policies are adopted soon, the economic and social costs associated with these transformations may prove difficult to reverse.

While a combination of income support with ALMPs can be a useful policy tool in addressing multiple barriers to decent work simultaneously, very little is known about the application and effectiveness of this policy approach in emerging and developing economies. In Chapter 2 we, therefore, examine in detail its potential for tackling the barriers discussed in this chapter and look at how the implementation of relevant policies differs across countries. Chapter 3 summarizes the findings of previous studies regarding the effectiveness of this approach, and also points to existing knowledge gaps. In the last two chapters, we present the results from two new impact evaluations of programmes that combine income support with ALMPs in Mauritius (Chapter 4) and Uruguay (Chapter 5). These two case studies were selected, as they differ substantially in terms of the initial country context and the policy responses adopted, thus making it possible to examine how income support and ALMPs can be combined in various ways to tackle different labour market challenges. In Mauritius, persistently high informality rates, insufficient integration of young workers and women into the labour market, and skills shortages are among the

major barriers to decent work that the policy intervention there seeks to overcome. As for Uruguay, the cash transfer scheme addresses poverty and vulnerability stemming from a lack of attachment to the labour market in general and to its formal sector in particular.

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## A. BARRIERS TO DECENT WORK AND THEIR INTERACTION WITH GLOBAL DRIVERS OF CHANGE IN THE WORLD OF WORK

*Barriers to decent work are numerous and cross-cutting.*

Men and women face multiple barriers in their pursuit of decent work; at the same time, the governments of many emerging and developing countries continue to struggle to generate quality jobs for their citizens. Not only are the obstacles to decent work numerous, but they are also complex, with causes and effects that interweave. Indeed, these barriers tend to have several causes (ranging from deficiencies in educational systems to the absence of social and labour rights); they often have cross-cutting effects (e.g. at the community, household and individual level); and their influence may be constant 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 a broader effect on individuals' well-being and living standards. Understanding the origins of these barriers and how they relate to global trends is key to the development of adequate policy responses in all relevant areas (e.g. fiscal policies, labour legislation, trade policies).

A comprehensive categorization of the barriers to decent work would, however, be beyond the scope of the present study. Instead, we consider a specific (yet large) set of barriers for which a combination of income support and ALMPs is likely to be the most effective response. The barriers in this set can be categorized depending on (a) whether they take the form of structural factors or shocks; and (b) whether they affect the labour market perspectives of individuals and households or the aggregate labour market more broadly. As discussed in Chapter 2, the effectiveness of policy responses depends on the nature of these barriers: while reactive policies are appropriate for dealing with labour demand shocks, more proactive approaches are necessary to overcome structural problems. In the present chapter we focus on barriers to decent work that can be tackled by a combination of income support and ALMPs, but it is important to note that other cross-cutting barriers exist. The ability of individuals to find



decent work continues to be impaired by such factors as a lack of labour or social rights, precarious health conditions, discrimination, mobility constraints, care responsibilities, lack of access to land, and restricted freedom to express one's concerns.<sup>3</sup> These barriers can affect labour market outcomes, both directly and indirectly, but they are not included in our categorization because ALMPs and income support programmes per se would be insufficient to address them.

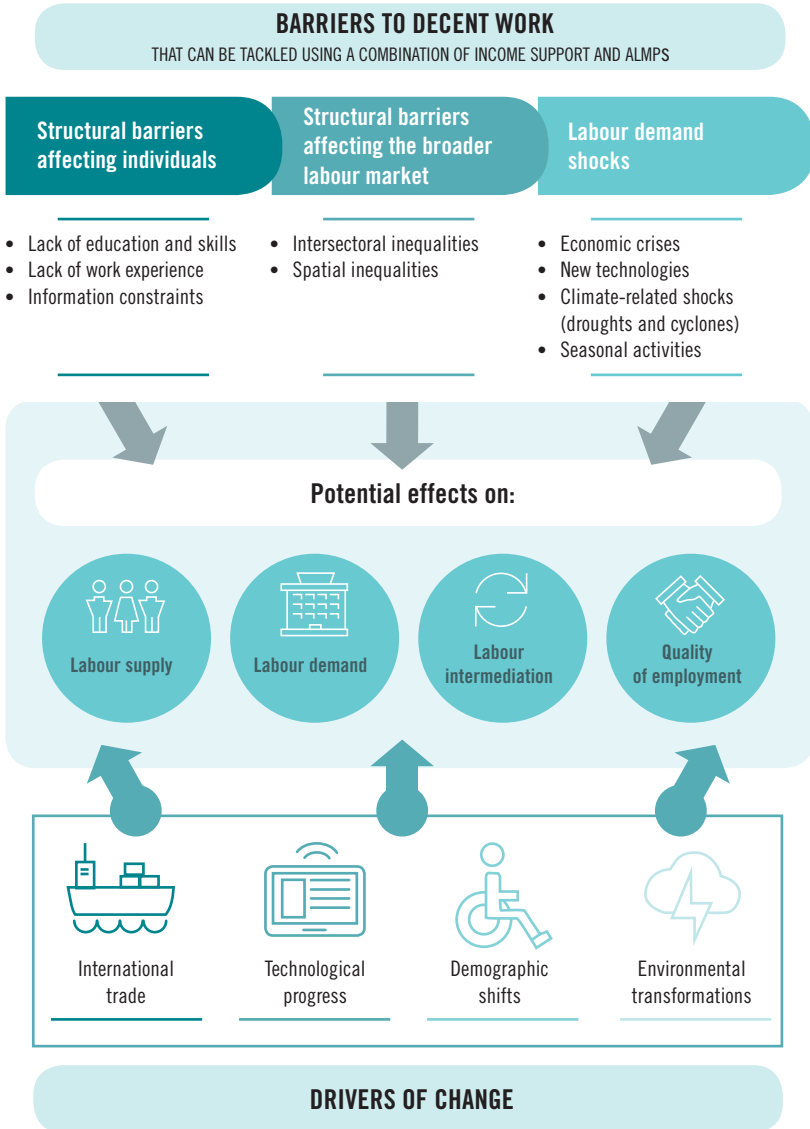
Bearing in mind that the barriers to decent work differ in their origins and effects – they may be due to either temporary or structural factors, and they may manifest themselves at both the micro- and the macro-economic level – we have categorized them into the three groups shown in figure 1.1 below:

- *Structural barriers affecting individuals:* There are several structural barriers that prevent individuals from accessing decent work: they may arise from a lack of either opportunities or capabilities at the individual level. Possibly the most commonly cited are a lack of education and skills and insufficient work experience. These influence individuals' decisions to participate in the labour market, with skilled workers typically looking out more actively for job opportunities in response to the increased opportunity costs of not working (Robalino et al., 2013). Not having sufficient qualifications, skills or experience limits access to certain jobs and tends to reduce the level of pay and earnings growth prospects within an occupation (Fernandez et al., 2016; Sparreboom and Staneva, 2014). These barriers even influence the type of contract and the number of working hours that a worker is obliged to accept, since individuals with a higher level of education are in a better position to secure more favourable terms of employment (ILO, 2015a).

Information constraints, which include a lack of information on employment opportunities and an inability to signal skills to prospective employers, constitute another very common barrier to decent work. Such constraints also affect individuals' chances of finding jobs and the quality of the jobs they find (Almeida et al., 2012; Arias et al., 2014; Cazes and Verick, 2010). Moreover, not knowing where jobs are to be

<sup>3</sup> Social dialogue and rights at work are discussed throughout the report as important factors contributing to the success of policies designed to tackle barriers to decent work.

Figure 1.1. **Barriers to decent work that can be tackled through a combination of income support and active labour market policies, and their interaction with drivers of change in the world of work**



Source: Authors' illustration.

found limits labour mobility, and also reduces opportunities for better job matching and achieving higher earnings levels (Campbell and Ahmed, 2012; Tocco, Davidova and Bailey, 2012).

- *Structural barriers affecting the broader labour market:* Structural barriers act not only at the individual level: they can also involve more general distortions of the labour market that affect several groups of workers at the same time. One of the most prominent such barriers nowadays is the existence of dualistic economic structures that create both intersectoral and spatial inequalities in terms of the availability of decent work. Indeed, many countries continue to have a large traditional informal sector alongside a modern but smaller industrial sector, which is usually located in urban areas (Ghose, Majid and Ernst, 2008; ILO, 2014a; Salazar-Xirinachs and Chacaltana, 2018). In these countries, the buoyant industrial sector does create a number of quality jobs but it is often not enough to absorb the growing labour force, leaving the least employable individuals – the most vulnerable segments of the population – outside this modern labour market (ILO, 2013a, 2014b). Moreover, even in countries where enough vacancies are created, people may still struggle to find jobs, because there is limited hiring in the relevant labour market segments (Oyelaran-Oyeyinka and Lal, 2016). The fact that the most dynamic sectors are usually concentrated in urban areas aggravates these intersectoral inequalities in the availability of decent work by adding spatial inequalities. In other words, opportunities may be available in a specific region or for a particular professional specialization, such as the high-skilled sector in urban areas, but if workers move to these areas without the appropriate skills, they may end up locked in low-productivity jobs (i.e. the informal urban economy). In this way, a situation where only low-quality opportunities are available to vulnerable workers is perpetuated (ILO, 2014a).

While intersectoral and spatial inequalities are barriers affecting the broader labour market, they can also give rise to inequalities in terms of individual access to decent work. For instance, the industrial sector

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in many developing economies is unable to absorb all labour supply in high value-added sectors, which leads to the creation of low-quality, often informal, jobs (ILO, 2013a, 2014b).

- *Labour demand shocks:* The barriers to decent work discussed so far translate into structural labour market challenges that affect certain groups of workers more than others (e.g. informal workers generally face worse employment conditions as a result of unequal opportunities and lack of adequate skills). However, some decent work deficits arise also because of temporary shocks that economies and labour markets fail to absorb properly. These shocks may take the form of a contraction in labour demand due to an economic or financial downturn (as was the case during the Asian financial crisis in the late 1990s), an overreliance on volatile exports (e.g. demand from advanced economies collapsed after the 2008 crisis), or the negative consequences on employment that are associated with climatic and environmental events (e.g. floods or droughts).

Contractions in labour demand following an economic downturn (or a political crisis) may, in turn, restrict access to decent work opportunities by tightening the labour market and encouraging the adoption of new, increasingly flexible working arrangements. This increases the risk of workers losing their jobs and turning to the informal labour market, where they have to put up with worse conditions of employment than in the formal sector (ILO, 2013b). The seasonal nature of activities in specific occupations (e.g. in the agricultural sector) also has significant implications for work quality because it results in income fluctuations and regular periods of unemployment and employment insecurity (Tocco, Davidova and Bailey, 2012). Phenomena related to climate change, such as droughts or cyclones, can generate a labour demand shock by destroying jobs and reducing the productivity of farming (ILO, 2018b). All these are examples of problems that may become structural with time. Nevertheless, if adequate policy action is taken early on, their effects can be contained. Labour demand shocks of this kind can be tackled effectively using an approach that combines income support with ALMPs.

*There is considerable interplay between barriers to decent work and the drivers of global change in the world of work.*

As shown in figure 1.1, different barriers to decent work may affect the demand side of the labour market or the supply side (including the quantity and quality of work), or they may affect the intermediation between demand and supply. Additionally, the role of these barriers is evolving in tandem with recent transformations in the world of work. The various drivers of change, which have had such a profound impact on our societies (e.g. communication, transportation), have implications for the quantity and quality of work that will be available in the years to come (ILO, 2019a; OECD, 2019). Indeed, (a) international trade, (b) technological progress, (c) demographic shifts and (d) environmental transformations are all liable to exacerbate the effects of existing barriers to decent work. In more detail:

- *International trade:* The growth in international trade is one of the factors that are transforming the world of work. This is a long-term phenomenon, as witnessed by the almost continuous increase in the volume of imports and exports since the 1970s. The process has recently stalled, however, because of a slowdown in manufacturing and a partial reversal of trade liberalization policies (WTO, 2019). Nonetheless, imports and exports currently account for 57.8 per cent of the combined gross domestic product (GDP) of all the countries in the world, up from 24.2 per cent in 1960. The global economy is becoming increasingly integrated and the international division of tasks within it shapes both the distribution of jobs across countries and employment conditions within countries. This growing reliance on international trade could aggravate some of the barriers to decent work, in particular by widening the intersectoral and spatial divisions across and within economies, with profound labour market consequences (ILO, 2015b).
- *Technological progress:* Another factor behind change in the world of work is the introduction of new technologies. Unlike global trade, the rate of technological progress has increased significantly over the last two decades and is expected to accelerate further in the coming years (WIPO, 2019). New technologies are not only changing the availability

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of jobs and the content of tasks: they also have implications for the skills required to participate in the labour market and influence key aspects of the employment relationship, such as working hours, employment contracts and place of work (ILO, 2019a). Among the main effects of technological progress on the labour market are the modification of the content of jobs, the creation of new business opportunities and the elimination of some of the existing types of work (e.g. through the automation of specific tasks; ILO, 2019a; OECD, 2019). These effects are determined to a great extent by the interplay between such new technologies and the barriers to decent work faced by many individuals (e.g. lack of education, skills, work experience and information).

- *Demographic shifts*: Demographic shifts are also shaping the world of work, both across and within countries. One of the most important is population ageing. Data from the United Nations Population Division database indicate that all country groups are currently experiencing an increase in the share of the population above the age of 65 (as a result of higher life expectancy) and a decrease in the proportion of people below the age of 15 (as a result of a decrease in fertility rates). However, developing countries still have substantially younger populations than advanced and emerging economies. These trends exert additional pressure on labour markets, and can reinforce certain barriers to decent work. For example, the diverging economic and social interests of individuals from different age groups may increase the likelihood of economic and political crises. Migration, the availability of adequate job opportunities and the sustainability of pension systems are all issues that can be linked to demographic shifts (ILO, 2013a; Drummond, Thakoor and Yu, 2014; IMF, 2019), which may have both positive and negative effects on labour markets (d’Albis et al., 2018; ILO, 2014a; OECD and ILO, 2018).
- *Environmental transformations*: Environmental transformations have become a fundamental driver of change in the world of work (World Economic Forum, 2019). Average global temperatures have steadily increased over the last decades as a result of rising greenhouse gas emissions (IPCC, 2018). Similarly, the frequency and intensity of natural

disasters have increased owing to climate change and environmental transformations (ILO, 2018c; ILO, 2019b). Environmental transformations can influence all the barriers to decent work described above: they may render skills obsolete, widen spatial divides in economic development, and increase the frequency of labour demand shocks. They pose challenges in terms of both creating employment opportunities and ensuring health and safety at work (ILO, 2018c). Indeed, many jobs depend directly on ecosystem services – around 40 per cent of world employment, especially in the agricultural sector. Safety at work, on the other hand, depends on the absence of natural hazards (*ibid*). For example, by 2030 the equivalent of more than 2 per cent of total work-hours worldwide is projected to be lost annually as a result of heat stress (ILO, 2019b).

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## **B. EFFECTS OF BARRIERS TO DECENT WORK ON THE QUANTITY OF JOBS AND WORKING CONDITIONS**

The barriers to decent work discussed in the preceding section are already manifesting themselves in the working conditions of men and women around the world. Although the challenges involved vary across countries, they include both a shortage of employment opportunities and deficits in working conditions both in advanced and in emerging and developing economies. In this section we summarize the main labour market indicators that point to the consequences of such barriers. The different evolution of these indicators in advanced economies and in emerging and developing ones is also considered. The evidence presented here is meant to provide the necessary context for understanding which features of the labour market are more relevant for the analytical approach applied in the rest of the report.

*Unemployment rates are historically low, but they do not necessarily reflect the state of the labour market in emerging and developing economies...*

Over the last few decades, the main labour market indicators (i.e. employment, unemployment and labour force participation rates) have remained fairly stable at the global level. The overall unemployment rate has fallen slightly, but, on the other hand, employment and labour force participation rates have also decreased to some extent. However, these trends mask some important differences across countries. Since 2000, the average unemployment rate has fluctuated considerably among advanced economies, reaching a peak of 8.2 per cent in 2010, and then slowly decreasing to 5.7 per cent in 2018. During the same period, the average unemployment rate in emerging and developing economies has been more stable and generally lower (consistently below 4 per cent in developing countries). These figures suggest that, at least in less developed economies, the presence of barriers to decent work does not necessarily translate into an increase in the unemployment rate, but may instead have other negative



labour market consequences (e.g. underemployment, informal employment) as described below.

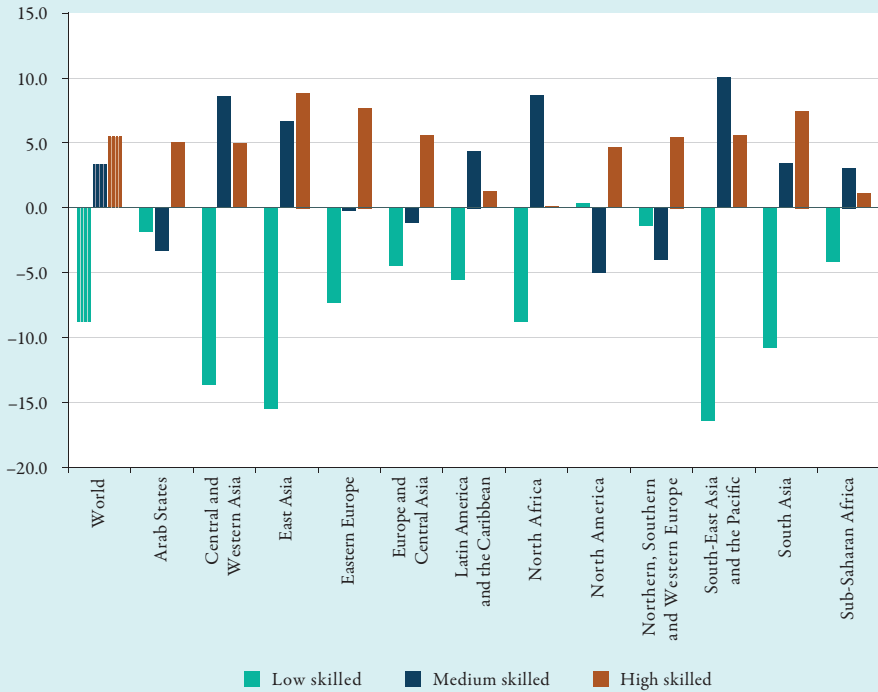
*... while there have been profound changes in the distribution of employment by occupation ...*

Despite the stability of labour market indicators over time, there have been significant changes in the nature and types of jobs available (ILO, 2017). Thus, during the period 2000–2018 the main characteristics of jobs, such as their skill content and their constitutive tasks, underwent transformations of an unprecedented character, largely as a result of developments in technology and international trade. The analysis of these trends allows us to understand the broader context within which approaches that combine ALMPs with income support could play a decisive role. Such approaches are expected to facilitate transitions to better jobs and may thus become increasingly relevant, given the challenges that lie ahead.

In particular, the skills composition of the labour market has changed in many respects (Autor and Dorn, 2013; Goos and Manning, 2007; Hershbein and Kahn, 2018; Salvatori, 2018). At the global level, the shares of medium- and high-skilled occupations in total employment increased between 2000 and 2018, while the share of low-skill occupations fell drastically (figure 1.2). As for the main labour market indicators, there is considerable regional variation,<sup>4</sup> with different trends according to the development level of the countries. The shares of low- and medium-skilled occupations in total employment have actually decreased in the Arab States, Eastern Europe, Europe and Central Asia, North America, and Northern, Western and Southern Europe. Conversely, employment in high-skilled occupations has increased in these regions, leading to overall “job polarization” along the skills distribution, particularly in North America and Northern, Southern and Western Europe. The two main factors most often cited to explain the decline in medium-skilled jobs in advanced economies are the increased adoption of new technologies and the expansion of global trade (Harrigan, Reshef and Toubal, 2016;

<sup>4</sup> This report follows the ILO classification of regions. See table 2.3 in the Appendix to Chapter 2 for the full list of countries by region.

**Figure 1.2. Changes in the share of employment by occupational skill level, global and across regions, 2000–2018**



Note: The definition of occupations by skills type is based on the International Standard Classification of Occupations, with the notable exception that the major group “Skilled Agricultural, Forestry and Fishery Workers” has been merged with the major group “Elementary Occupations” to form the “low skilled” category.  
Source: ILO modelled estimates, November 2018.

Hershbein and Kahn, 2018). Indeed, medium-skilled jobs are those most prone to automation or offshoring (OECD, 2019).<sup>5</sup>

At the same time, most emerging and developing economies have experienced a general upgrading in the skills distribution of occupations (figure 1.2), with an increase in both medium- and high-skilled occupations, and a sharp decrease in low-skilled occupations.<sup>6</sup> This implies that job polarization, which has attracted much attention in the recent academic and policy-oriented literature, is still a process affecting mostly the labour markets of advanced economies. However, some evidence of job

<sup>5</sup> Naturally, job polarization has consequences beyond the redistribution of jobs across skill levels. In particular, the loss of middle-skilled jobs can contribute directly to the widening of wage inequalities both within and across countries (World Bank, 2016).

<sup>6</sup> In the context of emerging and developing economies, the only region in which the share of employment in high-skilled occupations has not increased is North Africa, where the decrease in low-skilled employment appears to have been accompanied only by an increase in medium-skilled employment.

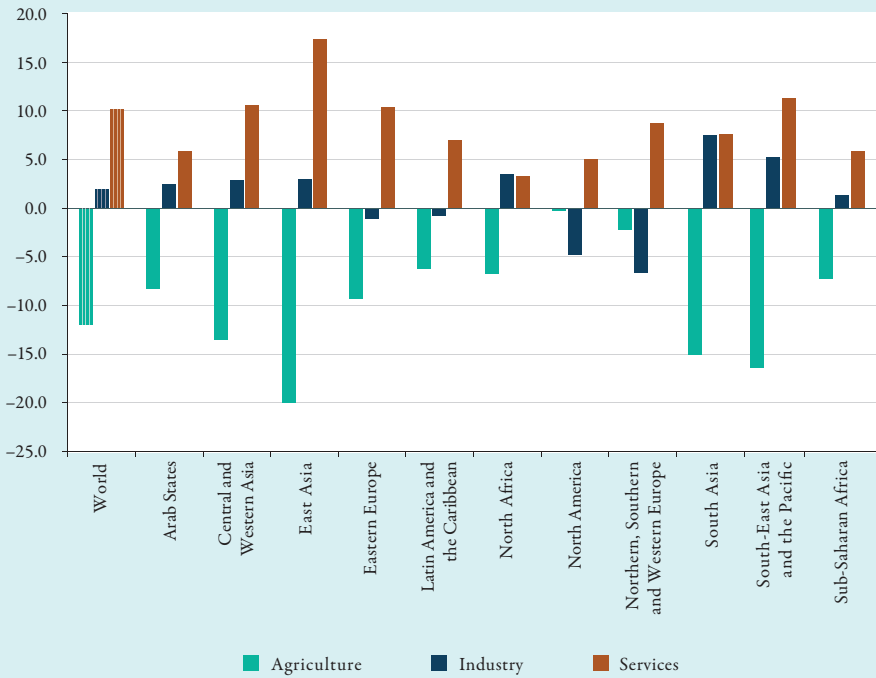
polarization can also be found in emerging and developing economies. In these countries, job polarization has been driven not only by the effects of technology and global trade, but also by an increase in the share of the population living in urban areas. Indeed, urbanization of the labour force has been associated with a reduction in employment in traditional sectors (e.g. agriculture) and an increase in service sector jobs in emerging and developing economies (World Bank, 2016). In general, this process is not uniform across countries and it is slower than in more advanced economies.

*...and there have also been significant changes in the sectoral composition of the labour market.*

Changes in the composition of employment by skills groups have been accompanied by shifts in the sectoral composition of the labour market (figure 1.3). In particular, the share of workers employed in the agricultural sector decreased between 2000 and 2018 in all geographical regions. In the same time period, the share of employment in industry exhibited diverging trends across the world, increasing in seven out of 11 regions and decreasing in the other four, while all regions have experienced a significant increase in the share of employment in the service sector. The evolution of employment shares across the different sectors is consistent with the increasing relevance of “mega trends”, which can shape labour markets and determine the prosperity or failure of specific sectors. The automation of production processes and environmental transformations are examples of phenomena that contribute to a reduction of the relative weight of the agricultural sector in the labour market. Understanding these shifts is important when assessing the role of approaches involving a combination of income support and active support, since for such approaches to be effective, the policy mix needs to take into account changes in the sectoral composition of labour markets.

Overall, the trends shown in figure 1.3 can be perceived as positive, since the service sector is generally associated with a better and safer working environment compared with, for example, jobs in agriculture (ILO,

**Figure 1.3. Changes in the share of employment by economic sector, global and across regions, 2000–2018**



Source: ILO modelled estimates, November 2018.

2018a). Moreover, they are the result of countries advancing in terms of their development status. However, there is also a risk that some emerging and developing countries are undergoing an early deindustrialization, that is, transitioning directly from mostly agricultural to mostly service-sector economies without having experienced an intermediate process of industrialization (Rodrik, 2015). This could lead to lower economic growth and lower productivity (and, consequently, also lower wages) in the long run, accompanied by a failure to create enough decent jobs, which can exacerbate income inequality. These trends can also have important implications for the quality of employment. A shift towards industry and service sectors is generally associated with modifications in employment conditions, such as salary rates, working hours and the formality or informality of the job. These elements will be analysed in the remainder of this report, particularly in the case studies presented in Chapters 4 and 5.

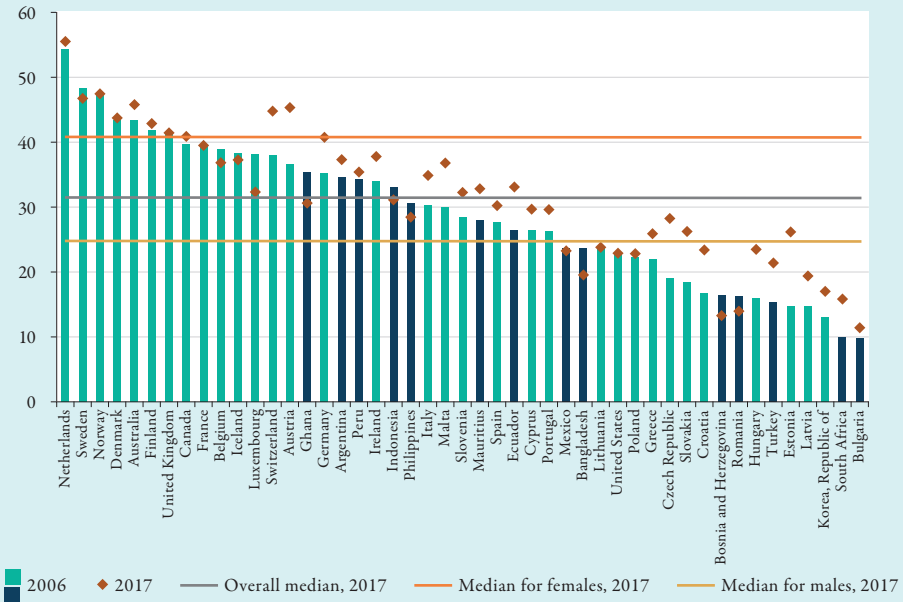
*The share of part-time employment has increased in most countries.*

Another area in which changes in the world of work are having an effect on employment conditions is working time. In recent years, labour markets both in advanced and in emerging and developing economies have witnessed a movement away from the standard working week with a fixed number of hours towards flexible working-time arrangements (Messenger, 2018). The share of part-time workers increased between 2006 and 2017 in the majority of countries for which data are available (namely, in 34 out of 47 countries – see figure 1.4).<sup>7</sup> This increase has been particularly pronounced in some advanced economies such as Estonia, Austria and Hungary. However, certain emerging and developing economies have also experienced an increase in part-time employment, including Ecuador, Mauritius and South Africa. Part-time employment is generally more prevalent among women than among men. Thus, in the set of countries studied for this report, the median share of part-time employment was 40.7 per cent for women and 24.8 per cent for men in 2017.

Part-time employment is not necessarily a negative phenomenon, as it can help to achieve a favourable work–life balance. Nevertheless, it is important to assess whether working part-time is a voluntary or involuntary decision by the workers concerned, and to examine the various implications in terms of stability and protection. For instance, surveys indicate that platform workers work an irregular number of hours and lack social protection benefits (Berg et al., 2018). Furthermore, one should weigh the implications of part-time work both in the short run (e.g. lower earnings) and the long run (e.g. lower social security contributions). Significantly, in most advanced economies for which relevant data are available, the share of involuntary part-time employment has increased over the last decade (OECD, 2019). While in some countries this increase was related to the economic downturn of 2008 (e.g. Greece, Portugal and Spain), in most countries it was a continuation of a long-term trend.

<sup>7</sup> There is no internationally accepted definition of the number of weekly working hours that constitutes full- or part-time employment. The classification of employment into full-time and part-time is determined either on a country-specific basis, or through the use of special estimation methods. For details, see ILO (2016, pp. 73–75). Figure 1.4 does not include Uruguay, even though Chapter 5 focuses on that country, because the ILOSTAT database does not have updated statistics on part-time employment in Uruguay. Chapter 5, nevertheless examines, *inter alia*, the effect on the number of working hours in order to account for this important aspect of the employment relationship.

**Figure 1.4. Part-time employment as a share of total employment, selected countries, 2006 and 2017 (%)**



Note: The data for Argentina refer exclusively to urban areas. Blue bars denote developing or emerging economies, while green bars denote advanced economies.  
Source: ILO calculations based on the ILOSTAT database.

Similarly, in many emerging and developing economies, time-related underemployment has increased in recent years and is now particularly high in countries such as Afghanistan (21 per cent of total employment), Algeria (18.7 per cent), Azerbaijan (18.8 per cent) and Rwanda (19.8 per cent).<sup>8</sup> Moreover, both in advanced and in emerging and developing economies, part-time employment and underemployment disproportionately affect women, who often need to balance participation in the labour market with household work (Messenger, 2018).

<sup>8</sup> According to the ILO definition, persons in time-related underemployment comprise all persons in employment who satisfy the following three criteria during the reference period: (a) they are willing to work additional hours; (b) they are available to work additional hours, i.e. are ready, within a specified subsequent period, to work additional hours, given opportunities for additional work; and (c) they worked less than a threshold relating to working time, i.e., the total amount of hours they actually worked in all jobs during the reference period was below a threshold, to be set according to national circumstances (ILO, 1998).

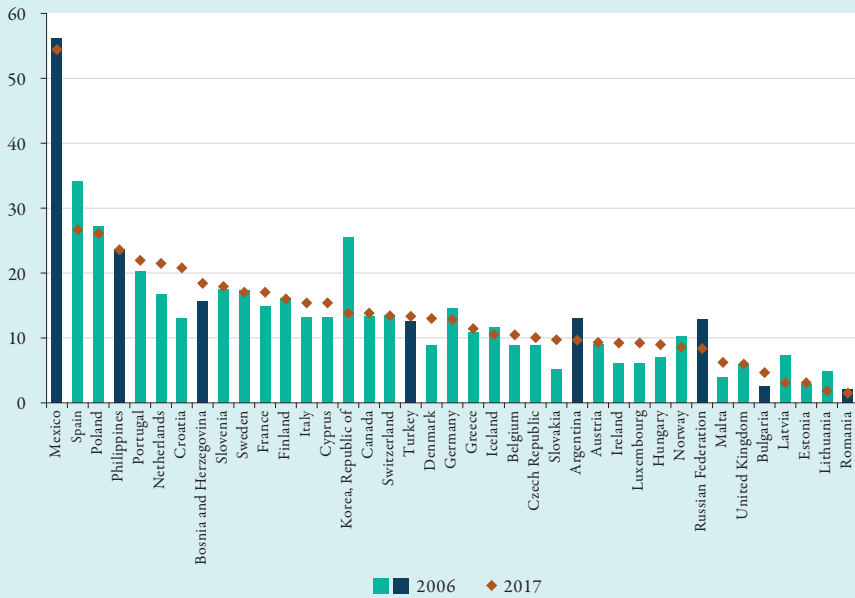
*The share of temporary dependent employment has also increased in most countries.*

The increase in the incidence of part-time employment has been accompanied by a rise in the share of workers on temporary employment contracts. Thus, the share of temporary employees in total dependent employment increased between 2006 and 2017 in 22 out of the 39 countries for which data are available (figure 1.5). Significantly, all countries that had an intermediate share of temporary employment at the start of the period under consideration reported an increase. The countries that experienced a decrease in the share of temporary employment are generally those that had initially high values (e.g. Mexico, Spain and Poland). If one compares countries in terms of their development status, it can be seen that the share of temporary employment is generally higher in emerging and developing economies (e.g. Mexico and the Philippines) than in advanced economies. This can at least partially be ascribed to the higher incidence of informal employment in the former group, for such employment often involves casual jobs of a short-term nature.

As with part-time employment, temporary employment is not necessarily something negative. For young people in particular, temporary employment may represent an opportunity to experience different types of jobs and acquire the necessary training. However, there is evidence that in the majority of advanced economies most temporary employment is of an involuntary nature (OECD, 2019) and the rate of conversion of temporary into permanent jobs is slowing down over time.<sup>9</sup> Similarly, surveys carried out in various emerging and developing economies suggest that temporary job opportunities do not always serve as springboards to more stable and satisfactory employment (ILO, 2015c). Additionally, both in advanced and in emerging and developing economies, temporary employment often goes hand in hand with lower wages and worse labour market conditions (e.g. a lack of adequate social protection coverage) (Nguyen, Nguyen-Huu and Le, 2016).

<sup>9</sup> See the Eurostat database, “Labour transitions from temporary to permanent contracts by sex -3-year average”, available at: [https://ec.europa.eu/eurostat/databrowser/view/tepsr\\_wc230/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/tepsr_wc230/default/table?lang=en) [accessed 4 Sep. 2019].

**Figure 1.5. Temporary employment as a share of total dependent employment, selected countries, 2006 and 2017 (%)**



Note: Blue bars denote developing or emerging economies, while green bars denote advanced economies.  
 Source: ILO calculations based on the ILOSTAT database.

*In addition, the rate of informal employment remains high in most regions.*

The transformations in the world of work, which are at least partly shaped by the global drivers of change discussed in section A, are compounding the effects of long-standing labour market challenges in many countries. While a number of indicators are available for gauging obstacles to decent work (e.g. lack of social security, non-compliance with labour legislation, working poverty rate), the share of informal employment has the advantage of summarizing the multi-faceted nature of these barriers. Significantly, the introduction of new technologies and integration into global value chains have both occurred during a period in which labour markets in many emerging and developing economies still display a mostly informal structure. This has created a divide within countries: the most modern and export-oriented sectors of the economy have become increasingly



integrated into global labour markets, while traditional sectors remain largely informal and are characterized by low productivity and unfavourable working conditions (World Bank, 2012; ILO, 2014b). Moreover, widespread informality can have dramatic effects not only on aggregate performance indicators, but also on the employment and life trajectories of individuals. Typically, informal workers do not have access to social protection schemes, are not covered by collective bargaining agreements, and may even experience restrictions to their civil rights. Policies aimed at protecting workers and promoting decent employment can help reduce these effects and contribute to the development of a more just labour market.

The data indicate that around 2 billion people across the world are in informal employment (out of a global workforce of 3.3 billion).<sup>10</sup> The prevalence of informality is clearly greater in emerging and developing economies than in advanced economies (ILO, 2018d). Thus, while the share of informal employment out of total employment is 61.1 per cent at the global level,<sup>11</sup> it is substantially higher in sub-Saharan Africa (89.2 per cent), South Asia (87.8 per cent) and South-East Asia and the Pacific (74 per cent) (figure 1.6). Considerably lower shares of informal employment are found in North America (18.2 per cent) and Northern, Southern and Western Europe (18.2 per cent). In all regions, most informal employment is in the informal sector of the economy (around 85 per cent of total informal employment in the world; an additional 10 per cent occurs in the formal sector and the remaining 5 per cent in the household economy).<sup>12</sup>

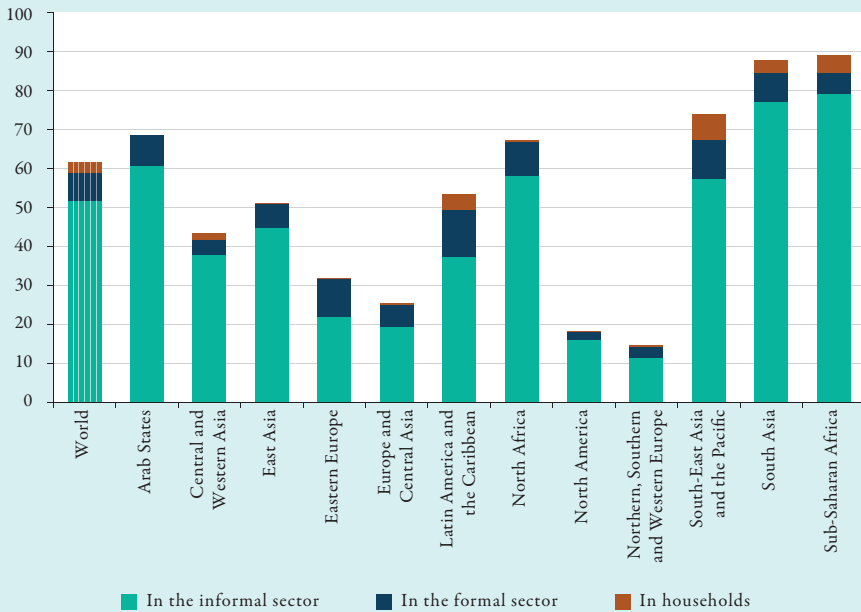
Informal employment is a complex phenomenon associated with various individual-level decisions, but it is also driven by national institutional and economic factors. On the whole, informal workers experience lower wages, limited access to social security, violations of bargaining rights and less favourable working conditions than their counterparts in formal employment (ILO, 2018d). Informal employment is also intrinsically linked to

<sup>10</sup> The definition of informal employment used in this report is in line with the official ILO statistical guidelines. See [www.ilo.org/ilostat-files/Documents/description\\_IFL\\_EN.pdf](http://www.ilo.org/ilostat-files/Documents/description_IFL_EN.pdf) for a detailed discussion.

<sup>11</sup> At the global level, the share of informal employment is higher for men (63 per cent) than for women (58.1 per cent).

<sup>12</sup> According to the international standards adopted by the 15th International Conference of Labour Statisticians in January 1993, the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and income for the persons concerned. See ILO (2018d) for details.

**Figure 1.6. Components of informal employment as a percentage of total employment, global and across regions, 2016 (%)**



Source: ILO (2018d).

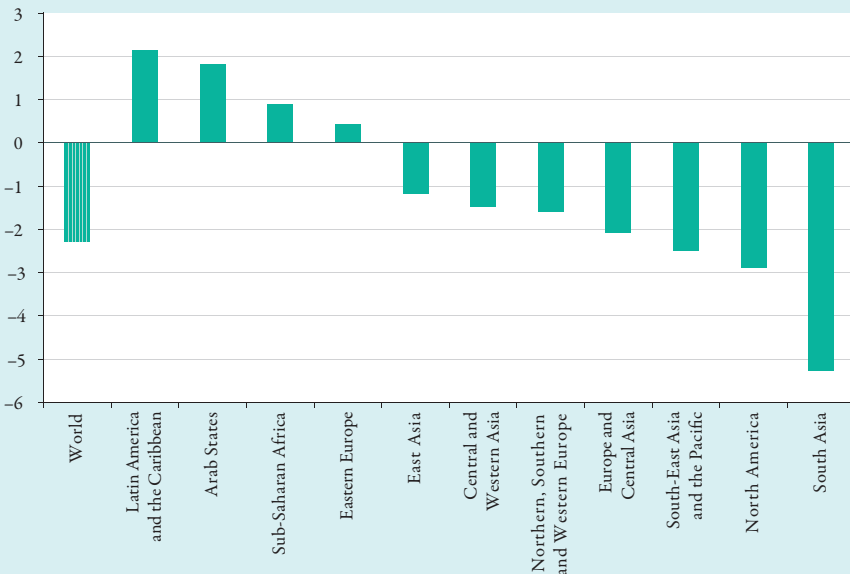
the status of workers. For example, in emerging and developing economies, informal employment is represented mainly by own-account workers (45.5 per cent), with successively lower shares for employees (35.4 per cent), contributing family workers (16.6 per cent) and employers (2.5 per cent). In advanced economies, the distribution of informal workers includes a higher share of employees (51.3 per cent of total informal employment), followed by own-account workers (35.9 per cent), employers (6.5 per cent) and contributing family workers (6.3 per cent). In addition, informal employment is generally concentrated in specific age categories (e.g. young and older workers), population groups (e.g. low-skilled individuals), economic sectors (e.g. agriculture) and geographical areas (e.g. the country side), where there are already significant obstacles to labour market integration (ibid). The persistence of a high share of informal employment poses a major challenge in the context of rapid transformation in the world of work because it can exacerbate divisions between and within countries.

*Finally, income inequalities within countries are increasing.*

Inequalities in the labour market have remained high in most regions of the world. Such inequalities have multiple drivers that should also be examined in the light of current transformations in the world of work (e.g. urban-to-rural migration, introduction of new technologies). Labour market and social protection policies (including interventions that combine income support with ALMPs) can help to tackle inequalities, both by reducing immediate poverty and by increasing the employability of vulnerable groups in the labour market.

Inequalities are particularly high in regions characterized by high poverty rates. In particular, the share of total income earned by the top decile of workers is 67.4 per cent in sub-Saharan Africa and 64.9 per cent in South Asia. Over the last decade, the share of income going to labour (as

**Figure 1.7. Changes in the labour income share between 2004 and 2017, global and across regions (percentage points)**



Source: ILO calculations based on the ILOSTAT database.

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opposed to capital) has decreased at the global level – namely, by 2.3 percentage points (from 53.7 per cent in 2004 to 51.4 in 2017) – and in most regions (figure 1.7). The decrease has been particularly sharp in South Asia (–5.3 percentage points), North America (–2.9 percentage points) and South-East Asia and the Pacific (–2.5 percentage points). The only notable increases in the labour income share were registered in Latin America and the Caribbean (+2.1 percentage points), the Arab States (+1.8 percentage points) and sub-Saharan Africa (+0.9 percentage points).

## CONCLUSIONS AND PRESENTATION OF THE REPORT

In this chapter we have looked at existing obstacles to decent work and at how they relate to current transformations in the world of work. These barriers are numerous and complex: some are of a structural nature and may affect individuals (e.g. lack of skills or education) or may have to do with the broader labour market (e.g. intersectoral and spatial inequalities), while others are temporary (e.g. the onset of a financial crisis). Independently of their nature, all such barriers can severely impede access to decent work for men and women. Moreover, the drivers of global change are reinforcing them by, inter alia, multiplying and accelerating job transitions and affecting the distribution of available jobs. The trends discussed in this chapter show that the obstacles to decent work have already translated into deficits in working conditions. Moreover, they are likely to intensify in the coming decades, and their impact will be felt differently by advanced economies, on the one hand, and by developing and emerging economies, on the other.

The complexity of the changing world of work – with frequent career changes becoming more likely owing to structural transformations in the economy – and the urgent need to tackle barriers to decent work call for innovative solutions. The present report focuses on the combination of income support for jobless individuals with ALMPs as a solution to new and persisting labour market and social challenges. Its overall objective is to shed light on the role and effectiveness of such combined policy approaches in protecting workers during their working-life transitions and in improving their employment prospects.

Chapter 2 introduces a general conceptual framework for discussing how approaches that combine income support with ALMPs can help overcome the obstacles to decent work discussed in this chapter. The results of a novel cross-country mapping are presented from which it becomes clear that such integrated approaches may take many different forms and that they already constitute a pivotal element in the design of labour market policies in emerging and developing economies across the world. Chapter 3 reviews earlier empirical studies dealing with the effectiveness of such

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approaches. The picture that emerges from this literature review is generally quite positive. One key conclusion is that it is essential to exploit the complementarity between income support policies and ALMPs in order to ensure that they are as effective as possible. However, the chapter also identifies various knowledge gaps that still need to be filled if we are to understand how policy-makers can maximize the beneficial effects of integrated approaches. To help fill these knowledge gaps, Chapters 4 and 5 present the results of microeconomic evaluations of selected combined policy interventions in two countries. The case study of Mauritius (Chapter 4) evaluates the country's unemployment benefits system, which combines the provision of contributory and non-contributory income support with three different types of ALMP. The case study of Uruguay (Chapter 5) evaluates a public works scheme implemented as part of a broader cash transfer programme. In these last two chapters we discuss how the combined policies have improved the labour market outcomes and living conditions of workers in both countries, and make a number of recommendations for improving their design and implementation. From these case studies we have extracted lessons on how to maximize the beneficial effects of an integrated approach.

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## CHAPTER 2

# INCREASING EMPLOYABILITY WHILE SUPPORTING INCOMES: CONCEPTUAL FRAMEWORK AND DESCRIPTIVE EVIDENCE

## INTRODUCTION

Access to productive and decent employment when people are of working age is one of the most important sources of income security in emerging and developing economies, and acts as a driver of poverty alleviation (ILO, 2016a, 2018a). Yet, as discussed in Chapter 1, the lack of decent work opportunities – as evidenced by persistently high rates of underemployment and informality – continues to be a central challenge in many of these countries (ILO, 2018b). Within a given country, the likelihood of obtaining quality employment can vary considerably across different segments of the population. Disparities in access to decent work can exacerbate the vulnerability of working-age people, and also widen economic and social inequalities between different subgroups of the population. Such disparities are often related to gender, age and household income, among other individual and demographic factors. Inadequate access to quality employment is, thus, a major obstacle in efforts to overcome poverty and foster equality in emerging and developing economies (ECLAC, 2016; ILO, 2016b). At the global level, both structural transformations (associated mainly with globalization and the introduction of new technologies) and other drivers of change (such as environmental and demographic factors) have further implications for the quantity and quality of employment that is available to people and also for income distributions within societies.

Effective policy responses to deal with both long-standing and new problems are thus urgently required. Governments in some emerging and developing economies have recently 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. This is in line with recommendations made by several academic and policy experts,

as well as international organizations. Institutional approaches that combine income support with activation measures are indeed becoming a key component of labour market policy in emerging and developing economies, and are no longer confined to advanced countries.

However, it is still unclear to what extent the joint implementation of income support and labour inclusion policies, such as ALMPs, can help overcome barriers to decent work. Moreover, the different forms that such policy integration has taken in emerging and developing economies have not been studied in great depth. Still, a review of the existing literature does suggest that the use of integrated approaches in such countries has led to improvements as measured by various individual- and macro-level labour market indicators. This is corroborated by the case studies presented in Chapters 4 and 5. However, the positive effect of such approaches depends on both the specific policies included in the “package” and the degree of integration between individual measures.

The conceptual basis and practical application of integrated approaches, therefore, deserve further attention. In this chapter we first consider how a combination of policies aimed at improving income security, on the one hand, and at increasing employability, on the other, can effectively protect workers while enabling them to seize decent work opportunities. This is followed by a review of specific combinations that have been tried in various countries, within the multiplicity of forms that this integrated approach can take. The ultimate aim is to identify which factors contribute to the success of such an approach.

Section A outlines the main features of the policies that form part of an integrated approach. Section B looks at the ways in which income support and activation measures interact with the barriers to decent work presented in Chapter 1, and explores the conceptual basis for the design and implementation of integrated policy approaches. Section C presents the results of a country mapping – the first of its kind – to assess how such approaches have actually been put into practice in emerging and developing economies. Drawing on available data sources that capture

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key aspects of income support policies and ALMPs implemented over the last decades in a wide range of emerging and developing economies, we identify common international patterns as well as country-specific policy packages.

## A. THE MAIN ELEMENTS OF AN INTEGRATED APPROACH

### *What measures have countries adopted to facilitate access to decent work?*

As discussed in Chapter 1, a number of decent work deficits, including great disparities in access to quality employment, continue to characterize labour markets in emerging and developing economies. Governments around the world have introduced various contributory and non-contributory measures to protect working-age individuals and support them in the quest for better jobs. We have categorized these measures into two broad categories: income support policies and ALMPs (or activation measures). For the purposes of this report, an “integrated approach” is defined as the joint implementation of such measures within a policy framework. Integrated<sup>1</sup> approaches can take various forms depending on the elements of the policy mix, the degree of integration, and the norms governing how such policies are administered. However, they all share the ultimate goal of making the constituent policies more effective by exploiting their complementarity.

In this report, income support policies are understood to refer to all measures aimed at ensuring basic income security for persons of active age. We have adopted from Berg (2015) a dichotomy of income support policies for “able-bodied”<sup>2</sup> individuals which divides such policies into those that seek to mitigate income loss during unemployment and those that support vulnerable households in meeting basic needs. These policies are central pillars of social protection systems.

More generally, income support policies may be divided into two main categories:

- **Contributory schemes:** these usually take the form of unemployment insurance, are based on collective financing and pooling of the unemployment risk (ILO, 2017a), and are financed through contributions

<sup>1</sup> In this chapter, and throughout the report, we use the terms “integrated”, “joint”, and “combined” interchangeably, without any reference to the level of integration of the specific policies included under such approaches.

<sup>2</sup> The focus on able-bodied individuals differs slightly from that on working age under the life-cycle approach followed elsewhere by the ILO (ILO, 2017a). In particular, among income support programmes we include cash transfers and in-kind support policies with a labour component that target families with children, and which tend to be classified as “child benefits” in the life-cycle approach. On the other hand, we do not include policies covering employment injury, disability, sickness and maternity.

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that are either paid by employers alone or are shared between employers and employees. They typically cover only formally employed individuals (i.e. contributors to unemployment insurance schemes) during periods of unemployment.

- **Non-contributory schemes:** these tend to be funded through general taxation and provide a minimum level of support to individuals in vulnerable conditions (ILO, 2017a). They may take the form of unemployment assistance, cash transfers, fuel subsidies, food transfers or other in-kind benefits. Entitlement to these schemes is not conditional on previous social security contributions. Rather, it is based on criteria of citizenship (e.g. universal measures) or vulnerability thresholds (e.g. means-tested targeted schemes).

By providing basic income security, both contributory and non-contributory schemes can indirectly help individuals to find and retain decent and productive employment (ILO, 2017a). These schemes, however, address only income insecurity and are not aimed at tackling other labour market barriers, such as a lack of skills or information constraints, which continue to prevent individuals from finding quality work. Therefore, other policies are necessary to complement income support if widespread access to decent employment is to be made a reality (see section B).

For the purposes of this report, ALMPs are defined as government policies aimed at providing assistance and incentives for people to look actively for jobs and ultimately (and as soon as possible) find suitable employment. They include policies that promote access to higher quality and more sustainable income-generating activities (ILO, 2016c). In accordance with ILO (2016c, p. 59), the main categories of ALMPs considered in this report are: training, public works, employment subsidies, self-employment and micro-enterprise creation, and labour market services (table 2.1).

The variety of components that may form part of an integrated approach means that drawing up a detailed taxonomy of all the possible policy combinations would be laborious; it would probably also not be so



**Table 2.1. Active labour market policies: categories, main objectives and examples**

Training	Public works	Employment subsidies	Self-employment and micro-enterprise creation	Labour market services
Improve employability and enhance future career paths through acquisition of skills	Compensate shortcomings in private sector job creation in order to alleviate poverty and promote community development	Provide incentives for hiring new staff and maintaining jobs by reducing labour costs	Provide both financial and logistic support for self employment or micro-entrepreneurship	Connect jobseekers with employers through career advice, job-search assistance and other measures promoting reintegration into the labour market
Bangladesh: Training for Rural Economic Empowerment (TREE) programme  Philippines: Technical and Vocational Education and Training (TVET) system	India: Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)  South Africa: Expanded Public Works Programme (EPWP)	Chile: <i>Bono al Trabajo de la Mujer</i> (BTM)  Tunisia: <i>Stages d'initiation à la vie professionnelle</i> (SIVP)	Global: Start and Improve Your Business (SIYB) programme  Cambodia: Community-Based Enterprise Development (C-BED) programme	Republic of Korea: Occupational Centre for Women (OCW)  Peru: <i>Red de Centros de Intermediación Laboral Pro-empleo</i> (Red CIL-PRO Empleo)

Source: ILO (2016c).

instructive for this report. Instead, we may make the following general observations:

- Countries around the world have adopted integrated approaches that include various types of income support policies and ALMPs. For example, some countries combine income support with job placement services, while others combine income support with access to training opportunities. In section C we look more closely at the implementation of different approaches in emerging and developing economies.
- Integrated approaches can be differentiated according to the degree of integration of the constituent policies. For example, as discussed in Section C and as elaborated in the case studies in Chapters 4 and 5, some models are designed to coordinate the implementation of existing policies more effectively. In other models the goal is, instead, a complete integration of the various measures. This can lead, for example, to the

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establishment of dedicated agencies tasked with managing all the phases of implementation of the joint policies.

- Integrated approaches also vary in terms of the norms that determine how the constituent policies are to be administered. One can distinguish, for example, between approaches in which participation in the activation measures takes place on a voluntary basis, and those that prescribe compulsory participation. As discussed in the empirical literature review of Chapter 3 and illustrated by the two case studies in Chapters 4 and 5, such differences often determine the extent to which the policies can reach their target groups.

### *The international community advocates the integration of income support policies and ALMPs.*

Both income support and activation measures are increasingly being used in emerging and developing economies (as described in more detail in section C), though not necessarily in combination.<sup>3</sup> Yet, despite advances in social protection coverage and the provision of higher quality jobs, great disparities still exist both within and across countries as far as access to decent and productive employment is concerned.

In response to these persistent challenges, policy-makers and intergovernmental organizations have, over the last two decades, advocated integrated approaches that combine income support and activation measures (FAO, 2017a; ILO, 2012; OAS, ECLAC and ILO, 2010; OECD, 2006; World Bank, 2012). Such approaches seek to provide income security and access to quality employment through the development of a common policy framework. They call for effective coordination between employment measures, such as ALMPs, and income support schemes of both a contributory and non-contributory nature (ILO, 2012).

First and foremost, the expedience of combining income support policies and ALMPs is reflected in international labour standards, including a number of ILO instruments. The dual objective of providing income security

<sup>3</sup> See ILO (2017a) for evidence of the expansion of coverage of social protection in emerging and developing economies, and Bastagli et al. (2016) for a comprehensive review of the effect of cash transfers on a range of labour market outcomes. Escudero et al. (2019) demonstrate the effectiveness of ALMPs in Latin America and the Caribbean, while Card, Kluve and Weber (2010, 2018) examine the empirical evidence on the impact of ALMPs across the world.

while fostering decent employment lies at the heart of the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), which calls upon member States to promote “full, productive and freely chosen employment by all appropriate means, including social security ... [and] inter alia, employment services, vocational training and vocational guidance” (Article 7). At the same time, the Convention lays down that the level of unemployment and other benefits provided to beneficiaries should be such as to guarantee “healthy and reasonable living conditions in accordance with national standards” (Article 16). Moreover, it establishes that unemployment benefits “may be refused, withdrawn, suspended or reduced ... when the person concerned refuses to accept suitable employment” (Article 21). This confirms the importance of promoting speedy reintegration into the labour market, at the same time emphasizing the need for employment that is well suited to an individual’s skills and expectations.<sup>4</sup>

The accompanying Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176) specifically calls for the combination of cash benefits with measures that promote job opportunities and assistance for the unemployed. Among various relevant ALMPs, it recommends that member States should provide protected persons with “facilities to enable them to engage in remunerated temporary employment”, and offer “financial assistance and advisory services” to unemployed persons wishing to set up their own business (Part II). The Recommendation also contains guidance on creating effective “free public employment services” (i.e. with sufficient institutional and administrative capacity to collect and analyse employment data) (Part IV).

Convention No. 168 and Recommendation No. 176 enshrined the goal of supporting both income security and quality employment, and laid the foundations for the ILO’s concept of Decent Work (1999) and the later ILO Declaration on Social Justice for a Fair Globalization (2008) (ILO,

<sup>4</sup> Convention No. 168 indicates that the suitability of employment should be assessed taking into consideration “the age of unemployed persons, their length of service in their former occupation, their acquired experience, the length of their period of unemployment, the labour market situation, the impact of the employment in question on their personal and family situation and whether the employment is vacant as a direct result of a stoppage of work due to an on-going labour dispute.” (Article 21, paragraph 2). The accompanying Recommendation No. 176 expands on these criteria by including occupational and geographical limitations, along with family constraints, among the factors that may justify refusing employment.

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2011). The Declaration extends the scope of social protection to cover policies aimed at promoting full, productive and freely chosen employment. Moreover, it posits the universality of the Decent Work Agenda, emphasizing that “all Members of the Organization must pursue policies based on the strategic objectives – employment, social protection, social dialogue and rights at work”. That these objectives are referred to as “inseparable, interrelated and mutually supportive” reflects how social protection is considered more effective when delivered within a wider framework of socio-economic and human resources development (ILO, 2008).

A few years later, the Social Protection Floors Recommendation, 2012 (No. 202) further emphasized the need to strengthen the link between employment and social protection policies (box 2.1). While recognizing the fundamental importance of ensuring a basic level of universal social protection, this Recommendation also calls for higher levels of protection to become available to a larger share of the population, including workers in the informal economy (ILO, 2012). The implementation of ALMPs in conjunction with income support policies was duly advanced as one possible strategy for expanding social protection coverage while promoting the gradual formalization of the informal economy (ILO, 2017a) – a principle that was subsequently underlined in the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).<sup>5</sup> An integrated approach can provide temporary income security for able-bodied individuals who are in need, while promoting access to better employment opportunities, ideally in the formal sector.<sup>6</sup>

Significantly, in 2019 the ILO dedicated a General Survey to the status of implementation of Recommendation No. 202. Entitled *Universal social protection for human dignity, social justice and sustainable development* (ILO, 2019a), it stresses the importance of building comprehensive social

<sup>5</sup> Recommendation No. 204 encourages member States to “promote the implementation of a comprehensive employment policy framework” that should include, inter alia, “labour market policies and institutions to help low-income households to escape poverty and access freely chosen employment, such as ... social protection schemes including cash transfers, public employment programmes and guarantees, and enhanced outreach and delivery of employment services to those in the informal economy” and “comprehensive activation measures to facilitate the school-to-work transition of young people, in particular those who are disadvantaged, such as youth guarantee schemes to provide access to training and continuing productive employment” (Paragraph 15) (ILO, 2015).

<sup>6</sup> A good example of an integrated legal framework that coordinates employment promotion and social security policies can be found in Mongolia (ILO, 2011, p. 204). Adopted in 2001, the Law on Employment Promotion extended public employment services to vulnerable groups of society, including informal workers, and established a series of measures for improving the organization of public works and providing income support to the unemployed.

security systems tailored to national circumstances in order to achieve social justice worldwide. The Committee of Experts on the Application of Conventions and Recommendations, which prepared the General Survey, points out in this document that “increased support for active labour market policies, in conjunction with the expansion of unemployment protection schemes, including non-contributory schemes, has played a major role in many regions in addressing poverty and inequality and improving employment” (Paragraph 677). It is further noted that “active labour market policy measures are instrumental in building the capacity and skills of the unemployed, and reducing their long-term exclusion from the labour market, by bringing the recipients of unemployment and social assistance benefits under a common framework of activation policies and improving the quality and outreach of the services provided” (Paragraph 680). At the same time, the Committee emphasizes “the need for benefits targeted at specific vulnerable categories to be accompanied by measures to develop their skills and employability ... and to prevent them from being locked into and stigmatized by their situation of vulnerability” (Paragraph 679). Ensuring that activation measures do not “infringe on acquired social security rights guaranteed under the relevant international instruments, including the ILO’s social security Conventions” (Paragraph 680) is thus a central aspect highlighted by the General Survey.

Most recently, the ILO Centenary Declaration for the Future of Work tasked the ILO and its member States with “further developing [the ILO’s] human-centred approach to the future of work” by “strengthening the capacities of all people to benefit from the opportunities of a changing world or work” through, inter alia, “universal access to comprehensive and sustainable social protection” and “effective measures to support people through the transitions they will face throughout their working lives” (ILO, 2019b, Part III, A). The Centenary Declaration thus explicitly acknowledges the importance of combining income support and activation measures.

An integrated approach has also been advocated by the World Bank, albeit for reasons that differ from those of the ILO. The World Bank Social

## Box 2.1. Summary of the Social Protection Floors Recommendation, 2012 (No. 202)

Recommendation No. 202 recognizes access to social security as a human right and, accordingly, promotes universal coverage based on social solidarity for all. Building on the existing body of ILO social security standards, it is intended to provide flexible and meaningful guidance on the development and extension of social security in countries at all levels of economic development. The Recommendation calls for efforts in two dimensions with a view to progressively achieving universal social protection (ILO, 2019a).

The horizontal extension of social security envisaged by Recommendation No. 202 involves the establishment of national social protection floors, which provide basic social security guarantees, thereby ensuring access to essential health care and basic income security throughout the life cycle. The Recommendation also calls upon member States to implement a combination of benefits and schemes of both a contributory and non-contributory nature that are aligned with their national context and priorities.

The vertical extension of social security is about achieving higher levels of protection within comprehensive social security systems. To that end, Recommendation No. 202 calls for the implementation of a social security “staircase” towards the provision of a wider range of benefits, greater coverage and higher benefit levels that meet the criteria laid down by the Social Security (Minimum Standards) Convention, 1952 (No. 102); it also calls for innovative policies to encourage the participation of the informal sector in social security schemes, and to support gradual formalization. The Recommendation furthermore recognizes the important role of ALMPs in supporting a sustainable expansion of comprehensive social security systems.

Source: ILO (2011, 2012).

Protection and Labour Strategy 2012–2022 calls for the inclusion of ALMPs in social protection programmes with a view to increasing access to economic opportunities and fostering self-sufficiency (World Bank, 2012). Uninsured risk is still regarded as the main cause of poverty (as in other World Bank documents), but the focus is on the central role of jobs and enhanced productivity in creating opportunities to overcome that risk. The strategy is based on the World Bank’s earlier social risk management framework,<sup>7</sup> which argues that managing economic risk among vulnerable households is an effective way of promoting development. Accordingly,

<sup>7</sup> Proposed in 2001, the social risk management framework expanded the traditional “safety net” approach to social protection (i.e. providing targeted transfers in order to address lack of income or basic consumption needs in an ex post manner) to include the analysis of risk and vulnerability. The framework highlights the role of ex ante strategies in creating the conditions that enable households to overcome income poverty (World Bank, 2001).

the strategy calls for policies aimed at increasing opportunities (i.e. human capital and skills development, and labour market insertion) to be connected systematically with those traditionally aimed at managing risks (i.e. income support measures). Economic growth is the main objective of the strategy, which relegates poverty alleviation and access to social protection to a secondary plane (Devereux and Solórzano, 2016). This is in stark contrast to the rights-based approach of the ILO, which sees adequate social protection as a basic human right and calls for coverage to be extended because social protection is both a social and an economic necessity (ILO, 2012).

Focusing on the rural economy, the Food and Agriculture Organization of the United Nations (FAO) has developed a social protection framework in which multisectoral strategies that both respond to immediate needs and provide longer-term livelihood support play a prominent role (FAO, 2017a). The FAO framework tallies with the graduation approach which has guided the implementation of social protection programmes in many rural areas in Africa and South Asia. This approach envisages both asset transfers and skills training with the objective of fostering income-generating activities that yield higher returns. More specifically, it calls for an expansion of “productive safety nets” whereby cash or in-kind support for minimum consumption is provided together with a training component in order to help people to leave poverty behind permanently (Devereux and Sabates-Wheeler, 2015).

A tendency towards greater integration of policies can likewise be observed at the regional level, particularly in Latin America and the Caribbean. With ILO support, the Organization of American States and the Economic Commission for Latin America and the Caribbean (ECLAC) have organized interministerial discussions on innovative social protection and employment policies adopted across the region (OAS, ECLAC and ILO, 2010). Moreover, ECLAC has made clear its support for an integrated approach by encouraging the inclusion of employability-enhancing components in conditional cash transfer programmes (CCTs). The premise is that, whilst such transfers have certainly been successful in alleviating

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poverty in the short term, helping the recipients to improve their chances of accessing the labour market is likely to generate more stable incomes in the long run (ECLAC and ILO, 2014, p. 14). The synergies between CCTs and employability-enhancing policies are seen by ECLAC as key to breaking the vicious circle of highly informal, low-productivity jobs, which trap workers permanently in poverty.

*The shift towards integrated approaches has been interpreted in various ways in the academic literature.*

The growing role of integrated approaches has been interpreted in various ways in the academic literature. Barrientos and Hulme (2009), for example, argue that integrated anti-poverty programmes are based on a more comprehensive view of the nature of the constraints faced by vulnerable populations, with emphasis on human capabilities.<sup>8</sup> Decent employment is advocated not only as a pathway to higher incomes, which allows households to escape poverty (an “instrumentalist” view), but also because of its intrinsic human-right value for households and individuals (Barrientos, 2010). This perspective emphasizes the mutually reinforcing role of labour promotion and social protection. Similarly, the provision of training and other employment promotion schemes as part of cash transfer programmes is in line with “transformative” social protection measures that seek to address the root causes of poverty (Molyneux, Jones and Samuels, 2016).<sup>9</sup> By fostering participation in activation measures, integrated approaches can enhance the capacity of vulnerable individuals to move out of poverty in a sustainable manner, potentially neutralizing some of the underlying factors that prevent longer-term social inclusion (Devereux and Sabates-Wheeler, 2004). Mazza (2013) also highlights the importance of linking income support policies to ALMPs. She argues that the transition to productive and formal labour markets in Latin America and the Caribbean cannot be completed as long as labour intermediation services are not expanded to include private providers. Moreover, these services need to be

<sup>8</sup> The authors define “integrated anti-poverty programmes” as a new generation of social protection programmes based on the capability approach. These programmes are designed to fulfil short-term needs but also pursue longer-term goals such as access to quality employment, with a view to addressing human development deficits. The *Chile Solidario* programme is cited as an example (Barrientos and Hulme, 2009).

<sup>9</sup> Although training and livelihood support schemes are a key aspect of transformative social protection, the latter concept also includes providing the poor with a voice in the design and implementation of such programmes (Devereux and Sabates-Wheeler, 2004).



connected more effectively with existing social protection mechanisms, such as CCTs and other anti-poverty measures.

Others have been more critical of the trend towards embedding ALMPs in income support schemes. Choi (2012) and Roelen (2014) argue that focusing on economic objectives, such as productivity and growth, could potentially undermine the main objectives of social protection policies. According to this view, the inclusion of compulsory activation components risks pushing households prematurely out of the programme and below minimum subsistence levels. Therefore deterring a successful and sustainable exit from poverty. An example of this problem is the significant number of integrated policy initiatives in emerging and developing economies that focus on the promotion of self-employment. As self-employment in many of these countries continues to be characterized by informality, working poverty and vulnerability, it is doubtful whether such approaches could provide an effective route out of poverty and towards sustainable employment. Moreover, critics of integrated approaches fear that these could absolve governments of the obligation to address structural obstacles to decent work (including the lack of formal employment opportunities) – an effort that would normally require an ambitious policy agenda (McCord and Slater, 2015). With regard to advanced economies, similar criticisms have been voiced over the “workfare” programmes that have been introduced in Europe since the 1990s, following the United States model. The participants in such programmes are expected to work in exchange for social benefits. Workfare programmes – which can, for example, be found in Denmark, the Netherlands and the United Kingdom – have been criticized for running counter to the rights-based model of social protection, for pushing beneficiaries into low-quality jobs, and for intensifying competition at the lower end of the wage distribution (Lødemel and Moreira, 2014; Peck, 2003; Peck and Theodore, 2000).

As pointed out in the preceding paragraphs, there are diverging – and sometimes also opposing – views on the merits of integrated approaches that combine income support and activation measures. It is therefore important to examine the various strategies that countries have used to

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integrate these policies into a single framework, and to assess the effects (or potential effects) of such approaches. Recent studies of ALMPs in advanced economies have concluded that the success of these policies largely depends on particular design and implementation features and on the specific links between income support, work incentives and activation (ILO, 2016c; Immervoll and Scarpetta, 2012; Martin, 2015; McKnight and Vaganay, 2016). Drawing on examples from across the world, Peyron Bista and Carter (2017) argue that an integrated strategy can be used successfully to tackle inequalities in access to decent work. Such a strategy should rest on three distinct, yet complementary pillars: first, protecting working-age individuals and their households from falling into poverty during periods of unemployment (i.e. by providing income security); second, promoting a speedy return to quality work through employment support; and lastly, upgrading skills and capabilities to ensure better adaptation to a changing labour market.

## **B. THE RATIONALE FOR POLICY INTEGRATION: A CONCEPTUAL FRAMEWORK**

*The conceptual basis of integrated approaches needs to be studied further.*

As pointed out in section A, over the last decade or so a number of academic and policy experts, along with international organizations, have recommended the integration of income support policies and ALMPs. Governments in some emerging and developing economies have begun to adopt integrated approaches in order to address a wide range of labour market and social challenges (McCord, 2012; McCord and Slater, 2015). As a result, such approaches are no longer confined to advanced countries: they are becoming a cornerstone of labour market policy in emerging and developing economies as well.

In view of the increasing adoption of integrated approaches, their conceptual basis deserves to be examined in greater detail. The following questions are particularly relevant:

- What are the barriers to decent work that can be addressed by a combination of income support and activation measures?
- How important is the complementarity inherent in a combination of policies (as opposed to the merely simultaneous implementation of separate policies)?
- What is the premise for believing that an effective combination of policies can achieve positive social and labour market outcomes?

In attempting to answer these questions, we first consider how each component of an integrated approach can by itself reduce the impact of some of the barriers to decent work described in Chapter 1. We then explore the complementarity between ALMPs and income support policies. A conceptual framework is also proposed to improve the understanding of the potential benefits of an integrated approach.

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*Studying the interaction between integrated approaches and existing barriers to decent work is particularly important.*

As discussed in Chapter 1, a number of barriers prevent individuals from accessing quality employment. These barriers (a) impinge on both the quantity and quality of work that is available; (b) arise from structural factors or shocks; and (c) affect the prospects of individuals and households, and also the development of national labour markets as a whole. The integration of ALMPs with income support policies has the potential to remove many, if not all, of these barriers. When applied in isolation, income support policies, on the one hand, and ALMPs, on the other, can remedy only some of the main labour market problems. However, their integration results in a combined effect that is greater than the sum of the effects of the individual policies. We shall first consider income support policies and ALMPs separately in terms of their interaction with labour market barriers, and then explore what happens when they are implemented jointly as part of an integrated approach.

***Income support policies as a tool for tackling labour market barriers:***

Contributory social protection schemes can fulfil a basic income support function among formal workers not just in advanced economies but also in emerging and developing economies. These schemes usually take the form of unemployment insurance, which helps to limit future fluctuations in income (ILO, 2017a; Devereux and Sabates-Wheeler, 2004). Moreover, by making it possible to maintain a certain standard of living, these schemes prevent individuals who were in formal employment before becoming unemployed from falling into lower quality jobs. During economic downturns, unemployment insurance also serves a broader macroeconomic function by stabilizing aggregate demand (Farber and Valletta, 2016; ILO, 2014; Rothstein and Valletta, 2017).

However, the role of contributory schemes is limited in countries in which labour market regulations are poorly enforced. In emerging and developing economies a large proportion of workers operate in the informal economy and have insufficient or no access to contributory mechanisms

of protection. In such countries, non-contributory schemes are often the only policy instrument available to protect jobless individuals and low-income households (Barrientos, 2010). Like their contributory counterparts, these schemes are intended to provide income to unemployed individuals and supplement the income of low-earning workers. However, they also perform another function, namely, to facilitate access to basic services. Non-contributory schemes are, therefore, crucial in combating social exclusion, enabling the poorest to play an active role in their communities and societies, and also in strengthening these individuals' productive capacity (*ibid*). Moreover, such schemes can also stimulate growth through the multiplier effect of improved consumption (FAO, 2017b; Mathers and Slater, 2014). This is in stark contrast to the role of non-contributory schemes in advanced economies, in which they are usually seen as a last resort: they are targeted at unemployed workers who have either exhausted their entitlements to unemployment insurance benefits, or who do not qualify for such benefits in the first place because of their lower contributory capacity or shorter contribution periods (ILO, 2014). Compared with its mainly compensatory function in most advanced economies, non-contributory income support in emerging and developing economies tends to have a wider scope.

The provision of regular and reliable income support (contributory or otherwise) can act as a buffer against extremely low wages, thereby stabilizing household consumption (Devereux and Sabates-Wheeler, 2015). It can also enable workers to adapt to structural changes by protecting physical and financial assets in situations where workers are confronted by income shocks and faced with liquidity constraints (Devereux and Sabates-Wheeler, 2004). Thanks to these protective effects, income support can indirectly encourage the transition from low productivity (subsistence-level activities) to higher productivity activities, as it mitigates the social and economic impact of an economic downturn, and encourages moderate risk-taking, thereby facilitating investment (ILO, 2012).

Consequently, income support policies are a powerful tool for tackling some of the barriers to decent work detailed in Chapter 1; in particular

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those arising from labour demand shocks, inequalities of opportunities, intersectoral and spatial inequalities, and structural transformations caused by the global drivers of change (see figure 2.1 further down).

With regard to re-employment patterns, there is empirical evidence to suggest that the higher unemployment benefits in advanced economies tend to increase the duration of unemployment (see the review by Schmieder and von Wachter, 2016), which is in keeping with the prediction of neoclassical models that unemployment benefits suppress labour supply. In emerging and developing economies, the labour disincentive effects are likely to be smaller, since individuals rely on work for subsistence. Contrary to what is observed in advanced economies, the target groups of income support policies in emerging and developing economies tend to have a relatively high attachment to the labour market, as these individuals are often working informally and count themselves among the working poor rather than among the unemployed. In these countries, poverty affects both active and inactive households at somewhat similar rates, with poor households being less likely than non-poor households to be inactive (ILO, 2016b). It is not surprising, then, that studies assessing the impact of unemployment benefits on recipients' unemployment duration tend to find modest negative effects outside advanced countries (Amarante, Arim and Dean, 2013; Gerard and Gonzaga, 2018; González-Rozada and Ruffo, 2016). As for social assistance programmes, there is no evidence of significantly adverse employment effects (Alzúa, Cruces and Ripani, 2013; Banerjee et al., 2017; Barrientos, 2012). Moreover, in emerging and developing economies any labour disincentive effects may well be offset by the higher attachment to the labour market associated with improved health and nutrition – two important outcomes of income support (Bastagli et al., 2016).

Income support and policies aimed at consumption smoothing are clearly indispensable. Yet, on their own they may be insufficient to improve access to decent employment. It is evident, for example, that income support programmes, which are typically conducted for a limited period of time in emerging and developing economies, do not equip workers with the skills that they would need to access better quality jobs or to achieve speedier

re-entry into the labour market. The positive effects of income support are, therefore, reactive. A more comprehensive approach is required to help vulnerable workers over a longer time frame (Devereux and Sabates-Wheeler, 2015). Activation measures can serve as a key complement to income support, providing beneficiaries with the means of finding more sustainable sources of income. This is in line with the ILO's social protection framework and with international labour standards (see section A).

### ***The interactions between ALMPs and labour market barriers:***

Like income support policies, ALMPs can also help overcome the barriers to decent work. Their multifaceted nature means that activation measures can be adapted to different contexts (Card, Kluve and Weber, 2018). At the same time, the effects of ALMPs in emerging and developing economies can be limited if they are not coupled with measures that sustain workers' income while they participate in activation programmes. This is all the more important given that activation programmes tend to have a relatively long duration and that, in some cases, their effects manifest themselves only after several months (Escudero et al., 2019).

The barriers linked to a lack of education, skills and work experience (figure 2.1) are probably those which can be addressed most readily through ALMPs, in particular through training programmes and employment subsidies. Such measures may not necessarily have a direct impact on the level of unemployment in the short term (Schmid, 1996), but they can prevent skills bottlenecks and reduce the vulnerability of those groups that are most exposed to risks in the labour market, such as the unskilled or the long-term unemployed (OECD, 1993). As the direct consequence of training is to improve the employment prospects of the participants, focusing ALMPs on vulnerable groups (e.g. poorer households, low-qualified individuals) can have considerable beneficial effects.

Several ALMPs have proved to be very effective in tackling information constraints. This is the case, for example, with placement and job-search assistance programmes, which make the quest for new employment more

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effective (J-PAL, 2018; de Koning and Arents, 2001) and increase the number of vacancies by making it less costly for firms to create new posts (Calmfors and Lang, 1995; Pissarides, 1990; Schmid, Speckesser and Hilbert, 2001). These positive effects can ultimately lead to an expansion in labour demand and improve the motivation of individuals to overcome employment hurdles (McKnight and Vaganay, 2016). By equipping workers with new skills and sending a positive signal to potential employers, training measures can improve the effectiveness of job searches and indirectly address information constraints (Bellmann and Jackman, 1996; Layard and Nickell, 1986).

Labour supply-oriented measures (e.g. training, workers' subsidies) and job placement schemes can also reduce some of the intersectoral and spatial disparities observed within countries. Indeed, such measures can facilitate a reallocation of employment opportunities.

Measures designed to increase labour demand (e.g. employment incentives, hiring subsidies, public works programmes) can be effective in dealing not just with labour demand shocks, but also with structural barriers affecting the broader labour market. By promoting employment, such measures limit the impact that economic downturns and/or structural transformations may have on the employment structure of the countries affected. These programmes directly stimulate labour demand, and can achieve a greater reach through an indirect income effect (e.g. hiring credits reduce the effective wage paid by employers, which shifts labour demand upwards – see Neumark, 2013) and a multiplier effect (this is especially true of entrepreneurship promotion, as shown by López Mourelo and Escudero, 2017).

On the other hand, ALMPs can also have unintended negative consequences, as with income support policies. For example, activation programmes that increase employment rates among their participants can lead to the displacement of workers who did not take part (Crépon et al., 2013). However, such negative effects are bound to be lower for marginalized groups. Participation in activation programmes may also lead



participants not to search for new jobs, thereby reducing their earnings and employment prospects in the short run (van Ours, 2004). However, any such “lock-in” effects are eventually outweighed by the beneficial consequences of programme participation (Card, Kluve and Weber, 2018; Lechner and Wunsch, 2009). Since, as already mentioned, vulnerable groups in emerging and developing economies tend to have a relatively strong affiliation to the labour market, the beneficial effects of ALMPs will be greater among them (Layard, Nickell and Jackman, 1991).

### ***The integration of income support and ALMPs: A conceptual framework for decent work***

The preceding subsections have highlighted the ways in which income support and activation measures can help tackle the various barriers to decent work. We have also argued that combining the two types of policy can reduce, if not eliminate, the drawbacks and limitations of each type by exploiting their synergies.

This is particularly relevant in the context of emerging and developing economies. In these countries, contributory social protection schemes usually cover small segments of the population, and non-contributory mechanisms are necessary to provide basic income security to individuals in active age. However, such support alone may not be sufficient to guarantee the level of financial autonomy that individuals require to access the labour market (Devereux and Solórzano, 2016). Income support in isolation can protect individuals’ incomes and their consumption and assets, but it cannot prevent individuals from having to take up low-pay jobs and potentially precarious forms of employment (ILO, 2017b). ALMPs are thus needed to enable individuals confronted with exclusion from productive labour to find more sustainable sources of income, and potentially to support their entry into formal employment. Participation in activation programmes can, however, be costly and time-consuming: if they are to be able to afford it, individuals need to receive income support at the same time.

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Integrated approaches should, therefore, be seen as a way of combining complementary measures rather than as a substitution of income support measures with ALMPs and vice versa, or as policies that are executed simultaneously but independently from one another. How, then, do integrated approaches specifically interact with the barriers to decent work outlined in Chapter 1?

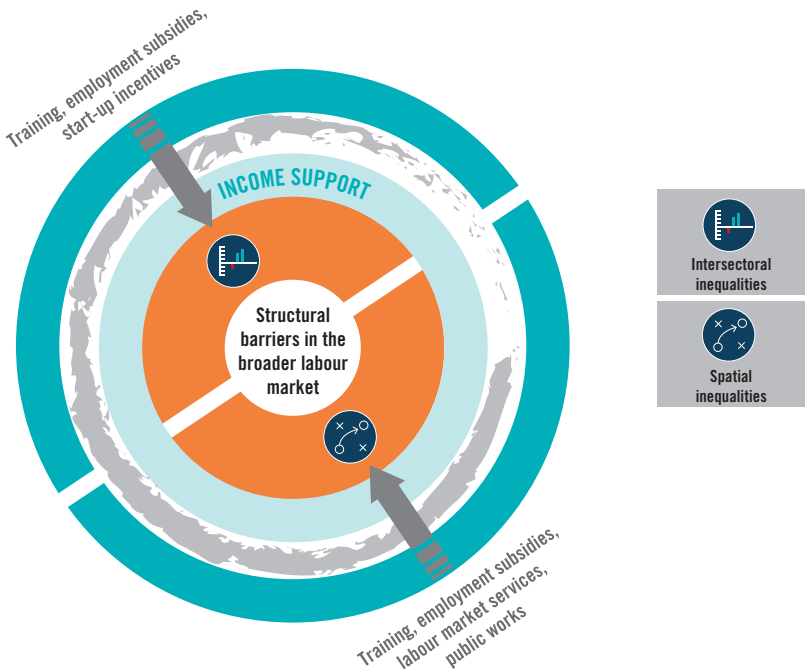
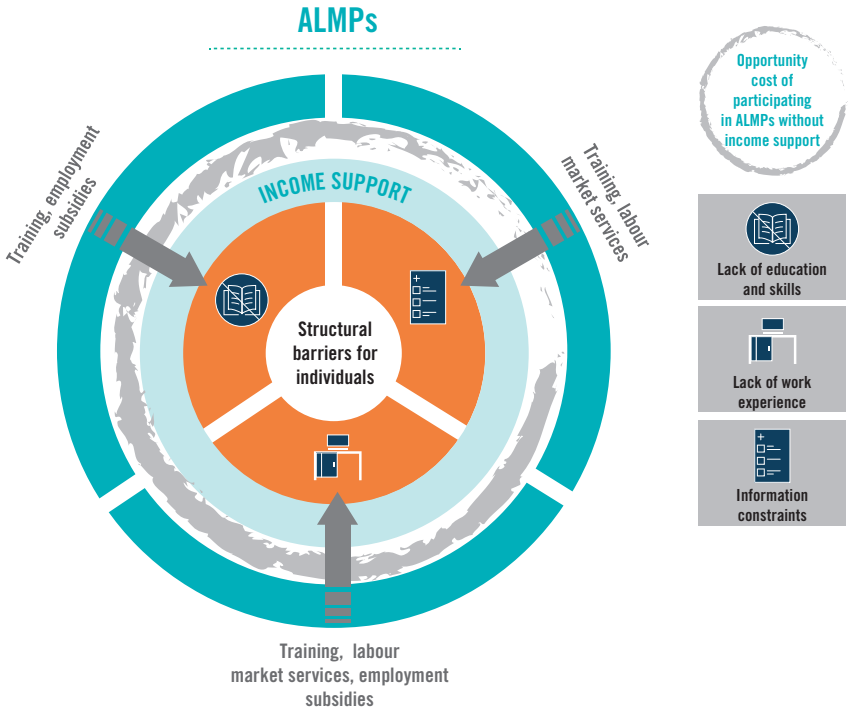
First, such approaches have the potential to address persistent labour market and social challenges that prevent individuals in emerging and developing economies from accessing quality jobs (figure 2.1). Activation measures play a crucial role in improving the educational level of vulnerable workers and equipping them with the skills demanded by the market. However, attending training courses and other placement activities implies less time for income-generating activities. Income support programmes directed at working-age individuals can remedy such a situation by guaranteeing income security during periods of joblessness or by topping up the earnings of individuals who find themselves in working poverty. Moreover, income support also facilitates the search for adequate employment, reducing the pressure on individuals to accept any job they might be offered, regardless of its quality.

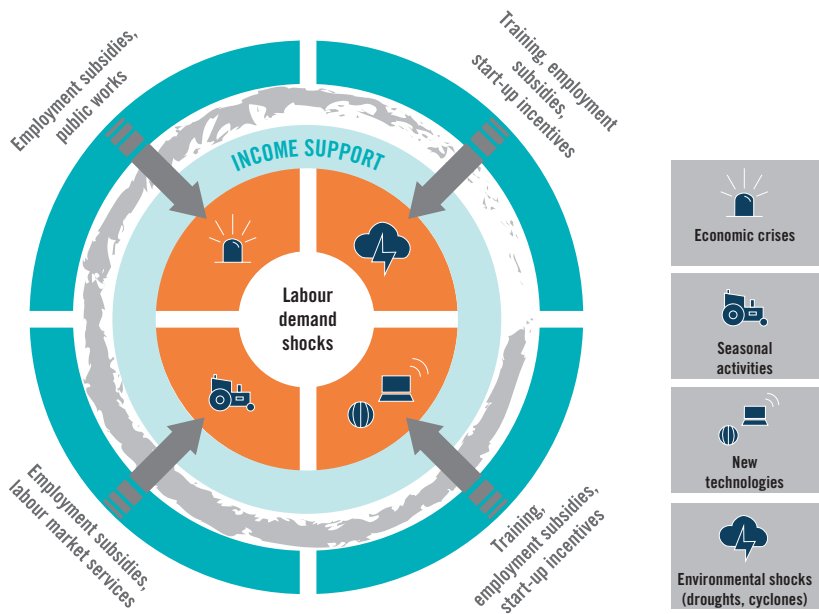
An integrated approach can promote labour market mobility and improve conditions of employment while addressing the inequalities in access to decent work often faced by the beneficiaries of income support. Combining ALMPs with income support makes it possible to (a) improve job quality for those who are in employment; (b) reduce labour market inequalities; and (c) enable people to find a sustainable route out of poverty and precarious living conditions.<sup>10</sup>

Second, the integration of policies can help in overcoming structural barriers that have a negative effect on national labour markets. Specifically, ALMPs may be used to reduce skills mismatches, counteract rigidities in the labour market, and raise the productivity of the labour force – not only through their direct effect on programme participants, but also through general productivity increases associated with externalities (Calmfors and

<sup>10</sup> This is in line with Sustainable Development Goals 1 (“End poverty in all its forms everywhere”) and 8 (“Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”) (United Nations, 2015).

Figure 2.1. Overcoming barriers to decent work through the integration of income support and active labour market policies





Source: Authors' illustration.

Skedinger, 1995; OECD, 1993). When combined with income support policies, ALMPs can help people to transition into jobs with a higher added value. An integrated approach can also help to enhance productivity growth in emerging and developing economies by enabling workers to adapt better to the changing demand for skills while protecting them from poverty and material deprivation. A strategy resting solely on activation policies is unlikely to be effective in low-income countries that lack comprehensive social protection systems. In these countries, sustainable poverty reduction and productivity improvements should be regarded as complementary policy goals.

Third, coherent policy interventions can be used to respond to labour demand shocks driven by global factors, such as economic downturns, seasonal activities and extreme weather events (e.g. droughts or cyclones).

Importantly, these shocks affect individuals in emerging and developing economies to a greater extent because of the absence of universal social protection. Vulnerable workers, including workers in the informal economy and the working poor, are often not covered by contributory social security systems (i.e. social insurance). Moreover, the social assistance programmes that are in place in these countries are often short-term, have limited geographical coverage, and lack a stable legal and financial framework (ILO, 2017a). An integrated approach comprises inclusive ALMPs that enable workers to adapt to the changing demand for skills in the labour market, accompanied by income support to ensure that vulnerable individuals can afford to participate in activation measures in the first place. Income support, moreover, means that they are less likely to have to accept lower-paying jobs and potentially precarious forms of employment (ILO, 2017b).

Apart from the positive economic and social effects of combining income support measures with ALMPs, it is important to note that the provision of social security throughout the life cycle, which includes a basic level of income protection and employment assistance, is unquestionably a human right (ILO, 2012). Inclusive measures that protect people while helping them access decent work are not only a “smart” way of sustainably reducing poverty and promoting development: they can also strengthen the social contract and constitute a core obligation of States under international human rights treaties and international labour standards.

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## C. THE IMPLEMENTATION OF INTEGRATED APPROACHES IN EMERGING AND DEVELOPING ECONOMIES: A COUNTRY MAPPING

In order to understand better the positive effects that an integrated approach combining ALMPs and income support policies can have for beneficiaries and their families, it is essential to study the various policy combinations that have been used. In this section we present the results of a country mapping – the first of its kind – of the integrated approaches applied at present in emerging and developing economies. We have identified a number of international patterns as well as national models that are of particular relevance.

*Both income support policies and ALMPs have been widely used by countries, though not necessarily as part of a combined approach.*

Although both income support and ALMPs have been extensively used in emerging and developing economies, it is only more recently that they have started to appear in combination. Moreover, the specific policies chosen by countries differ considerably.

The ILO estimates that only 48 per cent of all countries worldwide have unemployment schemes anchored in national legislation that enable unemployed individuals to receive regular and periodic income support (ILO, 2017a). The most common model continues to be mandatory social insurance (contributory unemployment support), which is provided in 40 per cent of all countries worldwide. Severance payments are provided instead of unemployment insurance in 25 per cent of countries, while 27 per cent do not have unemployment protection at all.<sup>11</sup> Even within countries that provide regular income support for the unemployed, many people fail to receive benefits. Thus, high levels of informality and strict eligibility criteria often leave a large proportion of the unemployed without protection. For instance, while 68 per cent of unemployed people in the Russian Federation receive unemployment benefits, this share is

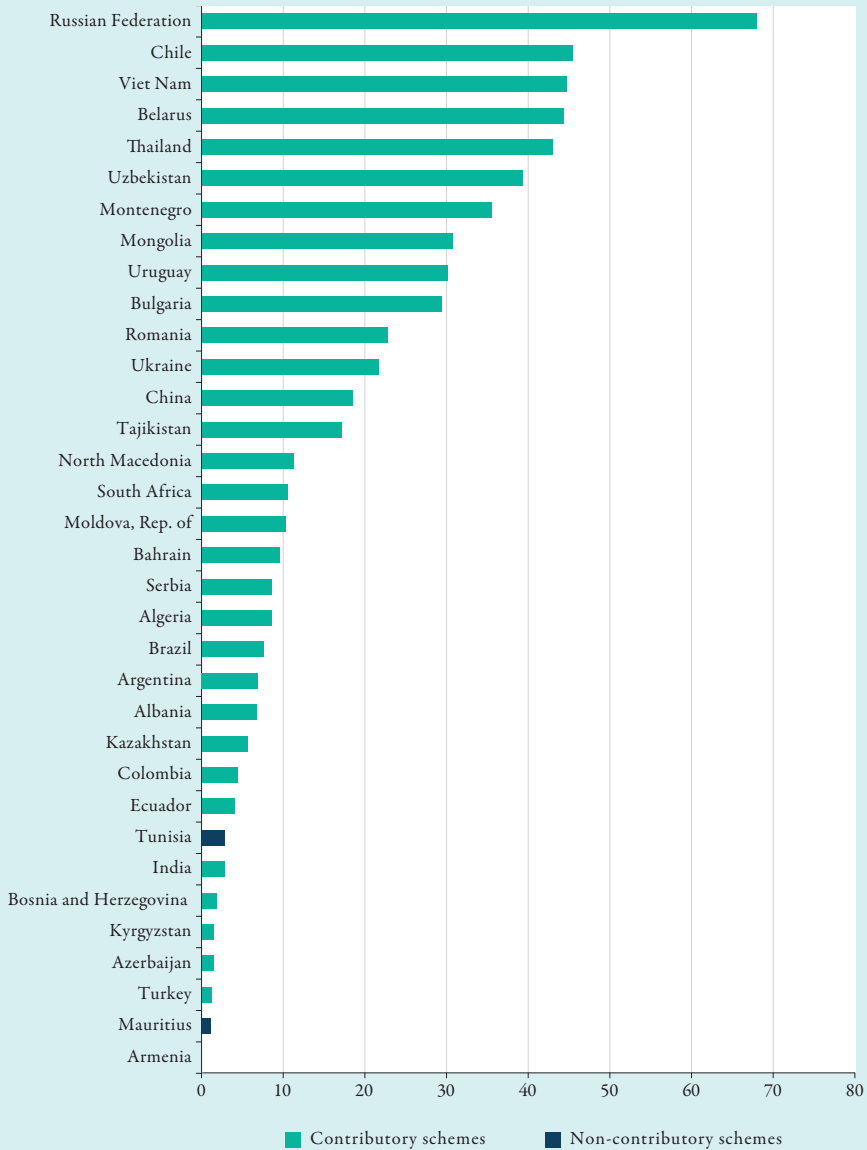
<sup>11</sup> The remaining 8 per cent include lump sum schemes and periodic cash transfers, such as those provided through social assistance.

considerably lower in other emerging economies (figure 2.2). On average, only 21.8 per cent of unemployed people across the world receive this type of support. Nevertheless, many emerging and developing economies have introduced additional measures to protect jobless individuals of working age, including various types of unemployment assistance and employment guarantee schemes. This has led to the development of different types of income support schemes and policy mixes across countries (ILO, 2017a).

Different policy patterns can also be observed at the regional level. For example, conditional cash transfers have been at the centre of income support schemes in Latin America and the Caribbean over the past three decades, whereas unconditional cash transfers have recently become predominant in sub-Saharan Africa (Bastagli et al., 2016). Similarly, the provision of income or in-kind benefit support through public works or employment guarantees has been characteristic of social assistance in some South Asian countries, notably India, Pakistan and Bangladesh (Berg, 2015). Although to a lesser extent than in advanced economies, some emerging and developing economies have also implemented contributory unemployment insurance schemes. Over the past two decades, for example, China (2011), Viet Nam (2009) and Thailand (2004) have introduced social insurance schemes to protect income in the event of job loss (Carter, Bédard and Peyron Bista, 2013). Mandatory individual savings components are more frequently encountered in Latin America and the Caribbean, as exemplified by the unemployment schemes introduced in 2002 and 2013, respectively, by Chile and Colombia (Peyron Bista and Carter, 2017).

Activation measures have also been used by many countries around the globe (Card, Kluge and Weber, 2018; Escudero et al., 2019; ILO, 2016c). The composition of ALMP spending, again, differs greatly across countries, depending largely on their development status. Spending on labour market services, for example, is particularly high in South-East Asia and the Pacific (0.13 per cent of regional GDP) and in East Asia (0.09 per cent). In fact, these two regions have levels of spending on labour market services comparable to those of advanced regions – around 0.15 per cent of regional

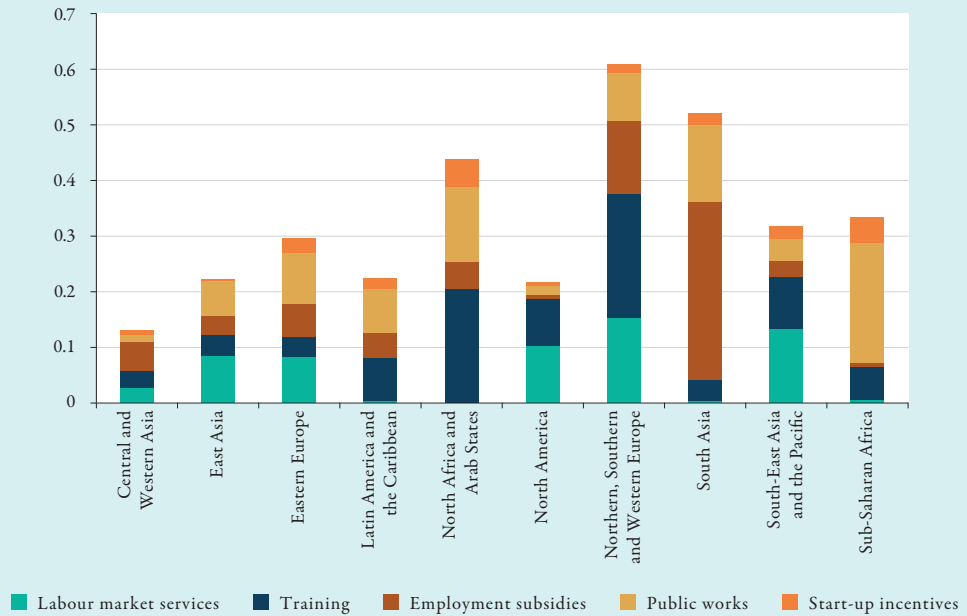
**Figure 2.2. Percentage of unemployed persons receiving cash benefits (contributory and non-contributory), selected emerging and developing countries, latest available year**



Note: The figure includes all emerging and developing countries for which data are available. For Mauritius, the figure reports 2011 values, which do not include Workfare Programme participants (see Chapter 4 for the Workfare Programme coverage).  
Source: Based on ILO (2017a).



**Figure 2.3. Spending on ALMPs as a percentage of GDP, by type of measure, across regions, various years**



Note: The analysis refers to different years depending on data availability in the specific countries. Please refer to table A.1 in Pignatti and Van Belle (2018) for details on the countries and years covered.

Source: ILO calculations based on Pignatti and Van Belle (2018).

GDP in Northern, Southern and Western Europe, and 0.1 per cent in North America. Conversely, spending on this type of ALMP intervention is substantially lower or irrelevant in the other regions. Spending on the provision of training is highest in Northern, Southern and Western Europe (0.22 per cent) and in North Africa and the Arab States (0.21 per cent), but it accounts for a significant proportion of total ALMP expenditure in all other regions, too. For example, vocational training and skills development programmes targeting young people were extensively deployed across Latin America and the Caribbean throughout the 1990s (Escudero et al., 2019). Training programmes have also been implemented frequently in South-East Asian countries over the last two decades (ILO, 2018c).

Public works schemes are implemented mostly in emerging and developing economies, with the highest spending levels reported in North Africa and

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the Arab States, South Asia, and Latin America and the Caribbean. By contrast, spending on employment subsidies is low in most regions, with the notable exceptions of South Asia (where it amounts to 0.32 per cent of GDP) and Northern, Southern and Western Europe (where it amounts to 0.13 per cent of GDP). Finally, the implementation of programmes offering start-up incentives is still limited, and such programmes account for the smallest share of ALMP spending in all regions. Nevertheless, some countries in Africa have focused on asset transfer and skills development programmes designed to promote self-employment and micro-enterprise creation (Auer, Efendioğlu and Leschke, 2008).

*Integrated approaches have taken many different forms, but little is known about them.*

In emerging and developing economies, the shift towards integration of income support and activation measures is occurring gradually. At first, social protection policies in these countries focused on alleviating poverty by covering basic consumption needs and managing economic risks through cash transfers and in-kind benefits. Their scope then expanded little by little to include development objectives related to education, health and increased productivity (Barrientos and Hulme, 2009; Cook and Pincus, 2014). Social protection policies eventually ceased to be regarded as contingency measures for tackling economic vulnerabilities during a determined period of time. Instead, their transformative role was recognized – that is, their ability to provide poor households with new ways of sharing in economic development. In many such countries, social protection has been extended to a wider share of working-age individuals who are both capable and willing to participate in the labour market. The links between social protection programmes and labour market opportunities are thus now more evident (Devereux, Roelen and Ulrichs, 2016).

The implementation of integrated approaches in emerging and developing countries has taken many different forms:

- In some countries, participation in activation programmes is compulsory as part of income support schemes (e.g. unemployment benefits or social

assistance schemes). The unemployment benefit scheme of Mauritius (known as the Workfare Programme<sup>12</sup>), which is analysed in detail in Chapter 4, is a good example: it comprises a range of activation measures for the unemployed while providing a reliable source of income during the unemployment spell.

- Other countries have introduced comprehensive measures in which the beneficiaries of conditional cash transfers may participate on a voluntary basis in activation measures. For example, Uruguay’s public works programme, “Trabajo por Uruguay”, was implemented between 2005 and 2007 as part of a broader cash transfer programme, the “Plan de Asistencia Nacional a la Emergencia Social” (PANES). The “Trabajo por Uruguay” programme, which is discussed in Chapter 5, was designed to increase the employability of PANES beneficiaries.
- Sometimes, new ALMPs are launched or existing ALMPs are modified to make it easier for the beneficiaries of existing income support schemes to participate in activation programmes. An example of this indirect approach is the programme “Seguro de Capacitación y Empleo” that was implemented in Argentina in 2006 and was directed at beneficiaries of the existing conditional cash transfer programme “Plan Jefes” (ILO, 2016c; López Mourelo and Escudero, 2017).
- Other initiatives have involved the use of single-window services (i.e. “one-stop” shops) to deliver social protection. For example, since 2012, all 21 provinces of Mongolia have “One-Stop Shops”, where individuals can submit social insurance claims and register for assistance programmes (Peyron Bista and Carter, 2017).

These differences make it difficult to identify patterns at the regional level or for countries with a similar development status. This might explain why, so far, there were no studies that mapped, in a comprehensive manner, the implementation of these combined approaches.

<sup>12</sup> As explained in more detail in Chapter 4, whilst “Workfare Programme” is the official title of the Mauritian unemployment benefit scheme, it does not display the typical features of workfare programmes implemented in other emerging and developing economies – programmes that, in exchange for income support, provide temporary employment to vulnerable households/individuals, with the overall aim of increasing employability and reducing poverty (Escudero, 2018; ILO, 2016c) – or in North America and several European countries, where individuals are required to work in exchange for social assistance benefits (Lødemel and Moreira, 2014).

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*A country mapping of integrated approaches has been undertaken for this report.*

To gauge the effectiveness of integrated approaches in removing barriers to decent work, it is first of all necessary to understand how such approaches have been put into practice. Accordingly, in this section we present the results of a mapping exercise on the implementation of integrated approaches in emerging and developing economies.<sup>13</sup>

This country mapping, which draws on a range of quantitative and qualitative internationally comparable data sources (box 2.2), is the first to systematically describe the integrated approach of labour market and social protection policies in emerging and developing economies. In this regard, it makes two key contributions. First, it provides empirical evidence of the extent to which integrated approaches are a pivotal element in labour market policy in the countries concerned. Second, it establishes a broader context for the case studies presented in the remaining chapters. Overall, our analysis suggests that the multiple combinations of policies do follow some regularities. These can be seen in figures 2.4 and 2.5 below (and in figures 2.6 and 2.7 of the Appendix), and we may summarize them as follows:

- With increasing level of development, countries tend to use integrated approaches more frequently and the constituent policies become more diverse.
- Integrated approaches based on unemployment insurance schemes are typically used in middle-income countries. Among these, lower-middle-income countries tend to provide unemployment insurance along with public employment services or public works. By contrast, more developed countries tend to also offer unemployment insurance in combination with training and start-up incentives.

<sup>13</sup> As elsewhere in the report, for the country mapping we have categorized countries following the classification of the World Bank (2019). We distinguish between developing economies (i.e. low-income countries) and emerging economies (i.e. middle-income countries). The latter group is further split into “lower-income emerging” (i.e. lower-middle income) and “upper-income emerging” (i.e. upper-middle income) economies. We have excluded advanced economies (i.e. high-income countries) from the analysis, with the exception of Argentina, Bahrain, Chile, Kuwait, Oman, Panama, Qatar, Saudi Arabia, the United Arab Emirates and Uruguay. The policies in these countries are relevant for this report because their institutional and labour market characteristics resemble those of upper-income emerging countries in the respective regions. For ease of exposition, these advanced economies are included in the upper-income emerging group. A complete list of countries grouped by income level is provided in table 2.2 in the Appendix.

## Box 2.2. Data sources used for the country mapping

We have drawn on three types of data source for our mapping of the implementation of integrated approaches by emerging and developing economies. First, two data sources were used to study income support policies and ALMPs separately. Second, another pair of data sources was used to study the joint implementation of income support and activation measures. Data sources that contain relevant quantitative information are rare. Moreover, since recording integrated approaches is not their main purpose, they are liable to overlook certain aspects. We have therefore also made use of qualitative information as a complementary third type of data source.

### 1. Data sources used to quantify the relative importance of the two components of an integrated approach

- ILO (2017a) provides country-level information on the percentage of unemployed persons receiving contributory and non-contributory unemployment benefits (figure 2.2).
- Data on ALMP spending as a share of GDP were obtained from Pignatti and Van Belle (2018), who have gathered information at the regional level and separately for different types of ALMP intervention (figure 2.3).

### 2. Data sources used to study the joint implementation of income support and activation measures

- The biannual publication series *Social Security Programs Throughout the World* (SSPTTW), prepared by the US Social Security Administration in collaboration with the International Social Security Association, provides country-level information on social security programmes anchored in national legislation that are designed to insure individuals against earnings losses that may occur during their life cycle. Looking at SSPTTW data from the years 2016–2018, we selected cases where ALMPs appear to be an integral component of an unemployment protection scheme, i.e. where beneficiaries are required to participate in an ALMP and where refusal to do so may result in the suspension of benefits. Such activation measures include training, start-up support, public works and registration with a public employment service (such as a labour office, where individuals access labour market information and receive job-search assistance). The SSPTTW publications include data on both contributory and non-contributory unemployment protection schemes.
- In order to obtain information on cases where ALMPs are combined with non-contributory income support (i.e. other than unemployment assistance schemes), we consulted the *Atlas of Social Protection Indicators of Resilience and Equity* compiled by the World Bank. This database is a useful complement to the SSPTTW publications, as it captures countries' major non-contributory

income support programmes (either conditional or unconditional cash transfers), along with ALMPs, which may be implemented either on a statutory or an ad hoc basis. The policies that we selected from this database cover the period 2013–2016. We considered still operative joint policies, i.e. ALMPs that have a cash transfer component, and, vice versa, cash transfer schemes that have an ALMP component. Public works feature prominently in the database because they are widely used across the world. Moreover, the data indicate that start-up support and training programmes were often implemented as part of cash transfer programmes. We recorded not just cases in which only one type of activation measure is implemented jointly with the provision of income support, but also integrated approaches featuring multiple ALMP components. The maps, accordingly, show the prevalence of different combinations of two activation measures implemented in conjunction with income support. In countries where the ALMP component includes three or more policies, this is indicated by the label “High variety:  $\geq 3$  ALMPs”. Finally, all “food-for-work” interventions were excluded from the country mapping because this report is concerned with policies that are explicitly designed to enhance participants’ employability.

### **3. Qualitative sources: case studies on the joint implementation of income support and activation measures**

- We complemented the above data sources with various case studies from Carter, Bédard and Peyron Bista (2013). These cover unemployment benefit schemes that envisage the voluntary participation of beneficiaries in activation programmes, and also policies targeting specific groups among the unemployed (e.g. women, youth). The case studies we selected (after excluding advanced economies) refer to Argentina, Bahrain, Chile, China, Mongolia, Thailand and Viet Nam (see table 2.4 in the Appendix).

- Although unemployment benefit schemes enshrined in national legislation do not exist in developing economies, integrated approaches do play a role in these countries, generally through social assistance schemes that incorporate activation measures (mainly public works). As the per-capita income level of a country increases, so does the variety of activation measures implemented.
- Integrated approaches based on cash transfer schemes are also to be found in emerging economies (lower-middle- and higher-middle-income

countries). Again, the variety of the policies increases with national development level.

- Regardless of a country's income level, the activation measures are generally more varied when deployed under cash transfer schemes than when they are integrated into unemployment insurance schemes.
- Distinctive patterns also emerge at the regional level. Thus, Europe and Central Asia is a region with a high level of policy integration; the same is true of Latin America and the Caribbean, where activation measures are typically integrated into social assistance schemes.

*The higher a country's level of development, the more prevalent is the use of unemployment insurance and the more diversified are the policies implemented under an integrated approach.*

Among developing economies, almost all countries (26 out of 27 countries for which data are available) lack an unemployment protection scheme enshrined in national legislation (figure 2.4).<sup>14</sup> The sole exception is Tajikistan, where unemployment benefits exist and in fact are jointly provided with activation measures, specifically with labour market services and training. All other developing countries either offer severance pay as the only mechanism of compensation for income loss during unemployment, or they have no scheme in place.

As per-capita income rises, countries gradually implement contributory mechanisms to address income loss during unemployment. Thus, out of the 42 lower-income emerging economies for which data are available, no fewer than 15 already have unemployment support schemes anchored in law. Those countries that have income support in place often integrate it with activation measures by requiring beneficiaries to register with job placement offices (Myanmar and Tunisia), by providing them with additional access to training (Egypt, Kyrgyzstan, Lao People's Democratic Republic, Republic of Moldova, Ukraine, Uzbekistan, Viet Nam), or by hiring them for public works (India).<sup>15</sup> In fact, most lower-income

<sup>14</sup> Figure 2.6 in the Appendix shows, for each country income group separately, the geographical distribution of integrated approaches in which activation measures are linked to unemployment protection schemes enshrined in national legislation.

<sup>15</sup> India stands out in that the unemployment benefit scheme comprises an employment guarantee for unskilled manual labour reimbursed at the minimum-wage level. This scheme is treated as an ALMP intervention in figures 2.4 and 2.5. For the sake of simplicity, it is included in the "public works" category.

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emerging economies that have unemployment benefit schemes combine these with activation measures. It is only in Cabo Verde, Honduras, Morocco, Nigeria and the Solomon Islands that beneficiaries are not required to participate in activation programmes.

Among upper-income emerging economies, roughly half of the countries for which data are available (28 out of 57) have an unemployment benefit system in place. In comparison to less developed country groups, there is also more heterogeneity in the policy instruments used to provide employment support to unemployed individuals (figure 2.4). Around three-quarters of upper-income emerging economies that have an unemployment benefit scheme apply an integrated approach (i.e. they require beneficiaries to participate in activation measures): 14 per cent by offering public employment services; 54 per cent by offering a combination of public employment services with training (43 per cent) or start-up support (11 per cent); and 7 per cent by providing public works schemes.

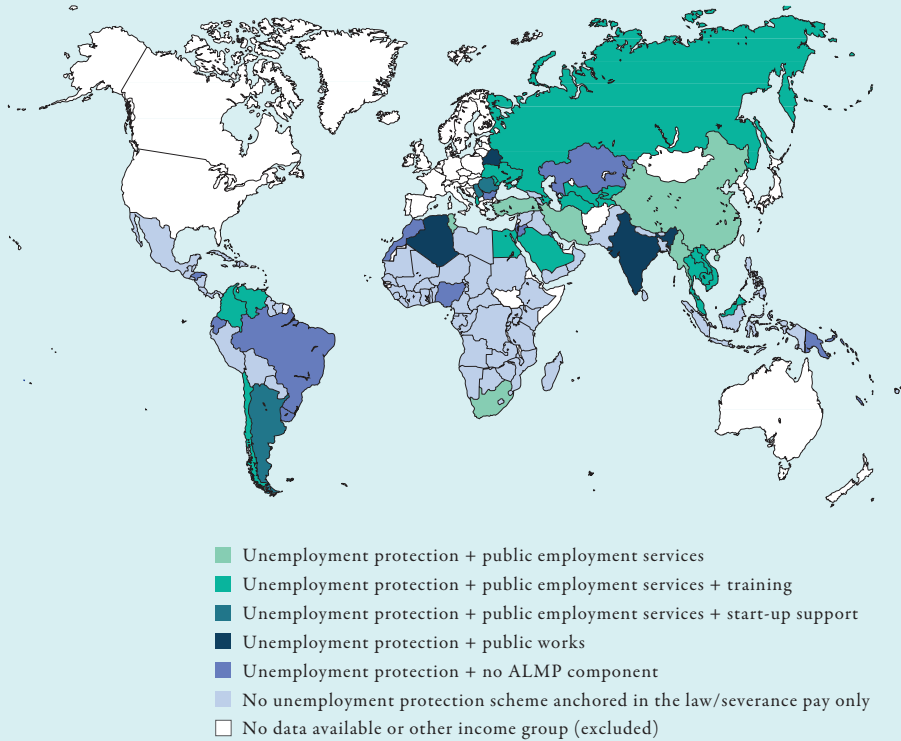
Figure 2.4 focuses on integrated approaches in which mandatory activation measures are provided for people receiving unemployment benefits. However, some emerging economies (both among lower- and upper-income emerging economies) offer beneficiaries the option to participate in activation measures voluntarily. This is generally done to help vulnerable workers.<sup>16</sup> For example, in Mongolia and Viet Nam (lower-income emerging economies), people on unemployment benefits are first offered the possibility to make use of job placement services and to receive counselling tailored to their individual needs. In a second step, jobseekers are offered the option of participating in training programmes. Interestingly, these training programmes are also open to the longer-term unemployed who have already exhausted their unemployment benefits.

Examples of unemployment benefit schemes that include voluntary activation measures can also be found among upper-income emerging economies. Thus, in Argentina, China and Chile, employment subsidies are used to incentivize businesses to hire jobseekers. These schemes target specific groups of vulnerable workers such as new labour market entrants

<sup>16</sup> See the case studies by Carter, Bédard and Peyron Bista (2013) summarized in table 2.4 of the Appendix.



**Figure 2.4. Mandatory ALMPs included in unemployment protection schemes, by country and type of measure**



Note: Analysis based on SSPTTW data (see box 2.2). “Unemployment protection” in the vast majority of countries refers to unemployment insurance and/or assistance schemes that are anchored in national legislation. In a few countries it refers to individual savings accounts and lump-sum schemes (see ILO (2017a) and the SSPTTW publications for further details). When recording the ALMP components of integrated approaches, the following simplifications were made for the sake of greater clarity: Lao People’s Democratic Republic is included in the map under “job placement and training” (though the data on its integrated approach only mention “training”); Belarus is included in the map under “public works” (though the data on its integrated approach also includes job placement); and Romania is included in the map under “public employment services + start-up support” (though the data on its integrated approach also includes “subsidized employment”).

or disabled individuals (Argentina), older workers (China) and vulnerable women and youth (Chile). By contrast, Bahrain has an unemployment benefit scheme that targets workers with more favourable labour market characteristics and offers them the possibility to participate in training.

*Integrated approaches are also used by less developed countries, typically in the form of social assistance programmes that include activation measures.*

Although unemployment benefit schemes that are anchored in national legislation do not exist in developing economies, many of these countries

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do apply integrated approaches, typically in the context of cash transfer programmes<sup>17</sup> (figure 2.5).<sup>18</sup> Significantly, only 6 out of the 34 developing economies in our sample do not have any ALMP intervention linked to a cash transfer programme. Among the other 28 countries, public works are the most prevalent type of activation measure implemented within the integrated approach. In 15 countries, public works are the only activation measure, while ten other countries provide public works together with start-up support, training, or subsidized employment as part of the integrated approach.<sup>19</sup>

The fact that in developing economies integrated approaches are based on cash transfer schemes, rather than on unemployment insurance schemes, has implications for both the reach and coverage of the policies involved. Cash transfers are commonly directed at groups with specific vulnerabilities and are thus generally means-tested (Behrendt, 2017). In addition, both the level and the duration of support differ from those found in contributory schemes. Cash transfer schemes generally provide only a minimum level of income support for a limited period of time (Behrendt and Nguyen, 2018).

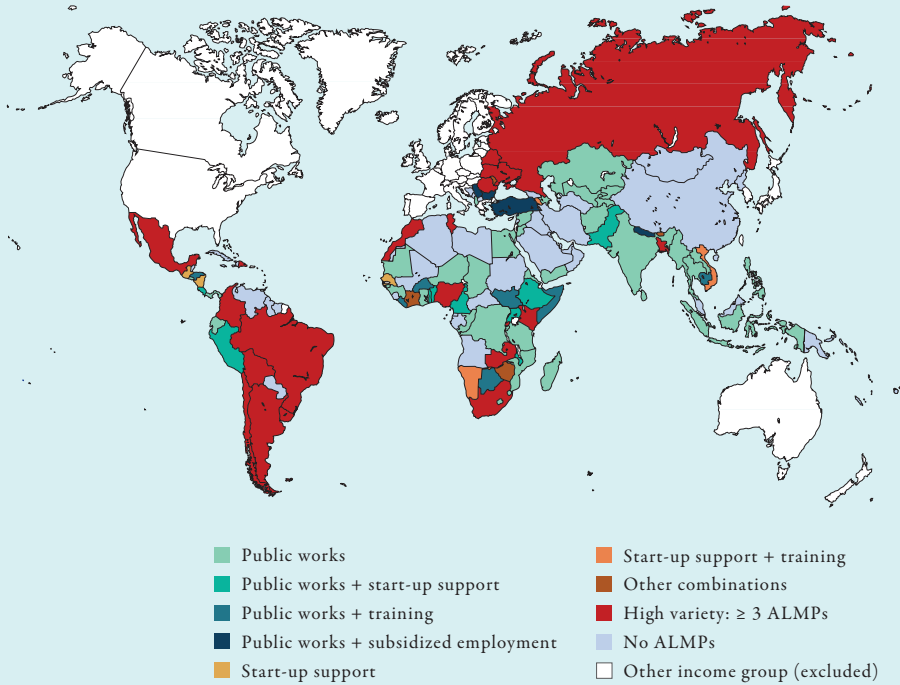
As in developing economies, public works also play a prominent role in integrated approaches in emerging economies. Yet, as the per-capita income level of a country increases, so does the variety of activation measures linked to cash transfer schemes. Indeed, various emerging economies implement at least three different types of ALMP intervention as part of their integrated approaches. This is the case with Bangladesh, the Plurinational State of Bolivia, Kenya, Morocco, Nigeria, Tunisia, Ukraine and Zambia, which account for 21 per cent of the lower-income emerging countries that use integrated approaches (figure 2.5). In this group, there are also countries that provide public works only under the integrated approach (47 per cent), or together with start-up support (11 per cent), or training (5 per cent), or subsidized employment (3 per cent). Finally,

<sup>17</sup> In line with the research questions addressed by this report, in the analysis we have looked only at non-contributory income support programmes (mainly cash transfers) that incorporate ALMPs. Various cash transfer schemes and ALMPs that are implemented separately may still be found in countries, even though they do not appear in this analysis.

<sup>18</sup> Figure 2.7 in the Appendix shows, for each country income group separately, the geographical distribution of integrated approaches in which activation measures are linked to social assistance schemes.

<sup>19</sup> Among the remaining three countries, one combined start-up support with cash transfers, one had a high variety of integrated ALMPs, and one fell under the “Other combinations” category.

Figure 2.5. ALMPs included in social assistance schemes, by country and type of measure



Note: Analysis based on the Atlas of Social Protection Indicators of Resilience and Equity (see box 2.2). The map captures only whether a specific policy type exists in a given country. This may refer to a single programme or to multiple programmes of the same type. In line with the research questions addressed by this report, we have recorded only ALMPs that are integrated into social assistance programmes. “No ALMPs” therefore means that there are no activation measures linked to cash transfers; there could still be ALMPs that are implemented separately.

another 6 per cent of lower-income emerging economies combine cash transfers with start-up support, either alone or together with training.

Eleven upper-income emerging economies have at least three different types of ALMP intervention embedded into cash transfer schemes; these are Argentina, Belarus, Brazil, Chile, Colombia, the Dominican Republic, Mexico, Romania, the Russian Federation, South Africa and Uruguay (figure 2.5). Public works are also an important part of the integrated approaches in this group, and are either implemented alone (in eight countries) or together with other activation measures (in eight countries). Still, most upper-income emerging economies (37 out of 67 countries, or 55 per cent) do not have any ALMP component linked to cash transfers.

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Integrated approaches based on cash transfer schemes are used more frequently in less affluent countries.

*The integration of ALMPs into unemployment benefit schemes occurs most frequently in Europe and Central Asia.*

Grouping countries according to income level allows one to obtain the most comprehensive global picture of the various ways in which integrated approaches are implemented, but some interesting patterns also emerge if countries are grouped according to geographical proximity. In figure 2.8 in the Appendix we have, therefore, included maps that illustrate the prevalence of integrated approaches in different regions.<sup>20</sup> Panel A of figure 2.8 in the Appendix shows, for each region, the prevalence of integrated approaches based on a combination of ALMPs and unemployment benefit schemes enshrined in national legislation.

Africa is the region with the highest proportion of countries that have no such unemployment benefit schemes (figure 2.8, panel A). Thus, only eight of the 48 countries in the region for which data are available provide unemployment insurance, and only five of these (the emerging economies Algeria, Egypt, Mauritius, South Africa and Tunisia) have integrated ALMPs into the relevant schemes. In Algeria, unemployment benefits are combined with public works; in Egypt, with training; in South Africa and Tunisia, with labour market services; and in Mauritius, with several types of activation measures (see Chapter 4).

Latin America and the Caribbean and the Arab States exhibit a similar pattern, with around two-thirds of the countries in each region lacking an unemployment protection scheme anchored in national legislation. In Latin America and the Caribbean, only four out of 28 countries for which data are available apply an integrated approach that provides unemployment insurance: in Chile, Colombia and the Bolivarian Republic of Venezuela, unemployment insurance is provided together with labour market services and training, while in Argentina the combination is with labour market services and start-up support. Meanwhile, among the Arab

<sup>20</sup> We follow the ILO classification of regions described in table 2.3 in the Appendix, and consider the five broadly defined regions: Africa, Arab States, Asia and the Pacific, Europe and Central Asia, and within the Americas, Latin America and the Caribbean, as per the focus on emerging and developing economies.

States, only Bahrain and Saudi Arabia use an integrated approach, in both cases providing labour market services and training to the beneficiaries of unemployment insurance.

In the Asia and the Pacific region around 40 per cent of countries provide for unemployment benefits in their national legislation. Where such schemes exist, they are almost always integrated with ALMPs. Job placement is the most common activation measure integrated with unemployment insurance, and it is either provided alone – as in China, the Islamic Republic of Iran and Myanmar – or along with training – as in the Lao People’s Democratic Republic, Malaysia, Thailand and Viet Nam. The region also stands out because of the use of employment guarantee schemes (notably in India) to address income insecurity among the unemployed.

Finally, Europe and Central Asia is the region in which integrated approaches that include unemployment benefit schemes enshrined in national legislation are used most frequently. Unemployment insurance schemes are in place in 88 per cent of countries, and nearly all of these incorporate activation measures. Job placement and/or training are provided in 80 per cent of the countries that offer unemployment protection. Other combinations of policies can also be observed, though to a lesser extent.

*The integration of ALMPs into cash transfer schemes occurs most frequently in Latin America and the Caribbean.*

Panel B of figure 2.8 in the Appendix shows, for each region, the prevalence of integrated approaches based on a combination of ALMPs and cash transfer schemes.

Most countries in Africa have activation measures embedded in their cash transfer programmes. Of the countries that use an integrated approach, 74 per cent have implemented public works, either alone (18 countries) or together with other types of ALMP intervention (14 countries). Furthermore, seven countries include at least three activation measures as part of their integrated approaches: the majority are emerging economies

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(Kenya, Morocco, Nigeria, South Africa, Tunisia and Zambia), but there is, notably, also one developing country (Rwanda).

In the Arab States, most countries (eight out of 12) do not combine cash transfers with activation measures. The exceptions are Jordan, Yemen and the Syrian Arab Republic, which have implemented public works, and the Occupied Palestinian Territory, which combines cash transfers with both public works and startup support. In the Asia and the Pacific region, six countries do not use an integrated approach: China, the Democratic People's Republic of Korea, the Islamic Republic of Iran, Malaysia, Mongolia and Papua New Guinea. On the other hand, public works and employment guarantee schemes (either singly or together with other ALMPs) are integrated with cash transfers in 12 countries, reflecting the central role of such schemes in this region, especially in India (see e.g., ILO 2017a, p. 45).

In Europe and Central Asia, four countries have incorporated at least three different types of ALMP intervention into their cash transfer programmes: Belarus, Ukraine, Romania and the Russian Federation. Public works, either alone or in addition to subsidized employment, also play a decisive role in this region, with nine countries out of 20 implementing this type of activation measure as part of their integrated approaches (note that in our analysis we excluded 35 high-income countries in the region).

Finally, Latin America and the Caribbean stands out as the region in which integrated approaches based on cash transfer schemes are most widespread. Ten countries in the region (especially in Central America, but also Ecuador and Peru) combine cash transfers both with public works and/or start-up support. Significantly, eight other countries have integrated at least three types of ALMP intervention into their cash transfer programmes. This reflects the strong tradition in the region of implementing cash transfers alongside activation measures. In particular, since 1990 the number of ALMPs has continuously increased and such policies now account for a larger share of public spending than public unemployment insurance. As a result, ALMPs in Latin America and the Caribbean are more prominent than in most other non-OECD countries (ILO, 2016c).

## CONCLUSIONS

Over the last decade, the use of integrated approaches that combine income support with ALMPs has been recommended by various academic and policy experts, and also by a number of international organizations. Governments in some emerging and developing economies have introduced this policy shift, thereby addressing a wide range of labour market and social challenges. Whereas in the past such approaches were confined to advanced economies, they are gradually becoming a cornerstone of labour market policy in emerging and developing economies as well.

As integrated approaches start to be used more widely, it is important to gain a better understanding of their conceptual foundations and the way in which they can help overcome barriers to decent work, and to study the different policy combinations that have been tried so far in emerging and developing economies.

In this chapter we have looked in detail at the various desirable effects that income support measures and ALMPs can have when it comes to addressing decent work deficits. We argue that the integrated approach, seen as a combination of complementary measures rather than as a way of replacing income support measures with ALMPs, has the potential to address the labour market consequences brought about by contemporary barriers to decent employment. Crucially, the drawbacks and limitations of each type of policy can in fact be reduced, or even eliminated, when they are implemented together under a single framework.

Charting the prevalence of integrated approaches (and of specific policy combinations under these) in emerging and developing economies across the world has allowed us to draw a number of conclusions. One key finding of the innovative country mapping presented in the chapter is that the integration of policies increases with a country's level of development, as does the variety of policies used. Moreover, the higher a country's level of development, the more prevalent is the use of unemployment insurance within an integrated approach. Still, integrated approaches are also to be

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found in less developed economies. In these countries where unemployment insurance schemes do not exist, the integrated schemes typically take the form of social assistance programmes that incorporate activation measures.



## APPENDIX

Table 2.2. Classification of countries and territories by income group

Advanced economies (high-income countries/ territories)	Upper-income emerging economies (upper-middle- income countries)	Lower-income emerging economies (lower-middle- income countries/ territories)	Developing economies (low-income countries)
Andorra	Albania	Angola	Afghanistan
Antigua and Barbuda	Algeria	Bangladesh	Benin
Argentina*	Armenia	Bhutan	Burkina Faso
Australia	Azerbaijan	Bolivia, Plurinational State of	Burundi
Austria	Belarus	Cambodia	Central African Republic
Bahamas	Belize	Cameroon	Chad
Bahrain*	Bosnia and Herzegovina	Cabo Verde	Comoros
Barbados	Botswana	Congo	Congo, Democratic Republic of the
Belgium	Brazil	Côte d'Ivoire	Eritrea
Brunei Darussalam	Bulgaria	Djibouti	Ethiopia
Canada	China	Egypt	Gambia
Channel Islands	Colombia	El Salvador	Guinea
Chile*	Costa Rica	Eswatini	Guinea-Bissau
Croatia	Cuba	Georgia	Haiti
Cyprus	Dominican Republic	Ghana	Korea, Democratic People's Republic of
Czech Republic	Ecuador	Honduras	Liberia
Denmark	Equatorial Guinea	India	Madagascar
Estonia	Fiji	Indonesia	Malawi
Finland	Gabon	Kenya	Mali
France	Grenada	Kiribati	Mozambique
French Polynesia	Guatemala	Kyrgyzstan	Nepal
Germany	Guyana	Lao People's Democratic Republic	Niger
Greece	Iran, Islamic Republic of	Lesotho	Rwanda
Guam	Iraq	Mauritania	Senegal
Hong Kong, China	Jamaica	Micronesia, Federated States of	Sierra Leone
Hungary	Jordan	Moldova, Republic of	Somalia
Iceland	Kazakhstan	Mongolia	South Sudan
Ireland	Lebanon	Morocco	Syrian Arab Republic
Israel	Libya, State of	Myanmar	Tajikistan
Italy	Malaysia	Nicaragua	Tanzania, United Republic of
Japan	Maldives	Nigeria	Togo
Korea, Republic of	Marshall Islands	Occupied Palestinian Territory	Uganda
Kuwait*	Mauritius	Pakistan	Yemen
Latvia	Mexico	Papua New Guinea	Zimbabwe
Liechtenstein	Montenegro	Philippines	
Lithuania	Namibia	Sao Tome and Principe	
Luxembourg	Nauru	Solomon Islands	
Macau, China	North Macedonia		
Malta	Paraguay		
Monaco	Peru		
Netherlands	Romania		

Advanced economies (high-income countries/territories) (cont.)	Upper-income emerging economies (upper-middle-income countries) (cont.)	Lower-income emerging economies (lower-middle-income countries/territories) (cont.)	Developing economies (low-income countries) (cont.)
New Caledonia	Russian Federation	Sri Lanka	
New Zealand	Saint Lucia	Sudan	
Norway	Saint Vincent and the Grenadines	Timor-Leste	
Oman*	Samoa	Tunisia	
Palau	Serbia	Ukraine	
Panama*	South Africa	Uzbekistan	
Poland	Suriname	Vanuatu	
Portugal	Thailand	Viet Nam	
Puerto Rico	Tonga	Western Sahara	
Qatar*	Turkey	Zambia	
Saint Kitts and Nevis	Turkmenistan		
Saudi Arabia*	Tuvalu		
Seychelles	Venezuela, Bolivarian Republic of		
Singapore			
Slovakia			
Slovenia			
Spain			
Sweden			
Switzerland			
Taiwan, China			
Trinidad and Tobago			
United Arab Emirates*			
United Kingdom			
United States			
United States Virgin Islands			
Uruguay*			

Note: In our analysis we excluded most advanced economies; the exceptions are those marked with an asterisk in the above table. The policies in these countries are relevant for this report because their institutional and labour market characteristics resemble those of upper-income emerging countries in the same region. For ease of exposition, in the analysis these advanced economies are included in the upper-income emerging group.

Source: Income groups follow the World Bank's FY19 classification (see also ILO (2019c), Appendix A).

Table 2.3. ILO classification of regions and subregions

Africa	Americas	Asia and the Pacific	Europe and Central Asia
<i>North Africa</i>	<i>Latin America and the Caribbean</i>	<i>East Asia</i>	<i>Northern, Southern and Western Europe</i>
Algeria	Antigua and Barbuda	China	Albania
Egypt	Argentina	Hong Kong, China	Andorra
Libya, State of	Bahamas	Japan	Austria
Morocco	Barbados	Korea, Democratic People's Republic of	Belgium
Sudan	Belize	Korea, Republic of	Bosnia and Herzegovina
Tunisia	Bolivia, Plurinational State of	Macau, China	Channel Islands
Western Sahara	Brazil	Mongolia	Croatia
<i>Sub-Saharan Africa</i>	Chile	Taiwan, China	Denmark
Angola	Colombia	<i>South-East Asia and the Pacific</i>	Estonia
Benin	Costa Rica	Australia	Finland
Botswana	Cuba	Brunei Darussalam	France
Burkina Faso	Dominican Republic	Cambodia	Germany
Burundi	Ecuador	Fiji	Greece
Cameroon	El Salvador	French Polynesia	Iceland
Cabo Verde	Grenada	Guam	Ireland
Central African Republic	Guatemala	Indonesia	Italy
Chad	Guyana	Kiribati	Latvia
Comoros	Haiti	Lao People's Democratic Republic	Liechtenstein
Congo	Honduras	Malaysia	Lithuania
Congo, Democratic Republic of the	Jamaica	Marshall Islands	Luxembourg
Côte d'Ivoire	Mexico	Micronesia, Federated States of	Malta
Djibouti	Nicaragua	Myanmar	Monaco
Equatorial Guinea	Panama	Nauru	Montenegro
Eritrea	Paraguay	New Caledonia	Netherlands
Ethiopia	Puerto Rico	New Zealand	North Macedonia
Eswatini	Saint Kitts and Nevis	Palau	Norway
Gabon	Saint Lucia	Papua New Guinea	Portugal
Gambia	Saint Vincent and the Grenadines	Philippines	Serbia
Ghana	Suriname	Samoa	Slovenia
Guinea	Trinidad and Tobago	Singapore	Spain
Guinea-Bissau	United States Virgin Islands	Solomon Islands	Sweden
Kenya	Uruguay	Thailand	Switzerland
Lesotho	Venezuela, Bolivarian Republic of	Timor-Leste	United Kingdom
Liberia	<i>North America</i>	Tonga	<i>Eastern Europe</i>
Madagascar	Canada	Tuvalu	Belarus
Malawi	United States	Vanuatu	Bulgaria
Mali		Viet Nam	Czech Republic
Mauritania		<i>South Asia</i>	Hungary
Mauritius		Afghanistan	Moldova, Republic of
Mozambique		Bangladesh	Poland
Namibia		Bhutan	Romania
Niger		India	Russian Federation
Nigeria			Slovakia
Rwanda			Turkmenistan
Sao Tome and Principe			Ukraine
Senegal			Uzbekistan

Africa (cont.)	Arab States	Asia and the Pacific (cont.)	Europe and Central Asia (cont.)
<i>(Sub-Saharan Africa, cont.)</i> Seychelles Sierra Leone Somalia South Africa South Sudan Tanzania, United Republic of Togo Uganda Zambia Zimbabwe	Bahrain Iraq Jordan Kuwait Lebanon Occupied Palestinian Territory Qatar Saudi Arabia Syrian Arab Republic United Arab Emirates Yemen	<i>(South Asia, cont.)</i> Iran, Islamic Republic of Maldives Nepal Pakistan Sri Lanka	<i>Central and Western Asia</i> Armenia Azerbaijan Cyprus Georgia Israel Kazakhstan Kyrgyzstan Tajikistan Turkey

Source: ILO (2019c).

**Table 2.4. Active labour market policies linked to unemployment benefits:  
A qualitative assessment of selected countries**

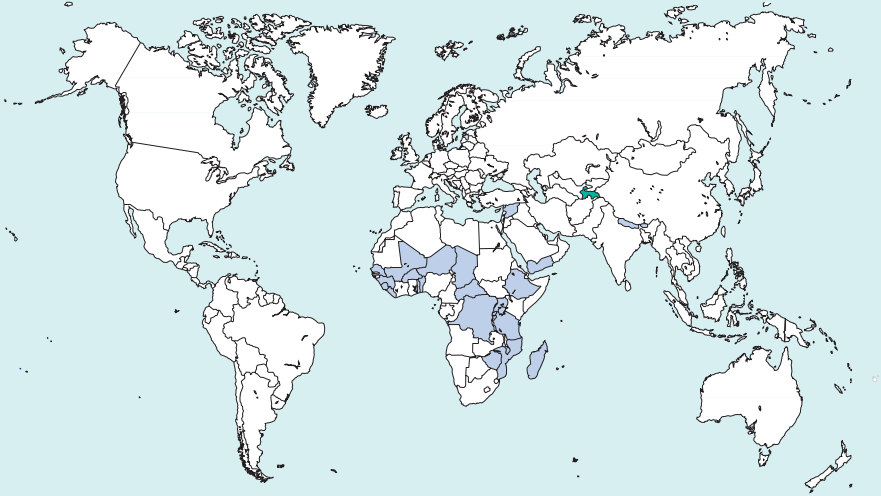
Country	ALMP type	ALMP details
Argentina	Labour market services	<ul style="list-style-type: none"> <li>All unemployment insurance claimants are required to report occasionally to the employment offices, where they receive referrals for interviews and training opportunities.</li> </ul>
Argentina	Training for young people	<ul style="list-style-type: none"> <li>A monthly allowance is paid to young people aged 18 to 24 to help them complete their education and training, and to improve their employability.</li> </ul>
Argentina	Employment subsidies	<ul style="list-style-type: none"> <li>Tax credits are offered to entrepreneurs hiring new entrants to the labour market or jobseekers (including disabled persons).</li> </ul>
Argentina	Start-up support	<ul style="list-style-type: none"> <li>Entrepreneurs who submit an approved plan for launching their own business are offered a lump sum payment (set at double the amount of the unemployment benefits to which they would be entitled).</li> </ul>
Bahrain	Labour market services	<ul style="list-style-type: none"> <li>Claimants are required to report to the Unemployment Insurance Office at least once every two weeks, or whenever they are summoned by the Office.</li> <li>The Employment Service Bureau provides help with the writing of CVs and job search assistance. It also manages the Government's e-portal where jobseekers are registered electronically.</li> </ul>
Bahrain	Training	<ul style="list-style-type: none"> <li>The government agency Tamkeen (which literally means "Enabling" in Arabic) provides training to highly committed jobseekers. The Bahrain Training Institute contributes to skills development of the national workforce.</li> </ul>
Bahrain	Employment subsidies	<ul style="list-style-type: none"> <li>Enterprises suffering financial problems receive funds to improve their long-term outlook and hence maintain jobs.</li> </ul>
Chile	Labour market services	<ul style="list-style-type: none"> <li>Unemployed claimants who receive benefits from the Solidarity Fund are required to search actively for jobs and to report to the municipal employment office every month.</li> <li>Solidarity Fund claimants are required to join the National Job Bank, where they receive coaching for interviews. They are expected to accept offers of suitable employment or training referrals.</li> <li>There is no job search obligation for unemployed claimants who solely receive benefits from their individual savings account.</li> </ul>
Chile	Training	<ul style="list-style-type: none"> <li>A dedicated programme is in place to facilitate the exchange of information on training opportunities between enterprises and unemployment insurance claimants; it also provides unemployment insurance recipients with training grants.</li> </ul>
Chile	Employment subsidies	<ul style="list-style-type: none"> <li>Subsidies are used to encourage employers to hire jobseekers, especially from among the most vulnerable groups of the population.</li> </ul>
China	Labour market services	<ul style="list-style-type: none"> <li>Public employment services provide information and guidance on jobs, career counselling and job-matching support. They also provide referrals to training and retraining facilities.</li> </ul>

Country	ALMP type	ALMP details
China	Training	<ul style="list-style-type: none"> <li>The unemployment insurance fund subsidizes vocational training for the unemployed.</li> <li>Small businesses employing jobseekers receive subsidies towards the fees of re-employment training.</li> </ul>
China	Employment subsidies for hiring older workers	<ul style="list-style-type: none"> <li>Small businesses employing jobseekers receive subsidies towards social security contributions and micro-loans at favourable interest rates if they re-employ jobseekers. Men over 50 and women over 40 are the primary target groups.</li> </ul>
Mongolia	Labour market services	<ul style="list-style-type: none"> <li>Employment Promotion Units provide labour market services including job fairs and career counselling. The beneficiaries of unemployment insurance are assessed to determine whether they qualify for more substantial support (i.e. vocational training).</li> </ul>
Mongolia	Training	<ul style="list-style-type: none"> <li>Employment Promotion Units provide training services, including lifelong vocational training, skills development, and training on how to start up a business.</li> <li>Unemployment insurance recipients are entitled to participate in vocational training or retraining within six months after termination of employment or two years after they have completed the first vocational training programme. The unemployment insurance fund pays a vocational training allowance during that period (even if benefits are exhausted sooner).</li> </ul>
Thailand	Labour market services	<ul style="list-style-type: none"> <li>The Employment Service Office carries out the registration of insured unemployed workers; monitors job search status; interviews unemployed persons and provides counselling and job placement according to their qualifications; and liaises with the Department of Skill Development (DSD) when insured persons need training.</li> </ul>
Thailand	Training	<ul style="list-style-type: none"> <li>The DSD trains the insured unemployed as needed and monitors their training progress.</li> <li>Both out-of-work and in-work training is promoted. The former includes formal upper secondary education, second-chance education, apprenticeships, technical and vocational education, and tertiary education. The latter enables workers to upgrade existing skills and acquire new ones.</li> </ul>
Thailand	Start-up support	<ul style="list-style-type: none"> <li>The Employment Service Office also supports the creation of self-employment.</li> </ul>
Viet Nam	Labour market services	<ul style="list-style-type: none"> <li>Employment Service Centres provide tailored job counselling, assess workers' qualifications and work experience, provide free job matching services for all recipients of unemployment insurance, and organize monthly job fairs.</li> </ul>
Viet Nam	Training	<ul style="list-style-type: none"> <li>Recipients of unemployment insurance who cannot find a job are eligible to register for vocational training. They receive an allowance that lasts for up to six months, even if benefits are exhausted before completion of the training.</li> </ul>

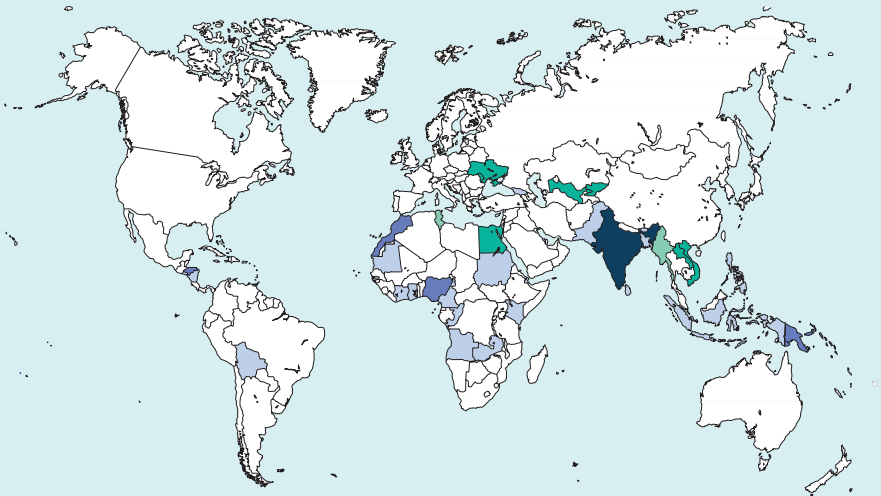
Source: Compilation based on Carter, Bédard and Peyron Bista (2013).

**Figure 2.6. Mandatory ALMPs included in unemployment protection schemes, by country, type of measure and country income level**

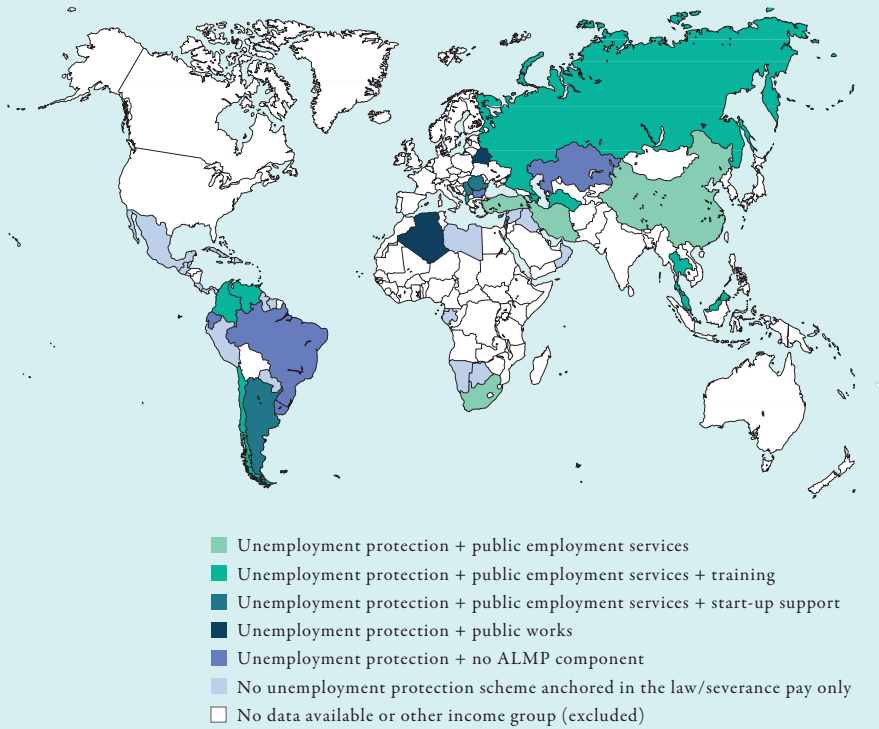
**Panel A: Developing economies (low-income countries)**



**Panel B: Lower-income emerging economies (lower-middle-income countries)**



**Panel C: Upper-income emerging economies (upper-middle-income countries)**

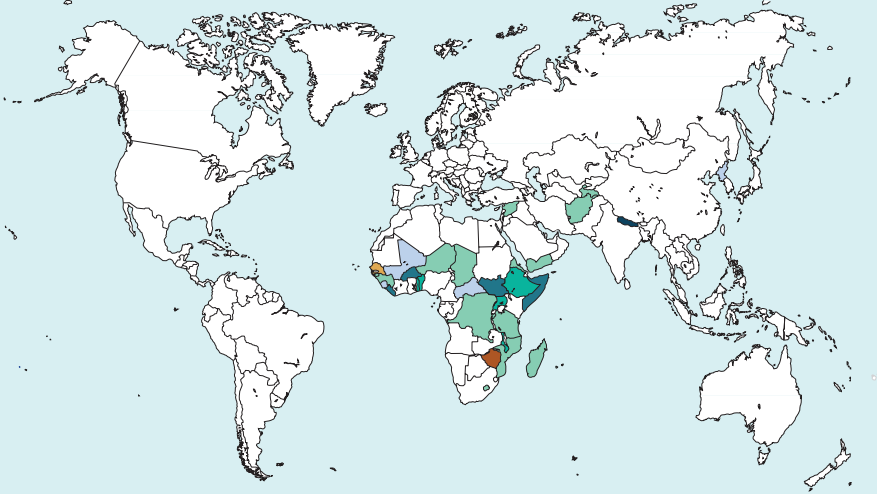


Note: Analysis based on SSPTTW data (see box 2.2). “Unemployment protection” in the vast majority of countries refers to unemployment insurance and/or assistance schemes that are anchored in national legislation. In a few countries it refers to individual savings accounts and lump sum schemes (see ILO (2017a) and the SSPTTW publications for further details). When recording the ALMP components of integrated approaches, the following simplifications were made for the sake of greater clarity: Lao People’s Democratic Republic is included in the map under “job placement and training” (though the data on its integrated approach only mention “training”); Belarus is included in the map under “public works” (though the data on its integrated approach also includes job placement); and Romania is included in the map under “public employment services + start-up support” (though the data on its integrated approach also includes “subsidized employment”).

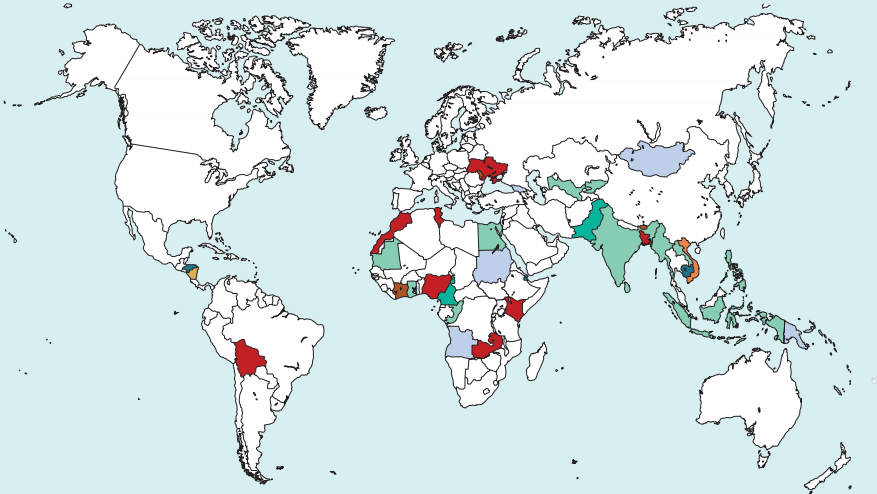


**Figure 2.7. ALMPs included in social assistance schemes, by country, type of measure and country income level**

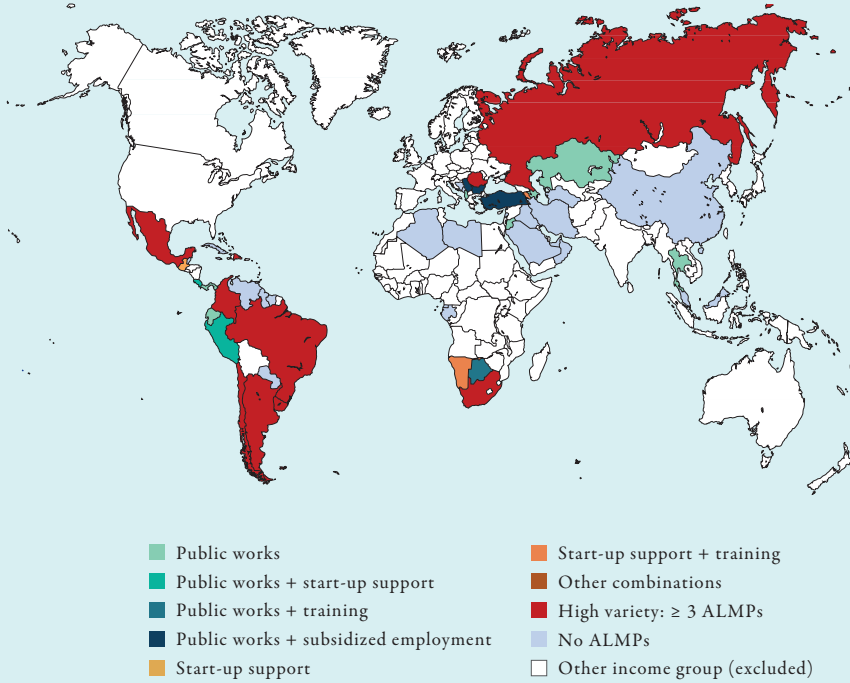
**Panel A: Developing economies (low-income countries)**



**Panel B: Lower-income emerging economies (lower-middle-income countries)**

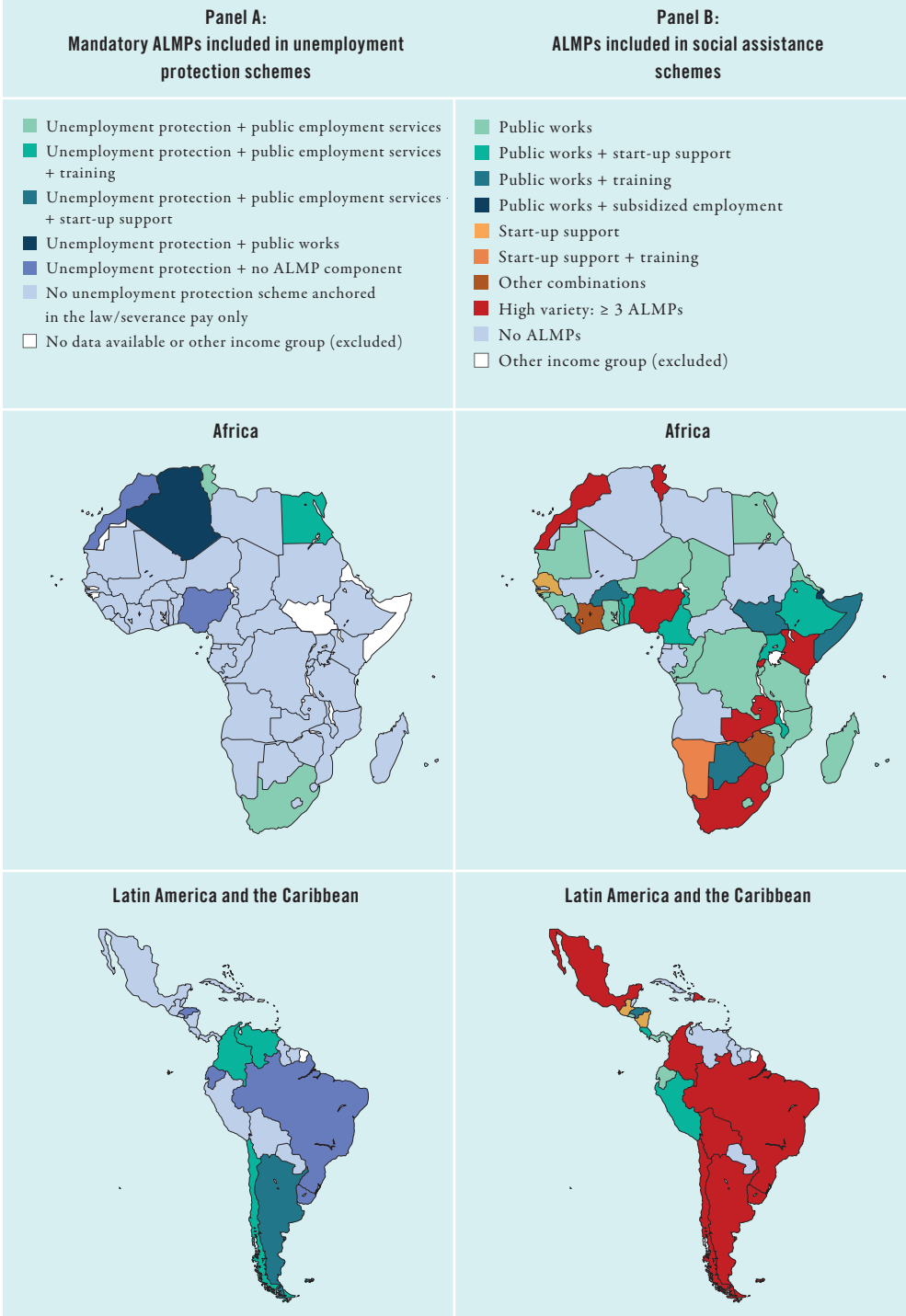


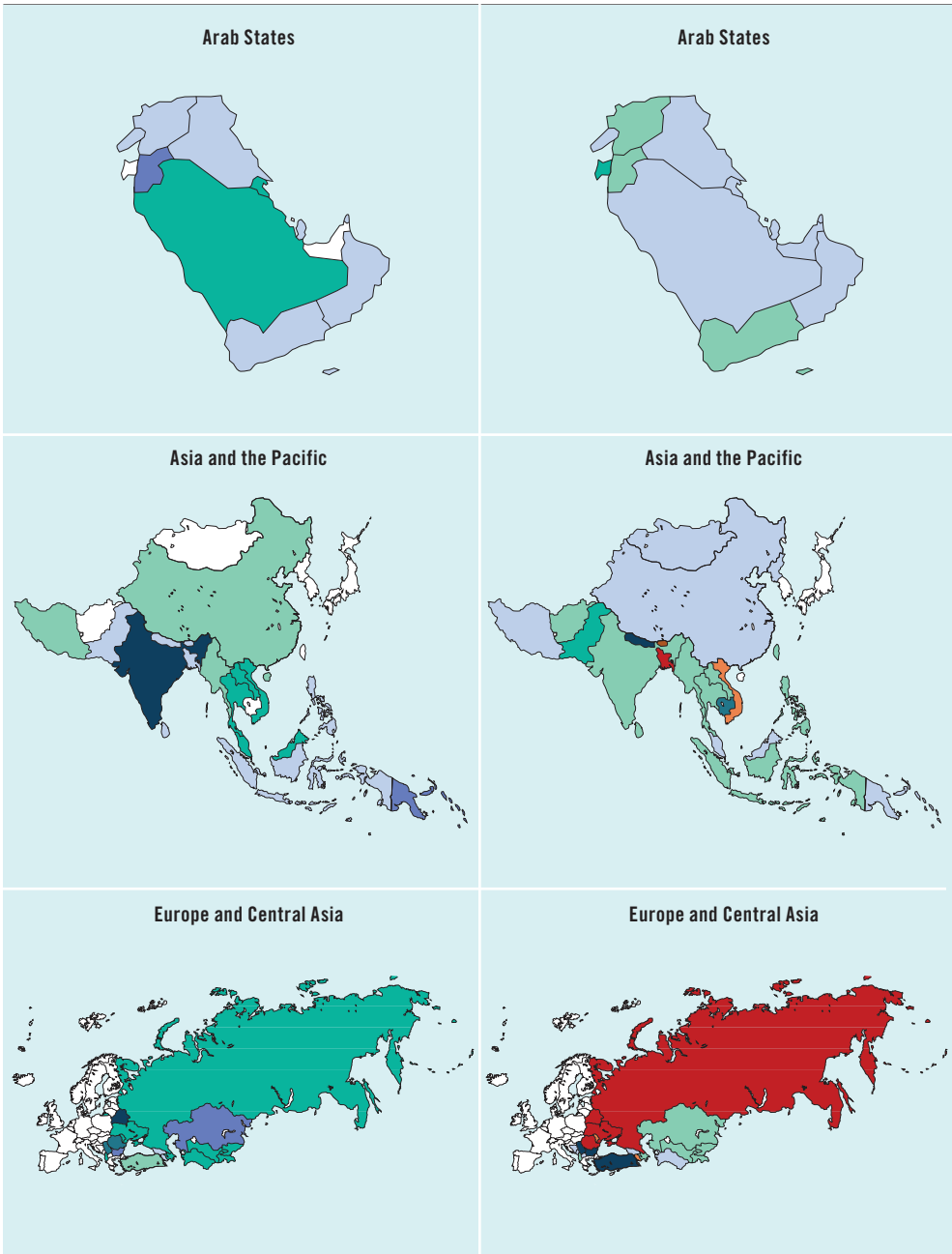
**Panel C: Upper-income emerging economies (upper-middle-income countries)**



Note: Analysis based on the Atlas of Social Protection Indicators of Resilience and Equity (see box 2.2). The maps capture only whether a specific policy type exists in a given country. This may refer to a single programme or multiple programmes of the same type. In line with the research questions addressed by this report, we have recorded only ALMPs that are integrated into social assistance cash transfer programmes. "No ALMPs" therefore means that there are no activation measures linked to cash transfers; there could still be ALMPs that are implemented separately.

**Figure 2.8. Distribution of integrated approaches in five broadly defined regions, by country and policy type**





Note: We have adopted the ILO regional groupings, with one exception: because of the focus on emerging and developing economies, the maps show results for Latin America and the Caribbean rather than for the “Americas” (i.e. North America has been excluded). Panel A (“Mandatory ALMPs included in unemployment protection schemes”) is based on SSPTTW publications (see box 2.2). For Lao People’s Democratic Republic, Belarus, and Romania, slight simplifications were made in the maps for the sake of readability (see figure 2.4 for details). Panel B (“ALMPs included in social assistance schemes”) is based on the Atlas of Social Protection Indicators of Resilience and Equity (see box 2.2). Figure 2.5 provides details on the policies included.

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## CHAPTER 3

# WHAT DO WE KNOW ABOUT THE EFFECTIVENESS OF INTEGRATING INCOME SUPPORT WITH ACTIVE LABOUR MARKET POLICIES?

## INTRODUCTION

As argued in Chapter 2, integrated approaches that combine income support measures and ALMPs under a single policy framework offer a promising solution to the problems in creating and accessing decent employment that are being aggravated by current transformations in the world of work. They can help protect workers during transitions throughout their working lives and sustainably improve their employment prospects. Through the country mapping, the results of which were presented at the end of the last chapter, we identified several patterns in the use of integrated approaches by countries around the globe. The effectiveness of such approaches inevitably depends on the design and implementation of the policies selected (e.g. contributory versus non-contributory schemes), the national context (e.g. share of informal employment) and the interaction with other policies and institutions (e.g. vocational training). In this chapter we attempt to assess the effectiveness of integrated approaches by reviewing the existing literature on the topic; our focus is almost exclusively on empirical studies.

Overall, the available evidence 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. Moreover, studies have convincingly shown that the success of these approaches very much depends on the extent to which they exploit the linkages between income support, work incentives and activation measures. The existing literature is, however, incomplete in the sense that it concentrates on a small subset of regions, mostly covering advanced economies only. The few studies there are on emerging and developing economies do suggest that an integrated approach can help increase both the employability and earnings of those who have participated in these programmes, but, again, results differ considerably depending on the programme characteristics. Existing studies,

moreover, do not cover the full spectrum of interventions that may be included in integrated approaches. Most of them look at the interplay of either training or micro-enterprise promotion with conditional cash transfers, with little research having been devoted to other types of ALMP interventions (e.g. employment incentives, public works) and income support (e.g. unemployment insurance). Yet, these are precisely the types of policy that are implemented most frequently in emerging and developing economies, as we saw in Chapter 2.

The contribution of the present chapter to the literature on this topic is twofold. First, it includes emerging and developing economies in its analysis of the effectiveness of spending on income support and activation measures. As indicated by our results, the interaction between these policies is key to their effectiveness. In particular, the more is spent on one of the two policy components (income support or ALMPs), the more effective the other component becomes in terms of improving labour market outcomes. Second, this chapter identifies the main gaps in knowledge regarding the effectiveness of integrated approaches, and points out future avenues of research in this area.

The chapter is structured as follows: Section A reviews studies dealing with the effects that integrated approaches and their institutional characteristics have on labour market performance and macroeconomic indicators. Section B contrasts the macroeconomic effects of integrated approaches in advanced economies with those observed in emerging and developing economies. Section C presents the results of impact evaluation studies conducted both in advanced and in emerging and developing economies. A concluding section summarizes the main findings of our literature review, and introduces the case studies presented in the remaining two chapters.

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## A. FINDINGS FROM MACROECONOMIC AND INSTITUTIONAL STUDIES OF INTEGRATED APPROACHES IN ADVANCED ECONOMIES

*The design and implementation of integrated approaches in advanced economies have changed over time.*

The integration of income support and ALMPs was pioneered in advanced economies in the late 1980s and early 1990s as a response to high unemployment rates in the European Union (EU) countries. The imperative of assisting the unemployed, especially the long-term unemployed, put the spotlight on “activation strategies” (Martin, 2015), that is, on enhancing the role of ALMPs and at the same time recalibrating social protection systems to “encourage people to work ... and for expenditure to be targeted more accurately to concentrate the effort on those in real need” (European Commission, 1993, p. 141). This early view of activation promoted by the OECD, and to a certain degree by the European Commission (Weishaupt, 2011), recognized that ALMPs and social protection benefits had to be considered jointly. However, the focus at the time was more on the possible competition between income support (with its effect, in some cases, of reducing incentives to search for work) and activation measures (with their goal of bringing individuals back to work). Accordingly, the idea of conditionality in access to income support was placed at the centre of the first activation strategies, which sought to redirect resources to ALMPs while reducing the generosity of social protection measures. The mixed results achieved by activation strategies (box 3.1) made it clear that they had, on the whole, failed to leverage fully the strengths of the various institutions and policies involved, as had been advocated by economic theory (Boone and van Ours, 2009; Coe and Snower, 1997) and some empirical studies (Bassanini and Duval, 2006; Belot and van Ours, 2004). Consequently, a new concept of activation emerged in more recent years, with the focus now on exploiting the complementarities between ALMPs and income support policies (Martin, 2015).



### Box 3.1. Integration of income support and activation measures in the 1990s: Examples from two European countries

Evaluations of the earliest activation strategies have noted their significant impact on reducing unemployment and the number of people claiming unemployment benefits, but also how the effects of apparently similar programmes differed considerably (OECD, 2005). Two early examples of attempts to integrate income support and ALMPs are the Workstart programme that was piloted in the United Kingdom in 1993 and the “Liste di Mobilità” (Mobility Lists) that were first implemented in Italy in 1991 (and abolished in 2017).

The Workstart pilot envisaged the progressive replacement of unemployment benefits with employment subsidies. The British Government would pay subsidies to firms to train long-term unemployed persons and then offer them jobs (Snower, 1994). The scheme was not particularly successful in creating new jobs. The analysis indicates that around 80 per cent of the employment opportunities created through the scheme would have been generated even in the absence of the Workstart pilot. Moreover, it was estimated that between 28 and 35 per cent of programme participants found a job at the expense of other jobseekers who did not benefit from the scheme (IER, 1999).

The “Mobility Lists” scheme in Italy was even more radical in its approach. Unemployed workers who enrolled in the lists were entitled to unemployment benefits, while firms willing to hire them enjoyed substantial reductions in social security costs and some additional monetary incentives. The evaluations of this scheme suggest that its design was not fully coherent with its stated aim of promoting the re-entry into the labour market of long-term unemployed persons. By providing for benefits that became more generous the longer the period of unemployment, the scheme actually discouraged the long-term unemployed from looking for jobs, with many of them using it as a bridge to retirement. As a result, older unemployed individuals were less likely to move back into employment than those who were younger (Paggiaro, Rettore and Trivellato, 2009; Paggiaro and Trivellato, 2002).

*More recent institutional and policy-oriented studies suggest that integrated approaches have a positive effect on aggregate labour market indicators.*

Although the rate of adoption of integrated activation strategies by advanced economies at the turn of the twenty-first century was slow and uneven, such approaches became more common with time. Beginning in the late 2000s, the Great Recession put them to a severe test: in many cases, it revealed the need for further strengthening of the institutional linkages between income support and ALMPs. Despite the differences

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in design, it is telling that, on the whole, those OECD countries that adopted an integrated activation strategy in the early 2000s performed better throughout the Great Recession than those that did not take such an approach (Martin, 2015) (table 3.1). In this respect, some studies have pointed out how the integration of policies can achieve labour market outcomes superior to those resulting from policies implemented in isolation. Significantly, the literature on ALMPs is not unanimous in its evaluation of the magnitude and even the sign of their effects on labour market outcomes (Card, Kluge and Weber, 2010; Greenberg, Michalopoulos and Robins, 2003). The reported effects vary considerably across countries (see e.g. Card, Kluge and Weber, 2010) and among different groups of beneficiaries (Card, Kluge and Weber, 2018). In their review of OECD countries, Immervoll and Scarpetta (2012) note that ALMPs should be evaluated as part of broader packages of labour market measures: when coupled with income support, such policies can help reduce unemployment during recessions and keep more vulnerable workers attached to the labour market. Their findings are in line with those of Martin (2015), who also concludes that evaluations of ALMPs should take into account their interactions with measures such as unemployment benefits or unemployment insurance. The generosity of the benefits, their length, and the strictness of eligibility requirements are all aspects that need to be considered in any evaluation of activation strategies.

Similar observations have been made by other studies examining the advantages of an integrated approach. In particular, OECD (2013a, p. 128) argues that “[a]ll countries with a well-developed system of income support for unemployed people can benefit from a strong employment-focused activation system which assists with job search, matching and reducing barriers to employment”. This study – which focuses on Australia, Finland, Ireland, Japan, Norway, Switzerland and the United Kingdom – also points out that reforms designed to facilitate the merging (or at least the collaboration) of public employment service providers with benefit management agencies have helped to reduce administrative costs and increased the efficiency of activation programmes. The countries considered in the OECD study all came up with different combinations of

### Box 3.2. Institutional differences in the integration of policies across countries

Different countries have adopted different models as they seek to address their specific labour market issues. The differences have to do both with the way in which the various national institutions are tasked with interacting with one another in the delivery of services, and with the actual combinations of ALMPs and income support measures. Norway, for example, has opted for an integration of different providers with a view to creating “one-stop shops” where claimants can access all unemployment-related services. This entails a higher degree of collaboration across agents at both a horizontal level (i.e. across different ministries) and a vertical level (i.e. the involvement of ministry offices, municipal services and national, regional and local labour inspectorates) (see Duell, Singh and Tergeist, 2009). Other countries, such as Switzerland, have reformed their labour market policy system while maintaining a separation of distinct responsibilities and prerogatives for the various institutional actors (Duell et al., 2010). Australia relied heavily on the outsourcing of employment services to both non-profit and for-profit organizations. This led to a considerable reduction in costs but also to a high variation in the quality of services provided to job-seekers (OECD, 2012). There are also clear differences between countries with regard to the individual components of their activation strategies. For example, in the United Kingdom much emphasis is placed on job matching activities, with a crucial role played by job centres in facilitating them (OECD, 2014). Australia, on the other hand, has focused more on training activities (OECD, 2012).

labour market policies, which suggests that there is no “one-size-fits-all” strategy for integrating income support measures and ALMPs. Rather, integrated approaches should be tailored to the specific needs of a given labour market and address its key issues. It is not surprising, therefore, that the way in which income support and activation measures are integrated varies considerably across countries (box 3.2).

*The positive effect of integrated approaches goes beyond reducing the number of benefit claimants.*

The assessment of integrated approaches in advanced economies suggests that well-designed, holistic activation models can achieve results that go beyond merely reducing the number of unemployment benefit claimants (one of the main objectives of such approaches). Thus, OECD (2018) concludes that the implementation of comprehensive strategies

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for simultaneously activating and protecting workers is a key element in the creation of quality jobs. The policies introduced under integrated approaches may have effects on other important labour market dimensions, too. Finn (2016) looks at the way in which income support and ALMPs were combined within specific frameworks to reduce long-term unemployment in five European countries (Denmark, Finland, Germany, Ireland and Slovakia). The results suggest that combining measures, which are typically managed by different agencies, may in fact entail significant start-up and transition costs. However, the study clearly indicates that these costs are easily outweighed by the advantages of integration, especially when new institutions are established to deliver services more efficiently. The author found that, on the whole, integrated approaches contributed to lower long-term unemployment in the countries analysed. In certain countries, such as Ireland, this has reduced demand for services catering to the long-term unemployed, which, in turn, has freed up resources for the active components of the integrated approach. An effective combination of policies, whilst often difficult to design, can therefore lead to a virtuous circle that counteracts unemployment of long duration.

OECD (2013b), meanwhile, discusses the effects that integrated approaches can have on specific groups of beneficiaries. Again, the message that emerges from the analysis is that the success of such programmes depends very much on how well they are designed and whether they target particular groups. As an example, the report cites a set of regional measures implemented in Germany since 2005 to reintegrate older, low-skilled workers into local labour markets. The exact definition of the target groups and the involvement of relevant authorities at the regional level made it possible to devise a range of training and employment services that were tailored to the needs of such workers as well as to the requirements of local labour markets. Throughout their training and while looking for a job, these workers benefited from social and health support. Over the period from 2005 to 2010, almost 130,000 older long-term unemployed persons in Germany found regular jobs thanks to the programme.

*Quantitative macroeconomic studies confirm the positive effects of integrated approaches.*

Other macroeconomic studies have taken a more quantitative approach when examining the effectiveness of spending on ALMPs and unemployment benefit schemes, with some authors also exploring the potential interactions between ALMPs and income support measures. For instance, an early paper by Elmeskov, Martin and Scarpetta (1998) found a U-shaped relationship between the detrimental effects of unemployment insurance on the unemployment rate, on the one hand, and spending on ALMPs, on the other. In particular, they estimated that such effects were lowest in countries with an average level of ALMP spending. More recently, Bassanini and Duval (2006, 2009) observed that the disincentive effect of unemployment insurance was lower in countries that spent more on ALMPs. This is in line with the findings of Boone and van Ours (2004), who observed the same interaction for specific types of ALMP intervention and concluded that spending on training was more effective in countries with a more generous unemployment insurance scheme.

Evaluations of the impact of integrated approaches by and large agree that these can help reduce unemployment and improve employment conditions for those who find a job. Nevertheless, when designing and implementing the constituent policies it is essential to take into account local labour market conditions and the needs of both workers and employers (OECD, 2018). Unfortunately, most studies so far have tended to focus on advanced economies. Given that emerging and developing economies differ substantially from the latter both in the structure of their labour markets (e.g. informality rates) and in policy design and implementation, the results obtained for advanced economies cannot be extrapolated directly to other countries.

**Table 3.1. Summary of the findings of empirical studies on combined approaches in advanced economies**

Authors	Year	Focus country/ies	Target population	Intervention components	Overall findings
Shower	1994	United Kingdom and other OECD countries	Long-term unemployed persons	Unemployment benefits and hiring subsidies	Potential reduction of unemployment rate in advanced economies of between 1 and 80 percentage points, depending on the specific circumstances of each country. These are only projections, however.
Paggiaro and Trivellato	2002	Italy	Unemployed persons	Income support and hiring subsidies	'Mobility Lists' scheme has negative effects on the employment probability of older workers.
Paggiaro, Rettore and Trivellato	2009				
Belot and van Ours	2004	17 OECD countries	Overall labour force	Different combinations of labour market policies	Policy interactions contribute to a lower unemployment rate.
Bassanini and Duval	2006	OECD countries	Unemployed persons	Different combinations of labour market policies	ALMPs reduce the negative effect that unemployment benefits can have on unemployment rates.
Immervoll and Scarpetta	2012	OECD countries	Working-age population	Strategies for activation and income support	Successful strategies require a judicious combination of income support and work incentives, together with investments in administrative capacity.
OECD	2013b	Germany	Long-term, low and semi-skilled unemployed persons above the age of 50	Financial support plus a package of ALMPs	Between 2005 and 2010, the programme enabled 130,000 long-term unemployed persons to find regular jobs.
Martin	2015	Seven OECD countries	Unemployed persons	Different combinations of labour market policies	ALMPs are effective, but it is essential to monitor their implementation and to provide incentives for job searching.
Finn	2016	Denmark, Finland, Germany, Ireland and Slovakia	Long-term unemployed persons	Different combinations of labour market policies	Policy combinations are costly but, if efficiently managed, can lead to substantial gains.

## **B. FILLING THE KNOWLEDGE GAP ON THE MACROECONOMIC EFFECTS OF INTEGRATED APPROACHES IN EMERGING AND DEVELOPING ECONOMIES**

*There are hardly any institutional and macroeconomic studies dealing with the effects of integrated approaches in emerging and developing economies.*

As argued in the previous section, labour market strategies combining income support and ALMPs can have vastly different effects depending on the context in which they are implemented. Yet, most studies conducted to date on integrated approaches have neglected this aspect and tended to focus on the experiences of advanced economies. The few institutional, policy-oriented studies that have looked at integrated approaches in emerging and developing economies are based on purely qualitative research methods and their findings do not always tally. In an analysis of several programmes in Latin American, Asian and sub-Saharan African countries, McCord (2012) concludes that combining training and social transfers can achieve a significantly positive impact for various subgroups of a country's population. However, her study also found that the financial and human resource costs of such programmes could be very high. Another study (ILO and EU, 2013) looks at a joint ILO–EU project that was implemented in Burkina Faso, Cambodia and Honduras in 2009 for a period of 36 months, and which sought to help these countries develop more productive, formal and secure labour markets. The approach envisaged by the project was found to be generally successful in creating a social and institutional environment conducive to the integration of social protection and employment policies, but the study does not mention the effects of such integration on employment outcomes in the three countries.

There is, similarly, a lack of empirical literature on the macroeconomic effects of integrated approaches in emerging and developing economies. In order to fill this knowledge gap, a macroeconomic study was conducted in preparation for this report (Pignatti and Van Belle, 2018). The study makes two important contributions to the macroeconomic literature on

### **Box 3.3. Income support and active labour market policies in developed and developing economies: A macroeconomic study**

In order to investigate how spending on income support measures and on ALMPs can affect labour market outcomes, a macroeconomic study was conducted in preparation for the present report. Published in December 2018 as *Better together: Active and passive labour market policies in developed and developing economies*, the study uses information on spending on labour market policies collected from different sources in order to shed light on the impact of such interventions on employment, unemployment and labour force participation rates in a broad sample of countries (Pignatti and Van Belle, 2018). The data sources used differ considerably in terms of geographical coverage and, to some extent, also in the methodology used to gather the information (e.g. types of policies included, definitions used). When consolidating the data, the authors sought to ensure the highest possible degree of consistency in these aspects. Despite these efforts, spending on both ALMPs and unemployment benefit schemes is likely to have been underestimated for the majority of emerging and developing economies in the sample (i.e. all those not belonging to the OECD), since they do not comply with international statistical standards for gathering data on labour market policies. Instead, information on the policies implemented and on the relevant level of spending tends to be gathered on an ad hoc basis in these countries and may, therefore, not cover all existing interventions.

The authors adopted the methodology of previous studies looking at the impact that spending on labour market policies has on key employment outcomes (e.g. Escudero, 2018). In exploring whether or not there is a causal effect, one problem to bear in mind is possible endogeneity due to (a) omitted variable bias (i.e. the presence of a variable affecting both the outcome of interest and the level of spending, for which information is not available) or (b) reverse causality (i.e. the relationship between the outcome of interest and the level of spending on labour market policies being bidirectional). In order to mitigate the first type of endogeneity, a large set of covariates were included in the analysis to account for the structure of the labour market (e.g. composition by skills levels), the state of public finances (e.g. government primary balance), and also for year and country fixed effects. In order to address concerns over reverse causality, an instrumental variable approach was applied. In particular, the level of spending registered in the previous year(s) on income support and ALMPs was used as an instrument for spending in a given year. The main rationale behind this approach is that previous spending levels will have an effect on current spending levels (i.e. the instrument is relevant) but will not have an impact on current labour market outcomes (i.e. the exclusion restriction). Several robustness tests were also conducted to check the validity of the results subject to various modifications to the estimation strategy.

The study focused on three macroeconomic outcomes: employment rate, unemployment rate and labour force participation rate. Overall, the results indicate that the interaction between income support and activation measures is crucial, as spending on either of the two policies becomes more effective the more is spent on the other. Such complementarity can be observed in the interaction between all types of ALMPs and unemployment insurance (though not unemployment assistance).



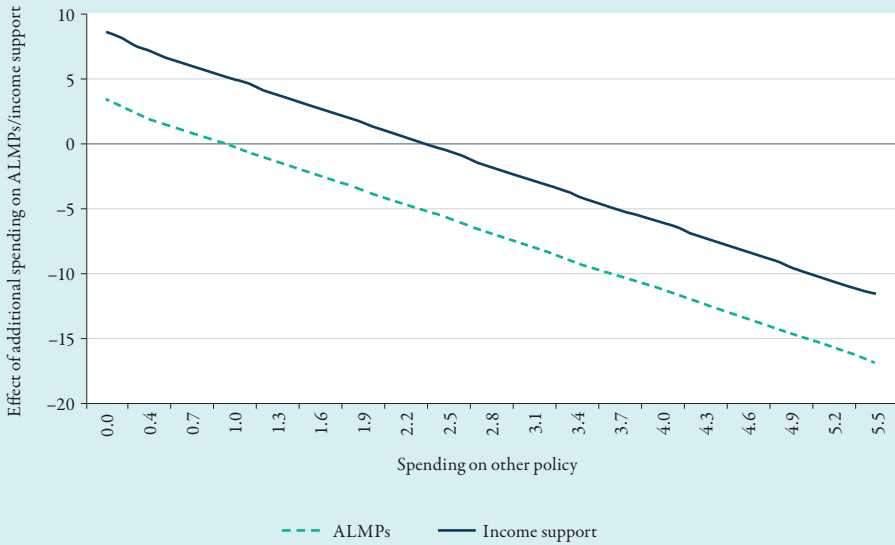
labour market policies. First, it takes into account the possibility of complementarities between spending on income support programmes and spending on ALMPs – something considered by only a few earlier studies, which have, moreover, reached disparate conclusions (as discussed above). Second, unlike earlier studies with their focus on OECD countries, it also covers a wide range of emerging and developing economies. The study’s methodology is outlined in box 3.3 above.

*The complementarity between income support and activation measures is key to their effectiveness in emerging and developing economies.*

The results presented by Pignatti and Van Belle (2018) make it clear that exploiting the complementarity between income support and activation measures is crucial to ensure that they are effective. Indeed, when considered in isolation (i.e. when spending on the other type of policy is equal to zero), additional spending on ALMPs decreases the unemployment rate, but additional spending on unemployment benefits has the opposite effect.<sup>1</sup> This is what one would expect from a theoretical point of view, since ALMPs are intended to activate the unemployed and help them find gainful employment, while income support is meant to reduce the costs associated with unemployment, thereby increasing reservation wages (Gal and Theising, 2015). Interestingly, when the complementarity between these two types of policy is taken into account (i.e. when the “interaction term” between spending on ALMPs and spending on unemployment benefits is included in the regression analysis), they are both found to have positive labour market outcomes (i.e. a reduction of unemployment and an increase in employment and labour force participation rates). There is, however, one caveat: enough resources need to be spent on the other type of intervention for these positive results to manifest themselves. Even the disincentive effect of unemployment benefits can disappear, provided that enough resources are devoted to ALMPs. This complementarity, whereby one type of intervention becomes more effective as more is spent on the other, is illustrated in figure 3.1.

<sup>1</sup> The effects on employment rates and on labour force participation rates of spending on ALMPs and unemployment benefits are complementary (i.e. increased spending on the former leads to an increase in the rates, while increased spending on the latter leads to a decrease) but generally not statistically significant. In the discussion above and in the remainder of the chapter, we focus on the results relating to the unemployment rate. For the complete set of results, see Pignatti and Van Belle (2018).

**Figure 3.1. The effect on the unemployment rate of one additional unit spent on active labour market policies for a given level of spending on income support, and vice versa**



Note: The figure shows the effect of spending on activation labour market policies (ALMPs) and income support measures on the unemployment rate for different levels of spending on the other type of policy.  
 Source: Pignatti and Van Belle (2018).

Unfortunately, the available data suggest that the level of resources that most countries currently spend on unemployment benefits and ALMPs is below the threshold at which this complementarity becomes truly effective. In particular, for spending on ALMPs to lead to a reduction in the unemployment rate, spending on income support policies needs to be just below 1 per cent of GDP. Conversely, for spending on income support policies to lead to a reduction in the unemployment rate, spending on ALMPs needs to be above 2.3 per cent of GDP. Yet, the median value of spending on ALMPs in 2014 in the sample of countries analysed by Pignatti and Van Belle (2018) was 0.16 per cent of GDP, while the median level of spending on income support policies was around 0.34 per cent of GDP. This means that for a large number of countries, including several advanced economies, increasing the level of spending on each of the two intervention types could lead to considerable improvements in labour market indicators.

*The complementarity is driven by the interaction between all types of ALMP integrated into unemployment insurance schemes.*

Pignatti and Van Belle (2018) also looked at which types of ALMPs and income support measures were most effective in improving labour market outcomes. Among ALMPs, these turned out to be training programmes and employment incentives, as they are associated with the strongest decreases in the unemployment rate. At the same time, employment incentives increase the employment rate (probably thanks to the boost in labour demand), while spending on training programmes has a negative effect on labour force participation (probably owing to the “lock-in” effects of training initiatives). Labour market services, public works and start-up incentives all have the expected positive impact on labour market indicators (i.e. they reduce unemployment and increase employment and labour force participation), but the effects are smaller than in the case of training and employment incentives. If we now turn to the different types of income support, we observe that unemployment insurance and unemployment assistance operate in a very similar way when considered in isolation, as they both have an unemployment-increasing effect and an employment-reducing effect. However, unemployment insurance slightly increases labour force participation (probably because of the increased value of holding a job), while unemployment assistance has the opposite effect.

Finally, Pignatti and Van Belle (2018) explored whether the generally positive result of combining ALMPs and income support was driven by the interaction of specific types of ALMPs or income support schemes. This is necessary to understand the complementarity between different types of labour market policy, because such policies differ in terms of both their content and target populations. The analysis found that the positive effects were driven by interactions between ALMPs (regardless of the type) and unemployment insurance (i.e. contributory income support). Instead, the interactions between all types of ALMPs and unemployment assistance (i.e. non-contributory income support) were found to have the opposite effect: they increased unemployment while reducing employment and labour force participation. This difference

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may be explained by complementarities between ALMPs and contributory income support, which create incentives for people to participate in the labour market. Conversely, such incentives may not always exist when ALMPs are combined with non-contributory income support, which is provided irrespectively of an individual's previous employment record. This does not imply, though, that non-contributory income support has an overall detrimental effect. Rather, such support is often provided as a last-resort "safety net" for particularly disadvantaged groups and in this way can contribute to poverty alleviation and the reduction of social exclusion. Moreover, as discussed further down, some evaluations of integrated approaches that include non-contributory income support have found positive effects on labour market outcomes – possibly as a result of their specific design and implementation.

All these findings are from a study that considered both advanced economies and emerging and developing ones (Pignatti and Van Belle, 2018). When a similar analysis is performed separately for the two groups, the estimated effects tend to become more modest, probably because of the limited sample size. This reflects a potential limitation of quantitative macroeconomic analyses: as the number of observations is sometimes relatively small, the results obtained may not always be statistically robust. It is therefore appropriate to add an extra level of analysis, focused on specific programmes and institutional contexts. This is the purpose of the next section, which presents impact evaluations of integrated approaches that have been tried by several countries.

## C. THE IMPLEMENTATION OF INTEGRATED APPROACHES WORLDWIDE: MICROECONOMIC EVIDENCE

*The findings from macroeconomic studies need to be complemented by impact evaluations.*

The studies discussed so far have looked at the macroeconomic impact of ALMPs and income support schemes – implemented either separately or in combination – on labour market performance both in advanced and in emerging and developing economies. The results of these studies are particularly important for understanding the possible effects of implementing integrated approaches at the national level. However, they are generally silent on which types of intervention work best and under which circumstances. For example, as we have seen, apparently similar policies can have quite different effects in countries at different levels of economic development. Examining the causes of these differences and their implications for policy design requires a more detailed type of analysis. Counterfactual impact evaluations, in particular, allow one to obtain a deeper understanding of the effectiveness of specific programmes by isolating the “causal effects” of participation in these. Being able to assess the heterogeneity of effects is one of the advantages of such impact evaluations, which can be performed for different groups of people (grouped e.g. by sex, age group or level of qualification), for different time horizons (e.g. during or after participation, and in the short or medium term), and for a series of outcomes of interest, covering both indicators of labour market status and employment quality.

*Impact evaluations confirm that training can be effective when coupled with income support.*

Impact evaluations of schemes that jointly provide income support and activation measures for their participants have tended to focus on those that include training as the active component (table 3.2). To start with an example from an advanced economy, this is the case of Norway’s Qualification Programme, which complements tailored training with

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generous income support for a period of up to two years, and is directed at individuals with reduced work capacities. Overall, the results of an evaluation of this programme suggest that employment and labour earnings decrease slightly during the first one to two years of participation (probably because of a lock-in effect while individuals are enrolled in the programme), but that both of them increase after participation – even in the long term, with the effect still being significant two years after participants have left the programme (Markussen and Røed, 2016).

A number of programmes in emerging and developing economies that combine training with income support have also been evaluated. Thus, Macours, Premand and Vakis (2012) conducted a randomized controlled trial to evaluate the “Atención a Crisis” (Attention to Crisis) programme in Nicaragua, which provided all participants with a conditional cash transfer subject to their children’s school and health service attendance. Some of the participants were also offered active support, in the form of either vocational training courses or a productive investment grant to help them set up a non-agricultural business. The evaluation found that households receiving training or start-up incentives alongside the cash transfer were better able to cope with environmental shocks and had achieved improved income and consumption two years after the end of their participation in the programme. No such effects were observed among the households that had received only the conditional cash transfer.

Positive results arising from a combination of training and cash transfers were also reported by de Mel, McKenzie and Woodruff (2014), who conducted a randomized experiment among actual and would-be self-employed women in Sri Lanka. Their results show that training per se did not lead to significant improvements in business performance for those women who already worked. Conversely, women who were offered a combination of training and cash transfers reported considerable increases in monthly profits and sales. Moreover, the results also indicate that training led to an improvement in management practices – as measured by a composite index that took into account marketing, costing, record-keeping and stock control – and in financial planning.

A training component was also part of Colombia's unemployment subsidy scheme studied by Medina, Núñez and Tamayo (2013). In that programme, directed at unemployed heads of household, an unemployment subsidy was combined with job training modules which could be attended on a voluntary basis. However, in this case the results from the empirical analysis do not point to any significant improvements in labour market outcomes for the participants and the members of their households. The authors attribute the programme's failure to its flawed design. Relatively generous benefits combined with a lack of stringent requirements and purely voluntary enrolment in job training seem to have prevented the programme from attaining its initial goals.

*The combination of income support with promotion of micro-entrepreneurship is also beneficial.*

Micro-entrepreneurship schemes are another type of ALMP that has been extensively evaluated in the context of integrated approaches. For example, Martínez, Puentes and Ruiz-Tagle (2018) investigated the effects of the Micro-entrepreneurship Support Programme (MESP) launched by the Chilean Government in 2006, and directed at individuals (mostly women) who were unemployed or underemployed and were already receiving income support through the Chilean social protection system. To some of these individuals the programme also offered an activation component in the form of start-up capital (about US\$600) combined with training courses (on business and technical skills). A further group of beneficiaries ("MESP Plus") received an additional funding component in the form of a cash transfer (around US\$240). The evaluation found that nine months after the programme ended, self-employment had increased by 14.8 percentage points for regular MESP participants and by 25.2 percentage points for those who had also received the additional cash transfer (i.e. "MESP Plus"). The findings also point to a positive effect on labour income, which, however, vanished with time for participants from the "MESP Plus" group.

An earlier study looked at a programme in Argentina for enhancing self-employment among individuals already receiving social assistance

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(Almeida and Galasso, 2007). Entitled “Microemprendimientos Productivos” (Productive Micro-entrepreneurship), the programme was similar in its structure to the Chilean MESP: the beneficiaries were entitled to a productivity grant and some training in the form of visits from tutors. In this case, however, the evaluation did not identify any noticeable effect on the disposable income of the participants and their households, although it did find an increase in hours of work. All the same, some positive results were found among better educated and younger participants – i.e. those more likely to self-select into the programme. Significantly, the training component was less structured and intensive than that of MESP in Chile, which once again confirms how important it is to identify the optimal policy mix so as to meet the requirements of local labour markets.

*Other types of ALMP can also be successfully combined with income support.*

Finally, some studies have evaluated interventions combining income support with a variety of ALMPs, such as training support and employment incentives. Such integrated approaches can be effective if participants face a range of obstacles in accessing productive employment and would therefore benefit from broader support. However, the interventions need to be adequately implemented if their full potential is to be harnessed (Escudero et al., 2019). These observations are corroborated by Gaure, Røed and Westlie (2012) and Fremigacci and Terracol (2013) in relation to advanced economies. In particular, analysing a Norwegian labour market reform, Gaure, Røed and Westlie (2012) found that reducing unemployment insurance prompted beneficiaries to accept lower paid jobs (but did not seem to affect the stability of those jobs), while participation in activation programmes led to a significant increase in the likelihood of being employed after the conclusion of the programme. Meanwhile, Fremigacci and Terracol (2013) looked at the effects of subsidized temporary jobs in France, concluding that activation programmes of relatively long duration were linked to increases in earnings and in the stability of the jobs accepted by participants.



Turning to emerging and developing economies, an integrated approach based on various types of income support and ALMP interventions was evaluated by Banerjee et al. (2015). For this study, randomized controlled trials were conducted in six different countries (Ethiopia, Ghana, Honduras, India, Pakistan and Peru), covering a total of almost 10,500 households. The idea behind the two-year programme was to offer very poor individuals a set of six different activities that would help them start a self-employment activity. These activities comprised the transfer of a productive asset, consumption support, training, access to savings accounts, health education, and home visits by field officers. The authors found that the programme had positive and significant effects with respect to all the ten outcomes included in the analysis, which ranged from income, through food security, to mental and physical health. More importantly, in some cases they observed positive effects also one year after the conclusion of the programme (i.e. three years after the transfer of the productive asset to the household). This is often not the case with programmes involving conditional cash transfers only.

Overall, the impact evaluations reviewed in this section allow us to draw two main conclusions. First, independently of the specific context of implementation, integrated approaches can have significant positive effects on both the labour market status and employment quality of the targeted individuals. However – and this is the second inference – the implementation context must be fully taken into account so that the potential of integrated approaches is translated into concrete improvements. In view of the evidence from the macroeconomic studies discussed in sections A and B, this is not a surprising conclusion. Still, individual level impact evaluations are crucial in identifying the specific elements that policy-makers should prioritize in the design of a successful integrated approach.

**Table 3.2. Summary of the findings of impact evaluations of integrated approaches applied both in advanced and in emerging and developing economies**

Authors	Year	Focus country/ies	Target population	Intervention components	Overall findings
Almeida and Galasso	2007	Argentina	Heads of household who experienced a loss of earnings	Income support plus investment grant and training	On average, no positive effects on labour outcomes, but some income gains for better educated individuals with greater work experience.
Gaure, Røed and Westlie	2012	Norway	Unemployed individuals	Unemployment insurance plus ALMP	Presence of lock-in effects; positive effects on employment and earnings.
Macours, Premand and Vakis	2012	Nicaragua	Households affected by adverse weather events (drought)	Cash transfer plus vocational training or investment grant	Positive effects of combined interventions on consumption and income.
Fremigacci and Terracol	2013	France	Unemployed jobseekers	Unemployment insurance plus temporary work	Strong lock-in effects and positive effects on employment probability. Weak effects overall.
Medina, Núñez and Tamayo	2013	Colombia	Unemployed heads of household	Unemployment benefit plus voluntary job training	No positive effects on labour market outcomes; very limited impact of the integrated approach.
de Mel, McKenzie and Woodruff	2014	Sri Lanka	Unemployed and self-employed women	Training plus investment grant	Positive effects of the combined support on business creation and (in the short run) on business performance.
Banerjee et al.	2015	Ethiopia, Ghana, Honduras, India, Pakistan and Peru	Households in extreme poverty	Cash transfer combined with other six activities, including training or productive assets	Positive effects on income, consumption and health outcomes. Combined programmes (but not cash transfers on their own) led to positive long-term effects.
Markussen and Røed	2016	Norway	Individuals with reduced work capacities	Income support plus ALMP	Positive long-term effects on employment, at least partly due to complementarities between income support and ALMPs.
Martinez, Puentes and Ruiz-Tagle	2018	Chile	Unemployed or unemployed recipients of income support	Income support plus training and start-up capital, or plus additional cash	Short-term positive effects on labour income; short- and long-term positive effects on self-employment.

## CONCLUSIONS

The picture that emerges from the studies reviewed in this chapter is on the whole quite positive. National unemployment protection systems appear to function best when they are able to exploit the complementarities between income support and ALMPs. Moreover, impact evaluations suggest that programmes combining income support with ALMPs can lead to positive labour market outcomes for the participants and that these effects may last long after the specific interventions have come to an end. Some caveats must nevertheless be noted. Macroeconomic and institutional studies, along with microeconomic ones, suggest that when an integrated approach does not have beneficial effects, this can be attributed to deficiencies of some sort in the design or implementation of interventions. Similar observations have been made in meta-analyses of the effects of ALMPs on labour market outcomes in advanced and developing economies (see Card, Kluve and Weber, 2010, 2018; Escudero et al., 2019; ILO, 2016), and are therefore not surprising in the context of integrated policies, which are characterized by additional layers of institutional and structural complexity. All in all, it is clear that the effectiveness of integrated approaches depends on the exact components of the policy mix, the target groups, the time interval between programme implementation and evaluation, and the degree of integration of the constituent policies.

This chapter has also highlighted a number of knowledge gaps. First, there is the virtual absence of broader analyses (macroeconomic, meta-analysis, etc.) of the overall impact of integrated approaches on labour market outcomes in emerging and developing countries. Second, it is clear from our literature review that many of the microeconomic studies dealing with such approaches in emerging and developing economies tend to look at programmes of small size and limited impact. Some of them analyse only the results of experimental interventions, the replicability and external validity of which are questionable. Third, these studies cover only part of the wide spectrum of interventions that may be categorized as integrated approaches. In fact, alongside the various studies looking at the combination of either training or micro-enterprise promotion with conditional

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cash transfers, we found only one study that considered another type of income support, namely contributory unemployment benefits. Other types of ALMPs (e.g. public works) and income support (e.g. unemployment insurance) that are often implemented in emerging and developing economies do not feature in the literature that we reviewed. A new class of studies that set out to evaluate both the methods used in integrated approaches and their effects in a more comprehensive way could help fill those knowledge gaps.

In the remaining two chapters of the report we evaluate selected interventions that combine income support with ALMPs: the unemployment benefit scheme in Mauritius (Chapter 4) and a public works programme embedded in a large-scale cash transfer scheme in Uruguay (Chapter 5). These two chapters, therefore, offer evaluations of policy mixes that have been neglected in the literature, even though they are quite common in practice. The overriding objective is to understand the effectiveness of two interventions that differ substantially – in terms of eligibility criteria, the type of activation and income support provided, and the labour market characteristics of the settings in which the programmes operate. The analysis of these two case studies reveals a lot about the factors that need to be taken into account if the effectiveness of integrated approaches is to be enhanced.

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## CHAPTER 4

# ADAPTING THE INTEGRATED APPROACH FOR USE IN EMERGING ECONOMIES: THE “WORKFARE PROGRAMME” IN MAURITIUS

## INTRODUCTION

Unemployment benefit schemes that complement income support with mandatory participation in activation measures have traditionally been implemented in advanced economies to support individuals during periods of joblessness. Over the last few decades, many emerging and developing economies have started implementing these types of intervention, too. As a result, spending on both income support and ALMPs has significantly increased in most advanced and developing regions (Pignatti and Van Belle, 2018).

While a significant amount of research has been devoted to unemployment benefit schemes that promote participation in activation programmes in advanced economies, very little is known about the effectiveness of such approaches elsewhere. As governments endeavour to find viable solutions in an era when the allocation of resources is continuously scrutinized, it is becoming increasingly important to provide credible and transparent evidence of whether a policy achieves its expected outcomes. This is all the more so in emerging and developing economies, with regard to which there are significant knowledge gaps. The research findings from advanced economies cannot easily be extrapolated to these countries because of structural differences in their labour markets (e.g. a higher share of informal employment) and also differences in the functioning of policies (e.g. limited administrative and enforcement capacities). Studying how integrated approaches have been applied in emerging and developing countries is instructive also from a labour rights perspective, since international labour standards, including ILO instruments and declarations, recognize the importance of integrating ALMPs within unemployment benefit schemes (see Chapter 2).

Providing evidence in line with the above considerations was the main aim of the investigation discussed in this chapter, which was undertaken between 2017 and 2019 to evaluate the Workfare Programme in Mauritius.<sup>1</sup> The project combined several qualitative and quantitative techniques and drew on data from various sources (e.g. survey and administrative data) in order to assess the institutional characteristics of the programme and its effectiveness in a number of areas.

Because of two distinctive features, the Mauritian Workfare Programme is particularly suitable for studying the integration of ALMPs and unemployment benefit schemes in the context of an emerging economy. First, the programme provides support to unemployed individuals regardless of whether they were previously employed in a formal or an informal job. As such, it is an interesting attempt to extend the reach of unemployment benefits in a country that has a high share of informal employment. Second, the programme combines the provision of income support (in the form of a “Transitional Unemployment Benefit”) with mandatory participation in an activation measure (with participants choosing one out of the three available options: job-search support, training and reskilling, or start-up support). It is therefore a good example of an integrated approach that seeks to protect jobless individuals while providing them with the means of finding more sustainable sources of income in the future.

Considered separately, both the inclusion of informal workers and the combination of unemployment benefits with mandatory participation in an activation measure are innovative features. Taken together, however, these features reflect a clear commitment, uncommon among emerging and developing economies, to address simultaneously the various barriers to generating and accessing decent employment that were described in Chapters 1 and 2: barriers affecting individuals directly (e.g. lack of education and skills and information constraints), structural barriers affecting the broader labour market (e.g. informality) and labour demand shocks (e.g. economic downturns, seasonal activities, droughts, cyclones, new

<sup>1</sup> In this chapter, “Workfare Programme” refers to the official name of the Mauritian unemployment benefit scheme. It should not be confused with workfare programmes in other emerging and developing economies that provide temporary employment to vulnerable households/individuals in exchange for income support, with the overall aim of increasing employability and reducing poverty (Escudero, 2018; ILO, 2016); nor should it be confused with workfare programmes such as those implemented in North America and several European countries, which focus on demanding work in exchange for social assistance benefits (see Lødemel and Moreira (eds), 2014, and Chapter 2 above).

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technologies). Evaluating the Mauritian Workfare Programme provides a unique opportunity not just to extract practical lessons for the future enhancement of the programme itself, but also to identify opportunities and challenges that are relevant to the advancement of labour market policy in emerging and developing economies more generally.

Moreover, since the distinctive features of the Mauritian programme are in line with international labour standards, our findings also serve to illustrate how the guidance provided through ILO Recommendations is put into practice. Specifically, the Mauritian programme is aligned with the Social Protection Floors Recommendation, 2012 (No. 202) and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).<sup>2</sup> The latter calls upon member States to progressively extend social security to all workers in the informal economy (Art. 18), paying “particular attention to the needs and circumstances of those in the informal economy and their families” (Art. 19) and, if necessary, adapting procedures to address their specific circumstances (Art. 20). The Recommendation further advocates the integration of ALMPs with income support by calling for the implementation of “a comprehensive employment policy framework” that includes “skills development policies” and “comprehensive activation measures” (Art. 15).

To summarize the main findings, our analysis of the Workfare Programme in Mauritius confirms that the integration of unemployment benefits with mandatory participation in activation measures can provide effective support for unemployed individuals in the context of an emerging and developing economy. The programme could, however, be made even more effective by modifying certain aspects of its design and implementation. First, we found that coverage was initially low but that it had increased over time: the programme now covers 15 per cent of the unemployed population, which is in line with the participation rates for similar programmes in other emerging economies. However, coverage is still concentrated among specific groups of people (e.g. men, older workers and previously formal workers) who already occupy a relatively favourable position in the labour market. Second, we found that the income support and activation measures

<sup>2</sup> See ILO (2012, 2015) and the discussion in Chapter 2 on how social security systems can be built through an integrated approach.

were well coordinated, but that the intensity of both components might be too limited to ensure adequate assistance. In particular, we observed that (a) out of the three activation measures offered, the vast majority of participants chose job placement support, but then received limited assistance in looking for a new job; and (b) the level of unemployment benefits was adequate during the first three months of unemployment but decreased sharply thereafter, putting individuals and their households at risk of poverty. Third, we found that the majority of participants (71 per cent) remained in the programme for the maximum duration of twelve months, with only 29 per cent finding a new job during that period and therefore being able to leave the programme earlier. Fourth, we also concluded that the generosity of the Transitional Unemployment Benefit might slightly delay re-employment, but that it had no long-term effects on employment outcomes after participation in the programme. Finally, the job placement and training options were relatively more effective than the start-up option in helping people to obtain a formal job, while training had the highest impact on wages after participation because of the effect of human capital accumulation.

The chapter starts with a description of the main features of the Workfare Programme (section A). Then, section B presents the main results of our assessment, which considered (a) the coverage of the programme; (b) the level and characteristics of participation; (c) the benefits provided to participants; and (d) the impact of the various benefits on the participants' situation after leaving the programme. Finally, in section C we make some suggestions for increasing the coverage and enhancing the effectiveness of the programme.

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## A. THE WORKFARE PROGRAMME IN MAURITIUS

The Workfare Programme is currently the main policy intervention directed at unemployed individuals in Mauritius.<sup>3</sup> It was formally established by the Employment Rights Act 2008 (Act No. 33 of 2008) and came into being in February 2009.<sup>4</sup> Introduced in the wake of the global financial crisis, which affected Mauritius through a decline in demand (particularly in tourism and textiles exports – see Zafar, 2011), the programme had the objective of reinforcing income and employment support in response to the expected increase in the number of workers laid off by companies.

The Workfare Programme is open to unemployed workers who were previously employed full-time for at least 180 days without interruption. As long as their previous job was of sufficient duration, it does not matter whether it was formal or informal: there is no entry requirement linked to social security contributions.<sup>5</sup> This is an important feature of the programme, given that an estimated 53 per cent of Mauritian employed individuals work in an informal job (see section B below for details).<sup>6</sup> Similarly, participation is open to individuals with either a written or an oral contract and to individuals who were either in open-ended or (since 2013) fixed-term employment in their previous job. Finally, to determine

<sup>3</sup> Apart from joining the Workfare Programme, workers can (a) reach an agreement with their former employer for the payment of compensation, or (b) obtain a severance allowance in cases of unjustified dismissal (provided that the employment relationship had lasted a minimum of 12 months).

<sup>4</sup> The Workfare Programme replaced the previous employment legislation system, which had largely been based on the payment of severance allowances.

<sup>5</sup> The ILO defines informal employment as encompassing “persons in employment who, by law or in practice, are not subject to national labour legislation and income tax or entitled to social protection and employment benefits. Informal employment can exist in both the informal and the formal sector of the economy” (ILO, 2013, p. 4). To assess whether a job is formal or informal, it is therefore necessary to establish (a) whether the sector of employment is formal or informal, and (b) the particular category of the worker’s status in employment. A slightly simpler definition can be applied in the case of the Workfare Programme, since all individuals included in the analysis fall into the “employee” category of status in employment. For this category, the definition of formal employment is the same regardless of whether the worker is employed in the formal or informal sector. In applying the ILO definition of informal employment to employees, it is recommended to check for the absence of three contributions: job-related employer contributions to social security, benefits from paid annual leave, and benefits from paid sick leave. Because of the limitations of the available data, we have categorized Workfare Programme participants as having been in informal employment only on the basis of the payment of social security contributions by their former employers.

<sup>6</sup> The legislation concerning the Workfare Programme does not explicitly mention informal employment. Rather, the defining principle for participation is for an employment spell to be insurable (i.e. that contributions for the worker should have been paid for that job). Since there is a presumption that all jobs are insurable in Mauritius, all workers (meeting the other eligibility criteria) are eligible to participate in the Workfare Programme.

eligibility, all reasons for job loss are accepted except for voluntary resignation.<sup>7</sup> Some categories are nevertheless excluded from participation, including part-time workers, individuals employed in the public sector, and workers previously employed by statutory authorities that do not pay social security contributions.

The Workfare Programme is administered by the Ministry of Labour, Industrial Relations, Employment and Training (MLIRET) in coordination with the Ministry of Social Security, National Solidarity and Environment and Sustainable Development (hereafter referred to simply as the “Ministry of Social Security”) and other public agencies, as explained below. To join the programme, an unemployed person has to register with the Labour Office of the district of residence and have an interview with a labour inspector. Registration must take place within 14 days after termination of employment. At the Labour Office, the jobseeker is asked to provide his or her personal details, the contact details of the previous employer, and information on the characteristics of the previous job (e.g. salary, tenure and occupation). This information is usually obtained from the letter of termination of employment (or directly from the worker if no such letter exists). The labour inspector then contacts the former employer, who needs to visit the Labour Office to confirm the information provided by the worker and sign the official documentation.<sup>8</sup>

Once enrolled in the Workfare Programme, the jobseeker receives for a maximum period of 12 months a combination of income support and activation measures that is aimed at protecting living standards while providing incentives for labour market participation:

- *Income support:* The income support component of the Workfare Programme comprises a “Transitional Unemployment Benefit” (TUB), the disbursement of which is administered by the Ministry of Social

<sup>7</sup> The exclusion of those who have voluntarily resigned from their job can best be explained in terms of the context in which the Workfare Programme was introduced – after the eruption of the global financial crisis, policy-makers expected an increased number of lay-offs.

<sup>8</sup> Employers are under an obligation to visit the Labour Office to confirm the information provided by their former employees (i.e. MLIRET can summon employers who fail to do so). In case of disagreement between the worker and the employer on the details of employment and termination, both parties are summoned to the Labour Office where a labour inspector will hear their versions and mediate between them. However, our discussions with local authorities in Mauritius made it clear that such disagreements (or refusals by employers to visit the Labour Office) are quite rare in practice. In most cases, all the necessary information can be obtained from the employment contract and the letter of termination of employment.

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Security. The level of support is set at 90 per cent of the previous salary in the first quarter of unemployment, decreasing to 60 per cent in the second quarter and eventually to 30 per cent of the previous salary for the remaining six months. Such decreasing replacement scales are frequently found in unemployment benefit schemes in advanced economies, and are designed to increase incentives for individuals to look for a job as the unemployment spell progresses (Boeri and van Ours, 2014). The replacement rate in Mauritius is more generous than the one present in most advanced and emerging economies at the beginning of the unemployment spell, while the decline over time to only 30 per cent is one of the steepest internationally (Asenjo and Pignatti, 2019). As an additional feature, the TUB may never exceed a specified cap – this was 16,665 Mauritian rupees (MUR) in 2018 and is updated yearly in accordance with the maximum insurable wage within the social security system – and it may never fall below the threshold of MUR3,000 (an amount that has been constant since 2009).<sup>9</sup> While the TUB is paid monthly from the date of termination of employment, there is usually a time lag before the first TUB payment is made, which is due to the time required to process the application. The first payment therefore consists of the total TUB amount accrued until then.

- *Active support:* The second pillar of the Workfare Programme consists of mandatory participation in various activation measures. Specifically, within 14 days after registration at the Labour Office, the jobseeker must choose one out of three available options:<sup>10</sup> (a) job-search support provided by the Employment Information Centres, which are the providers of public employment services in the country; (b) training or reskilling programmes organized by the National Empowerment Foundation (this option was only available until 2016); and (c) start-up support delivered by SME Mauritius Ltd (see box 4.1 for details). The jobseeker discusses these options with the labour inspector, but the choice made is not based on any profiling. New registrants are therefore free to decide which option best fits their personal and professional needs. This registration procedure is different from those in place in many advanced economies,

<sup>9</sup> The upper and lower bounds cited above are equal to approximately US\$180 and US\$1,020 in purchasing power parity (PPP) terms. The calculation is based on the IMF conversion rate retrieved on 8 August 2019 (IMF, 2019).

<sup>10</sup> In practice, most jobseekers choose the preferred activation measure during their first visit to the Labour Office.



where an initial assessment and profiling of the jobseeker are conducted at the time of registration for the unemployment benefit and referral to the relevant activation programme (OECD, 2015). The obligation to participate in the activation measures ends when the individual leaves the programme. However, some of the services mentioned above are available to all jobseekers in the country, including employed individuals, regardless of participation in the Workfare Programme.<sup>11</sup>

The maximum duration of participation in the Workfare Programme is 12 months from the date of termination of employment. However, an individual has the obligation to leave the programme earlier in the event of successful re-employment (including the launch of a business in the case of those who have opted for start-up support). This is verifiable only when a worker finds a formal job (i.e. one involving the payment of social security contributions), since such appointments are registered and automatically communicated to the Ministry of Social Security, which will terminate the payment of TUB entitlements. Finding informal employment should, at least in theory, also terminate participation in the Workfare Programme, since participants are required by law to report to MLIRET when they obtain a job (informal or otherwise). This is, however, difficult to verify and there is no penalty for failure to report. In either case, only employment spells lasting at least 30 days entail the loss of eligibility to participate in the Workfare Programme. This additional requirement is meant to ensure quality re-employment and prevent casual jobs from interrupting the support provided to jobseekers. Other reasons for the termination of participation include: (a) refusing an offer of employment for the second time; (b) refusing a training offer for the second time; and (c) dropping out of a training scheme into which a participant had previously been admitted. In practice, these provisions are not enforced very strictly, and all participants who leave the programme before the maximum period of 12 months do so as a result of re-employment.

<sup>11</sup> Registration procedures and reporting requirements may vary depending on whether participants are registered with the Workfare Programme.

#### Box 4.1. Activation measures offered under the Workfare Programme in Mauritius

Three types of ALMP are available to individuals joining the Workfare Programme: they are organized by the various public agencies to which the Ministry of Labour, Industrial Relations, Employment and Training (MLIRET) has outsourced the delivery of these services. The options differ substantially in terms of their content and objectives.

First, workers can opt to benefit from the public employment services provided by one of the Employment Information Centres (EICs) across the country's regions. The main objective of this option is to encourage rapid re-employment through adequate job matching. When visiting an EIC, workers provide detailed labour market and personal information, which the caseworker enters into a dedicated job-matching program. On the basis of the matches found by the software, caseworkers create lists of candidates, which are then sent to employers. Alternatively, caseworkers can provide a list of potentially relevant job openings directly to workers, though this is done less frequently. At all times, jobseekers can consult available vacancies posted in the EICs. The EICs also organize workshops covering such topics as CV writing, job-searching skills and preparation for an interview. As for follow-up, jobseekers are expected to report their employment status every four months to the EIC (by visiting the centre in person). However, the profiles of Workfare Programme participants are left active in the software (i.e. they can continue to be sent to prospective employers) even if participants fail to report every four months.

Second, Workfare Programme participants can opt for training activities organized by the National Empowerment Foundation (NEF). The main goal here is for participants to improve their skills (e.g. through the acquisition of either technical or soft skills), so that they can then aspire to better jobs. Its great value notwithstanding, the training option ceased to be offered as of 2016, since the mandate of the NEF was modified (to support individuals at risk of social exclusion) and MLIRET has been unable to find a new training provider. Until 2016, Workfare Programme participants choosing the training option could opt for either standard training or placement services. Under the former, participants took part in training programmes organized by the Mauritius Institute of Training and Development that had a maximum duration of 12 months. The training programmes were of a technical nature or covered soft skills (e.g. life skills), and were free of charge (the fees were sponsored by the NEF). Under the placement option, participants were contacted by employers willing to hire them on a temporary basis and also to provide them with some training. If the salary received as part of the traineeship was higher than the amount provided by the TUB, the individual had to leave the Workfare Programme.

Lastly, the third option consists of support for micro-enterprise creation. This is provided by the parastatal body Small and Medium Enterprises Mauritius (SME Mauritius) Ltd, which offers business advice and facilitation services to those wishing to launch a business. Participants choosing this option receive information on how to develop a business idea, where to seek assistance with starting up a business, how to prepare a business plan, and on the clearances and permits required to set up an

enterprise. In addition, Workfare Programme participants can sign up for training programmes directed at potential entrepreneurs. SME Mauritius Ltd does not directly provide financial assistance (e.g. grants, loans), but it gives would-be entrepreneurs information on the institutions to which they can apply for such support and on the procedures involved. Individuals can remain in touch with SME Mauritius Ltd even after the launch of their business if they need advice on how to consolidate or expand it.

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## B. AN ASSESSMENT OF THE WORKFARE PROGRAMME

As we have seen, the Workfare Programme is an innovative intervention that offers a combination of income and employment support to all eligible jobless individuals, regardless of whether they have formal or informal employment histories. Assessing the effectiveness of this programme, therefore, provides a unique opportunity for studying the complementarity between income support and ALMPs that this report is concerned with.

The assessment of such a comprehensive programme enables us to answer a range of questions. First, those related to the institutional characteristics of the intervention, such as whether it is reaching the most vulnerable groups in the population and whether the benefits paid out provide sufficient support to unemployed individuals. These institutional aspects are all the more important in that the success of any integrated approach largely depends on its design and implementation characteristics (Chapter 2). Second, evaluation of the participants' labour market outcomes once they leave the programme allows us to assess its effectiveness in that respect, too. More generally, addressing these questions is important from the point of view of international labour standards, since the provision of income support and employment policies is a core State obligation, and the inclusion of marginalized groups (notably informal workers) in unemployment benefit schemes and activation measures is a matter of concern for the whole international community.<sup>12</sup>

The wide-ranging analysis presented below is based on a combination of rich individual-level administrative and survey data that were made available by various institutions in the country, including MLIRET, the Ministry of Social Security, Statistics Mauritius (the national statistical agency) and the regional Employment Information Centres. In particular, we were able to match the administrative data on programme participants obtained from MLIRET and the Employment Information Centres with the participants' entire social security records (i.e. before and after participation in the Workfare Programme) obtained from the Ministry of Social

<sup>12</sup> See the discussion in Chapter 2 of the evaluation of Recommendation No. 202 conducted by the Committee of Experts on the Application of Conventions and Recommendations (ILO, 2019), and on Recommendation No. 204 (ILO, 2015).

Security. Additionally, comparison of Workfare Programme participants with individuals in the labour market as a whole was made possible by data from the Continuous Multi-Purpose Household Survey, which were provided by Statistics Mauritius.<sup>13</sup>

## 1. Coverage of the Workfare Programme

*Coverage of the Workfare Programme is low but has increased substantially since 2009.*

According to our estimates, approximately 21 per cent of unemployed Mauritian workers met the eligibility criteria of the Workfare Programme between 2009 and 2016 (this share is the eligibility rate).<sup>14</sup> However, only 8 per cent of unemployed Mauritian workers participated in the Workfare Programme during the same period (this share is the coverage rate).<sup>15</sup> This means that the take-up rate among eligible individuals is approximately 39 per cent (i.e. 8 per cent divided by 21 per cent),<sup>16</sup> or, expressed differently: only four in ten eligible unemployed persons participate in the Workfare Programme (Liepmann and Pignatti, 2019). This is surprising, since, in theory, one would expect all eligible individuals to participate in the Workfare Programme. In practice, however, several reasons may be preventing eligible individuals from participating, including lack of information, which appears to act as a major brake on take-up rates in Mauritius. Thus, information campaigns to publicize the Workfare Programme seem to have been extremely limited in the country compared with other similar interventions (e.g. the Youth Employment Programme

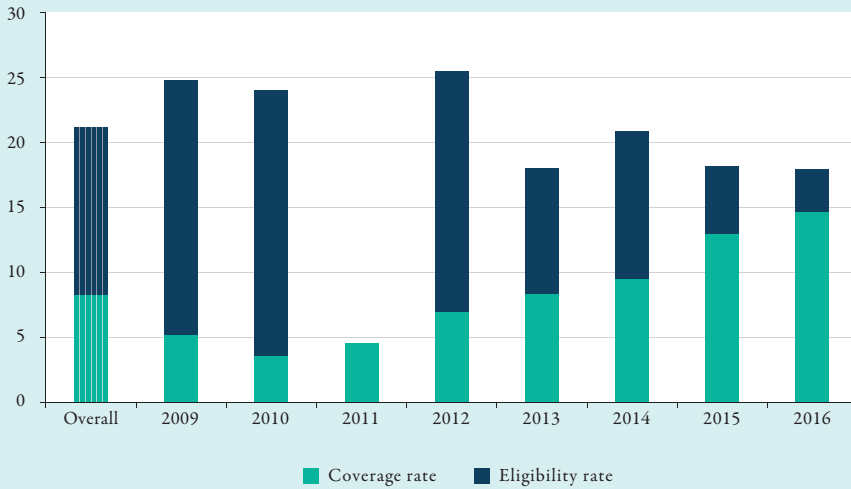
<sup>13</sup> For more details, see Liepmann and Pignatti (2019) and Asenjo and Pignatti (2019).

<sup>14</sup> The “eligibility rate” is the share of unemployed individuals who fulfil all three eligibility criteria, measured as a percentage of the total number of unemployed. An estimated 63 per cent of unemployed persons worked for at least 180 days with their previous employer (the first eligibility criterion); an estimated 60 per cent of unemployed persons had worked at least 34 hours per week (a proxy for full-time employment – the second criterion) and an estimated 57 per cent of the unemployed lost their job for reasons other than voluntary resignation (the third criterion). An estimated 21 per cent of all unemployed persons in Mauritius fulfilled all three criteria.

<sup>15</sup> The “coverage rate” is computed as the percentage of participants out of the total number of unemployed in the reference period. Given that the Workfare Programme targets only individuals who have been dismissed, it could be argued that a more realistic definition of coverage would be to divide the number of participants by the number of unemployed who lost their job involuntarily. Using this alternative definition, the coverage of the programme would be around 14 per cent between 2009 and 2016. However, the coverage rate is generally computed as a share of the total unemployed population, since it is assumed that all unemployed persons (irrespective of the nature of their job loss) may be in need of government support when searching for a new job. For that reason (and also to ensure cross-country comparability), the first definition, based on the total number of unemployed, is used in this chapter.

<sup>16</sup> The “take-up rate” is the percentage of participants out of the total number of unemployed individuals who meet the criteria for participation in the Workfare Programme (i.e. the eligible unemployed).

**Figure 4.1. Workfare Programme coverage and eligibility rates, overall and by year, 2009–2016 (%)**



Note: This figure displays the estimated eligibility rates (i.e. the share of unemployed individuals meeting the criteria for participation in the Workfare Programme) and coverage rates (i.e. the share of unemployed individuals actually participating in the programme) during the period 2009–2016 and for the different years (see footnotes 14 and 15 for detailed definitions of these rates). More specifically, the coverage rate is estimated as the number of participants (obtained from administrative data of the Workfare Programme) divided by the number of unemployed (based on the Continuous Multi-Purpose Household Survey (CMPHS) survey data). The eligibility rates are estimated using the CMPHS data. Data on eligibility for 2011 are not available.  
Source: Liepmann and Pignatti (2019).

and the Back To Work Programme). Instead, awareness of the programme appears to have increased over time through informal information-sharing.

Despite the rather low overall coverage, trends in participation point to a gradual increase. While in 2009 fewer than 2,000 workers participated in the Workfare Programme, by 2016 the number of participants had reached 5,700.<sup>17</sup> The coverage rate, thus, increased from 5 to 15 per cent of unemployed individuals between 2009 and 2016. This increase can be explained in terms of two opposing forces: a decrease in the eligibility rate, on the one hand, and a stronger increase in the take-up rate, on the other. Thus, the share of eligible individuals among the unemployed decreased over time (from around 25 per cent in 2009 to 18 per cent in 2016), but the share of eligible individuals who participated in the Workfare Programme increased considerably (from 20 to 82 per cent during the same period), as can be seen in figure 4.1. As a result, the coverage rate is now mostly

<sup>17</sup> During the same period, the estimated number of unemployed remained relatively stable (decreasing from just above 22,000 in 2009 to 20,260 in 2016). This confirms that the level of participation in the Workfare Programme has not risen because of an increase in the number of unemployed but, rather, because of greater coverage.

constrained by the low eligibility rate, while take-up among eligible workers is almost at its maximum.<sup>18</sup> From an international perspective, the coverage of the Workfare Programme, standing at 15 per cent in 2016, has been generally below that of similar interventions in most advanced economies but roughly in line with the values reported for some emerging and developing economies (e.g. South Africa and China).

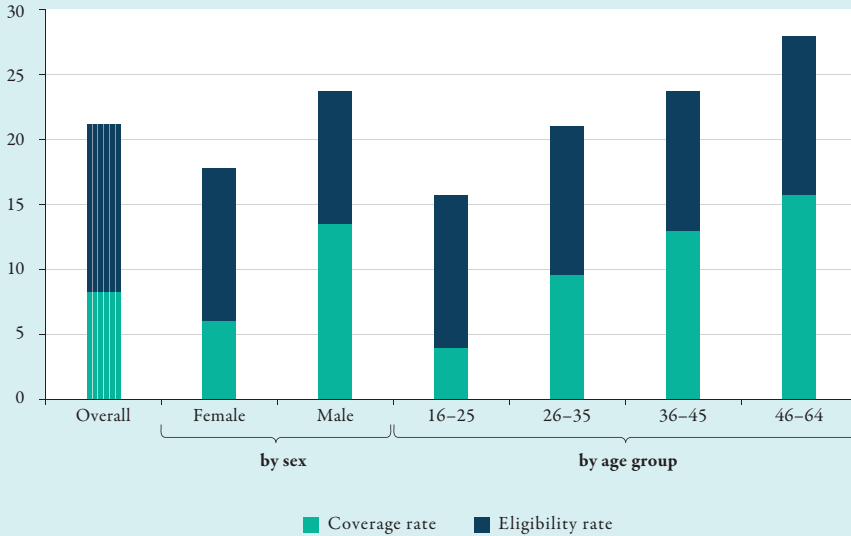
*Coverage of the programme remains concentrated among male and older workers.*

Some notable differences in participation can be observed across different groups in the labour market (figure 4.2). First, men are more than twice as likely as women to participate in the Workfare Programme: the coverage rate between 2009 and 2016 was 6.1 per cent for women and 13.6 per cent for men. This gap is driven by a lower eligibility rate for women (e.g. women are more likely to quit their jobs, mostly for family reasons; while 22 per cent of women quit their job for this reason, 0 per cent of men do so) and also by a lower take-up rate among eligible women: only one in three eligible women participate in the programme compared with almost two in three eligible men. Second, younger workers are less likely to participate in the Workfare Programme compared with relatively older workers. In particular, the coverage rate is the lowest among unemployed workers aged 16 to 25 (less than 4 per cent of them participated in the programme between 2009 and 2016) and the highest among the unemployed aged 46 or above (for whom the coverage rate was 16 per cent during the same period). The different coverage rates across age groups are also driven by differences in eligibility rates (with the young unemployed being less likely to meet the eligibility requirement of having been continuously employed for at least 180 days), and by differences in take-up rates among otherwise eligible individuals (i.e. only one in four eligible young unemployed participate in the programme compared with more than two in four unemployed above the age of 46).

Some possible causes of the different take-up rates among different groups of otherwise eligible individuals (e.g. men versus women, young

<sup>18</sup> It is important to note that the Workfare Programme represents only one option (albeit the main one) for unemployed individuals (i.e. they can also obtain an agreement with the employer or make a claim for unfair dismissal). In this sense, full take-up (i.e. a rate of 100 per cent) should not be expected.

**Figure 4.2. Workfare Programme coverage and eligibility rates, overall and by sex and age, 2009–2016 (%)**



Note: For each group, coverage and eligibility rates are estimated as explained in the note to figure 4.1. The estimates are based on pooled years from the period 2009–2016.  
Source: Liepmann and Pignatti (2019).

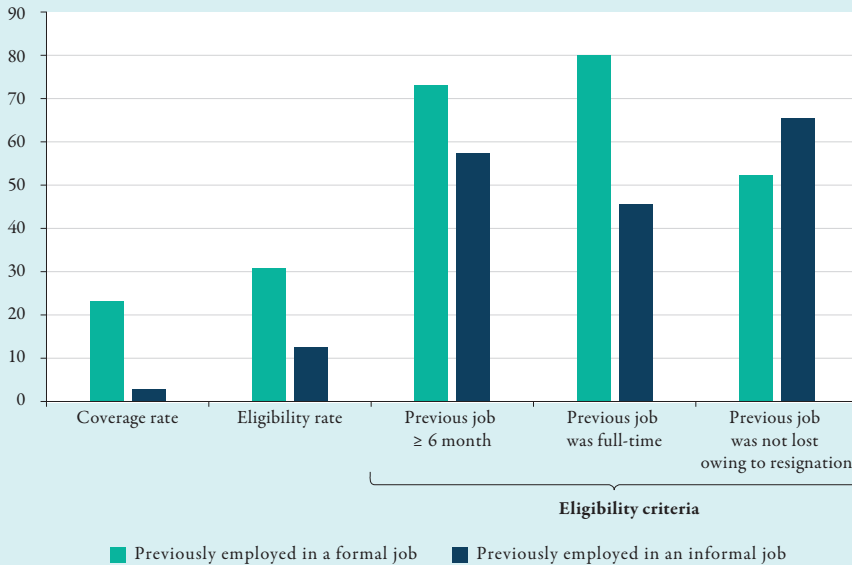
versus prime-age workers) include: (a) different levels of awareness of the programme’s existence; (b) specific barriers to entry, such as family responsibilities; (c) different job-search approaches (e.g. some groups are more likely to search for informal employment); and (d) different expectations regarding the benefits of participation.

*The programme has not yet managed to reach unemployed people who were previously in informal employment.*

Whether the Workfare Programme reaches a diverse range of participants – with diversity here referring to the status (formal vs informal) of their previous job – is another central question in view of the innovative feature of allowing informal workers to join the programme (i.e. irrespective of previous social security contributions). In practice, it seems that coverage of the Workfare Programme among informal workers is still extremely limited (figure 4.3). Between 2012 and 2016, the coverage rate of the



**Figure 4.3. Participation in the Workfare Programme among unemployed persons who were previously employed formally and informally, 2012–2016 (%)**



Note: The figure displays the coverage and eligibility rates for Workfare Programme participants who were previously employed in formal and informal jobs, together with the share of these jobless individuals meeting the three different eligibility criteria. The coverage rate has been estimated by dividing the number of Workfare Programme participants who were previously in informal employment (available from MLIRET data) by an estimate of the total number of informal unemployed on the basis of the CMPHS data. The latter estimate was obtained by applying the informality rate to the total number of unemployed. The figure covers the years from 2012 onwards (data on informal employment are not available for earlier years).

Source: Liepmann and Pignatti (2019).

Workfare Programme was 23.6 per cent among unemployed individuals who were previously employed in a formal job, compared with just 3 per cent among unemployed individuals previously employed in an informal job. This raises doubts as to the programme's ability to reach the segment of the labour market most in need of assistance. As with age and gender differences (discussed above), these discrepancies in coverage rates are explained to some extent by the different likelihood of formal and informal workers of meeting the eligibility requirements. In particular, during the period 2012–2016 only 13 per cent of unemployed individuals previously employed in an informal job fulfilled the three criteria for participation in the Workfare Programme, compared with 31 per cent of unemployed individuals previously employed formally. The data show that in comparison to individuals previously employed formally, those previously employed in

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an informal job are both less likely to have worked for six months and to have been employed full-time (Liepmann and Pignatti, 2019). This is not surprising, given the nature of informal jobs, which generally tend to be short-term and are often part-time (ILO, 2018a). Moreover, eligible workers who were previously employed informally are also less likely to apply for enrolment, probably owing to a lack of knowledge of the programme or to a fear of the implications of formalizing their status.<sup>19</sup>

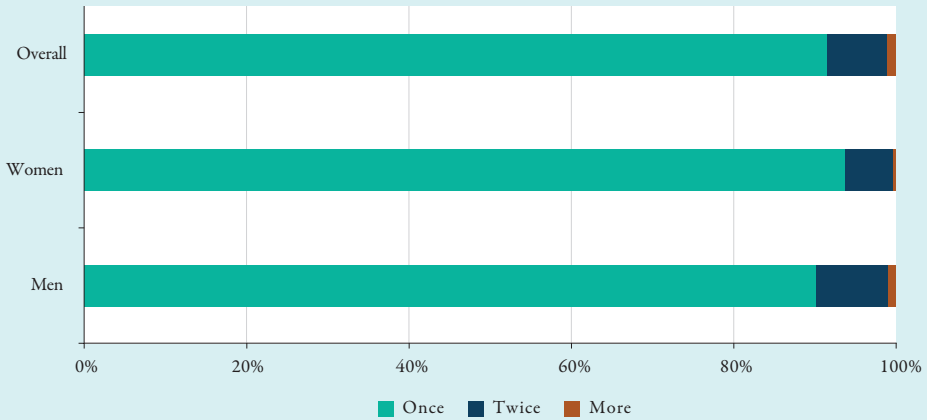
## 2. Participation in the Workfare Programme

*Jobseekers participate in the programme out of necessity rather than convenience.*

One concern that is often raised in relation to unemployment benefit schemes is their potentially disincentive effects on employment, i.e. the possibility that some people may strategically lose their job in order to receive benefits. In the case of Mauritius, this risk should be irrelevant, since jobless individuals appear to join the programme only if they have suffered dismissal. In fact, the vast majority (91.7 per cent) of individuals who joined the programme from 2009 to 2016 did so only once during the whole period (figure 4.4). An additional 7.7 per cent joined the programme twice; only 0.6 per cent did so more than twice. There are no significant differences between men and women. Given that the median job tenure in Mauritius is 24 months and in view of the long time span considered in our evaluation (eight years), it is safe to conclude that there is no evidence of individuals strategically leaving their jobs in order to join the Workfare Programme.

<sup>19</sup> The registration procedures under the Workfare Programme include some reporting obligations for both workers and former employers that may be unrealistic for informal workers (e.g. the existence of an employment contract, verification of employment status). See section C below for more details.

**Figure 4.4. Number of times a Workfare Programme participant joined the programme between 2009 and 2016**



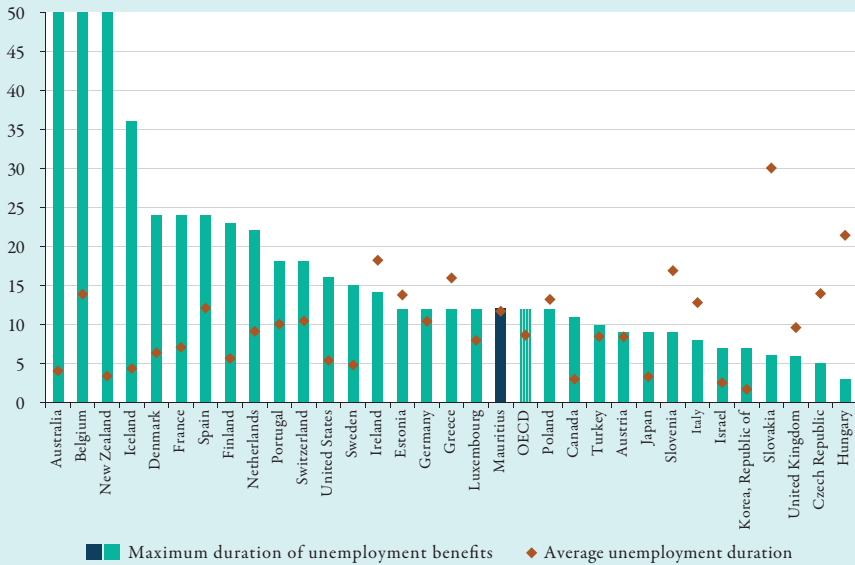
Source: Authors' calculations, based on MLIRET administrative data.

### *The maximum duration of the programme may be too short.*

Because of the average length of unemployment spells in Mauritius, there is a risk that the maximum duration of the programme (i.e. 12 months) may not be sufficient for jobseekers to find adequate employment. So as to obtain a benchmark for the institutional setting in Mauritius, we looked at how the Workfare Programme compares with similar interventions in other emerging or advanced economies with regard, inter alia, to the average level of unemployment benefits and average unemployment duration (figure 4.5).<sup>20</sup> Our analysis suggests that in most advanced economies (with a long history of implementing such programmes) there is a positive difference between the maximum amount of time that an individual can receive the unemployment benefit and the expected average length of the unemployment spell. Naturally, cross-country comparisons do not take into account programme peculiarities or other structural national differences. In this sense, they are not meant to provide policy recommendations but, rather, to serve as a first indication of how other countries have dealt with similar situations.

<sup>20</sup> Figure 4.5 and several other figures below are based on data used in Asenjo and Pignatti (2019). The sample of countries considered in each of these figures varies depending on data availability.

**Figure 4.5. Maximum duration of unemployment benefits and average unemployment duration in OECD countries and Mauritius, 2012 or latest available year (number of months)**



Note: There is no cap to unemployment benefit duration in Belgium.  
Source: Compilation based on Asenjo and Pignatti (2019).

The positive difference between the maximum duration of benefits and the expected average duration of unemployment is a way of ensuring that most jobseekers continue receiving unemployment support during periods of joblessness, while they are transferred to other types of intervention (e.g. non-contributory assistance) if the unemployment spell continues. In this way, jobseekers are protected from the risk of falling into poverty, which is crucial because the unemployment spells can be longer when re-employment rates are low in the first place (Gerard and Gonzaga, 2018). In Mauritius, however, the maximum duration of unemployment support under the Workfare Programme is roughly the same as the average unemployment duration (11.7 months), which means that many jobseekers have to continue looking for a job without any form of income or active support. This is a particular cause for concern because in Mauritius (unlike in many advanced economies) there are no other unemployment assistance schemes to which jobseekers could transition once they have exhausted the maximum duration of the Workfare Programme.<sup>21</sup> Administrative delays

<sup>21</sup> Mauritius has other forms of means-tested social protection programmes that are managed by the Ministry of Social Security or other public institutions. However, they are not tightly linked to an individual's unemployment status in the labour market and they do not involve any labour market conditionality.

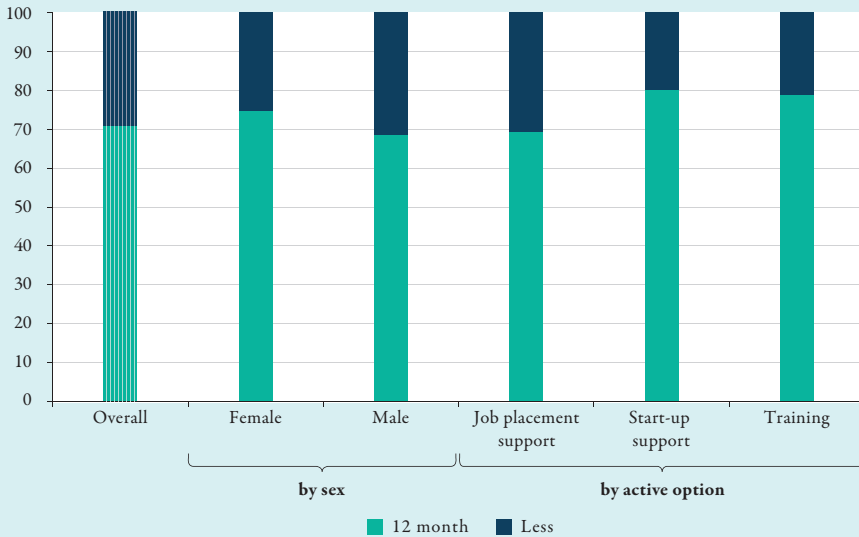
at the time of registration add to the concern, because they lead to many jobseekers not receiving the first instalment of the TUB until a few months after job loss. These participants therefore effectively lose their eligibility to the benefit within less than 12 months of becoming unemployed.

*Most participants stay in the programme for the entire duration.*

Between 2009 and 2016, around 70.7 per cent of participants stayed in the Workfare Programme for the maximum duration of 12 months (figure 4.6). Importantly, this trend is not driven by any strategic behaviour of jobseekers but by necessity, as re-employment probabilities do not increase after the 12th month of participation in the programme. On the contrary, they remain constantly low, which may be due to a number of reasons, including demand or supply constraints and lock-in effects from participation in activation measures (e.g. individuals enrolled in training interventions throughout their participation in the programme). This serves to confirm the limited risk of opportunistic behaviour, i.e. taking advantage of the benefit scheme. Women are slightly more likely than men to remain in the programme for the entire duration: 74.2 per cent of women compared with 68.4 per cent of men. At the same time, younger participants (aged 16–25) are less likely than older participants (aged 26 and above) to remain in the programme for the entire duration.<sup>22</sup> Moreover, there are also differences among the participants in the three different activation measures offered by the programme, with those receiving job placement support being significantly more likely to leave the programme before the 12 months are up than those receiving training or start-up support. These differences are not surprising, given the different goals of the three measures: while job placement support aims at rapid re-employment, start-up support and training are designed to build up human capital and enable people to restart or switch their careers.

<sup>22</sup> The CMPHS data point to shorter unemployment spells for young workers in general (irrespective of whether or not they are participating in the Workfare Programme). Although different explanations are possible, in many emerging and advanced economies this has to do with the greater obstacles faced by older workers when they try to re-enter the labour market after losing their job.

**Figure 4.6. Share of participants staying in the Workfare Programme for 12 months, overall, by sex and by type of active support chosen (%)**



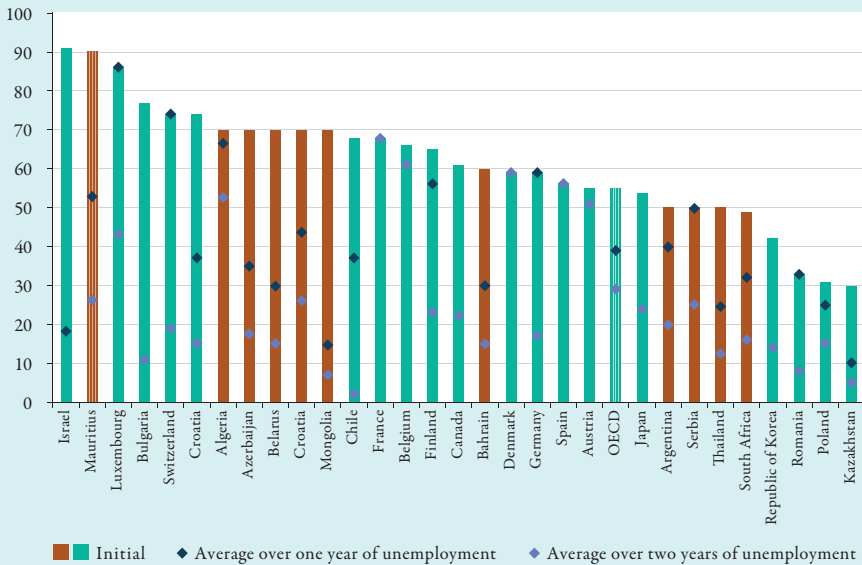
Source: Authors' calculations based on MLIRET administrative data.

### 3. Integrated support provided by the Workfare Programme

*Replacement rates from the Transitional Unemployment Benefit are initially high but drop sharply with time.*

As mentioned above, Workfare Programme participants are able to enjoy a combination of income support – the Transitional Unemployment Benefit (TUB) – and three types of activation measure (job placement support, training and start-up assistance). This integrated approach is meant to provide income security during periods of joblessness while seeking to increase individuals' likelihood of securing better jobs in the future. As is common with unemployment benefit schemes around the world (Boeri and van Ours, 2014), the TUB in Mauritius is paid out according to a decreasing schedule. Decreasing replacement rates (i.e. the ratio of unemployment benefits to previous wages) over time is aimed at increasing the incentives for jobseekers to look for a job throughout the unemployment spell (Peyron Bista and Carter, 2017). In Mauritius, the TUB is set at

Figure 4.7. Average replacement rates from unemployment benefits, selected countries, 2015 or latest available year (%)



Note: Green bars denote advanced economies, while orange bars denote emerging or developing economies. The replacement rate is the ratio of net income while out of work to net income while in work. See footnote 23 for details of how average one-year and two-year replacement rates are calculated.

Source: Compilation based on Asenjo and Pignatti (2019).

90 per cent of the previous wage during the first three months of participation in the Workfare Programme; it then decreases to 60 per cent for the next three months and, finally, to 30 per cent of the previous wage for the last six months. The decline of the TUB in Mauritius is particularly sharp by international standards (figure 4.7). While the initial replacement rate (at 90 per cent) is one of the highest among the countries we looked at for this report, the successive decreases to 60 and 30 per cent are very steep compared with those in other countries (Asenjo and Pignatti, 2019). Moreover, the duration of unemployment benefits in Mauritius may not exceed 12 months, which means that just one year after job loss, those leaving the programme have a zero replacement rate if they continue to be unemployed. If we average the replacement rates per year,<sup>23</sup> we find that Mauritius has an average one-year replacement rate of 52 per cent and an average two-year replacement rate of 26 per cent. While these values

<sup>23</sup> Average one-year and two-year replacement rates are obtained as a time-weighted average of the three different replacement rates under the TUB. To calculate the two-year replacement rate for Mauritius, a replacement rate of zero was assumed for the second year after job loss.

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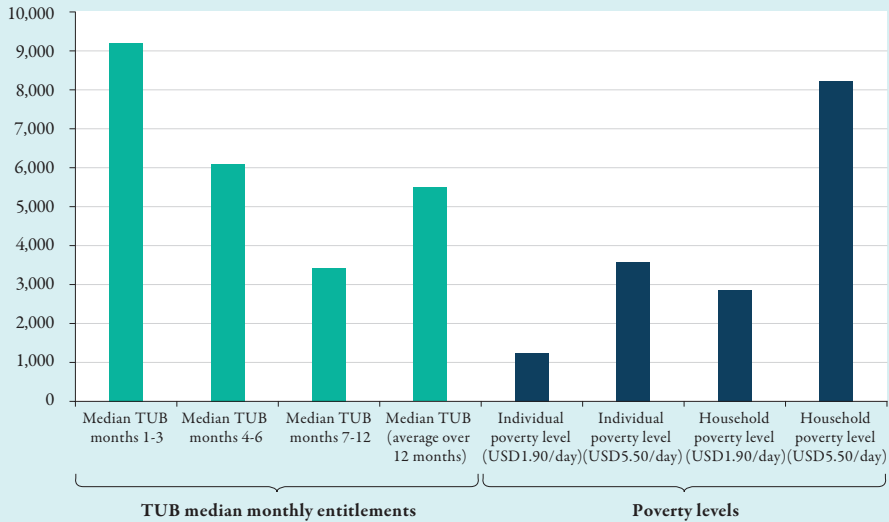
are still in line with those registered in many advanced and (especially) emerging economies, the decrease from the initial to the final replacement rate (i.e. in this case the two-year rate) in Mauritius is one of the largest in our sample (and the largest among emerging economies in the sample). This is of great significance because excessively sharp reductions in benefit generosity over the duration of the programme may undermine a sense of income security and prompt participants to take up any available job (e.g. Nekoei and Weber, 2017).

*The steep drop in the replacement rate leaves many people at risk of poverty during the final months of participation.*

Ultimately, whether replacement rates are at the right level or not depends on their ability to protect participants during the unemployment spell. Poverty is a benchmark that can be used to measure their suitability. In Mauritius, the individual poverty threshold in 2017 corresponded to an income of MUR1,245 per month when applying the extreme poverty line of US\$1.90 per day, and to MUR3,600 per month when applying the poverty line of US\$5.50 per day (Statistics Mauritius, 2018). These poverty thresholds are higher, though, if all people whose livelihoods depend on the income of Workfare Programme participants, such as family members, are taken into account. If this is done using the reported average number of 1.9 dependent children per Workfare Programme participant, then the household poverty thresholds increase to MUR2,851 and MUR8,244 per month for, respectively, the two poverty lines of US\$1.90 and US\$5.50 per day. While the median TUB transfer received by participants – standing at MUR9,200 (US\$427 in purchasing power parity (PPP) terms) during the first three months of participation – is above both individual and household poverty thresholds, the situation is less encouraging during the remaining nine months (figure 4.8). As a result of the decreasing schedule, the TUB transfer that participants receive during the last six months is MUR3,400 (slightly below US\$158 in PPP terms) per month, which is below the individual poverty line of US\$5.50 per day and far from sufficient to sustain household living standards. This means that a substantial share of participants (who have initially low income levels) are placed at



**Figure 4.8. Median monthly entitlements under the Transitional Unemployment Benefit at different points in time compared with international poverty levels (2017 Mauritian rupees)**



Note: Based on MLIRET administrative data and taking into account all Workfare Programme participants. TUB entitlements are inferred from wages reported at the time of enrolment in the programme, and are expressed in 2017 Mauritian rupees (to account for inflation). It should be noted that TUB entitlements reflect the amount participants receive if they stay in the programme for the maximum duration of 12 months; actual payments are smaller for those leaving the programme prematurely.

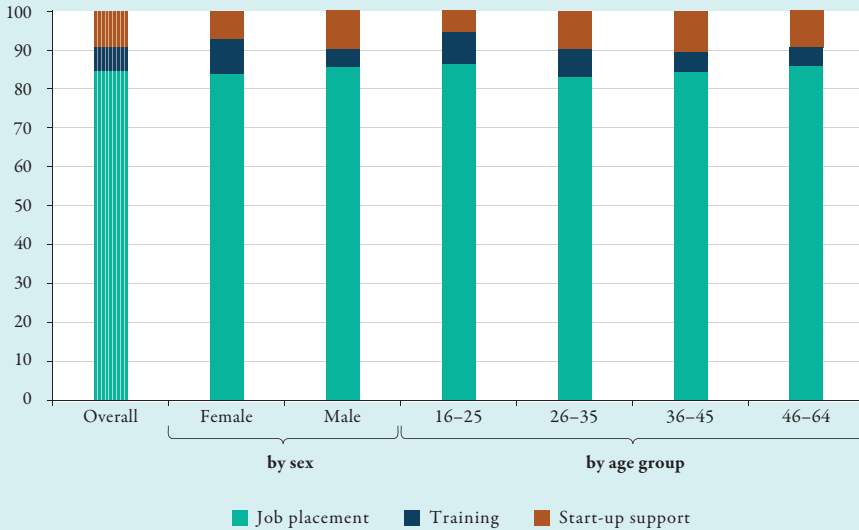
Source: Authors' calculations based on MLIRET administrative data and Statistics Mauritius (2018).

risk of poverty within just six months after job loss, potentially forcing them into lower-paying jobs and precarious forms of employment.

*Among the activation measures on offer, most participants opt for job placement support.*

As already noted, unemployment benefit recipients in Mauritius are free to choose between three activation measures: job placement support provided by the Employment Information Centres, start-up support provided by SME Mauritius Ltd, and training and reskilling activities provided by the National Empowerment Foundation. Participation in one of these measures is mandatory and the disbursement of the TUB is subject to the local Labour Office receiving confirmation of the participant's registration from the relevant provider. Interestingly, the actual choices made are not evenly balanced. Thus, the vast majority (85 per cent) of Workfare Programme

**Figure 4.9. Share of participants choosing each of the three activation options under the Workfare Programme, by sex and age, 2009–2016 (%)**



Source: Authors' calculations based on MLIRET administrative data.

participants opt for job placement support (figure 4.9). This is what one would expect, assuming that most laid-off workers consider themselves job-ready and have rapid re-employment as their main goal.<sup>24</sup> By contrast, 9 per cent of participants opt for start-up support and just 6 per cent for training. These patterns change slightly when the data are disaggregated by sex and age groups. Young Workfare Programme participants (aged 16 to 25) are more likely to opt for training (e.g. possibly to complete their education), while men are more likely than women to opt for start-up support with a view to opening their own business.<sup>25</sup>

*Employability-enhancing support under the programme is limited.*

While mandatory participation in an activation measure can help improve participants' employability in the long run, what matters in practice is the level of their engagement with the providers of active support. Although

<sup>24</sup> Additionally, reporting requirements for the job placement option (every four months only) seem less stringent than for the training or start-up options, which may further encourage people to choose that option (see box 4.1 above for details).

<sup>25</sup> The choice of activation measure does not differ significantly between participants who were previously in formal employment and those who were in informal employment, although people coming to the programme from formal employment are marginally more likely to opt for start-up support than for training.

it is impossible to define an optimal level of engagement, an approximate idea can be obtained by comparing the requirements in place in Mauritius with those in other emerging or developing economies and also in advanced ones.<sup>26</sup> In particular, individuals opting for job placement in Mauritius need to register with their region's Employment Information Centre and then report every four months (see box 4.1 for details). This reporting requirement is relatively mild compared with other countries in our sample, where jobseekers have to report on average every month (figure 4.10).<sup>27</sup> During each visit to the Employment Information Centre, as is also done in other countries, the caseworker checks the status of the participant's job searching and provides counselling as needed. However, in Mauritius there is no obligation for participants to provide evidence of the job applications that they have submitted in the meantime. Moreover, even if the participant fails to report to the Employment Information Centre every four months, there is no penalty for such non-compliance and his or her profile continues to show up as active in the jobseekers' database. This is in contrast with the situation in many other countries, where failure to report generally leads to a reduction or even suspension of the unemployment benefit (Asenjo and Pignatti, 2019).

A similar picture holds for those opting for start-up support. After registration with SME Mauritius Ltd, Workfare Programme participants who have chosen that option have no specific reporting duty nor an obligation to attend the workshops organized by the support provider.<sup>28</sup> As such, they can decide whether to develop their business idea independently or with the support of SME Mauritius Ltd. After three to four months,<sup>29</sup> SME Mauritius Ltd contacts the participants to check how their business projects are faring and to deregister them from the Workfare Programme (thereby TUB payments) if they have successfully launched their business. However, this monitoring is conducted only by telephone and is based on

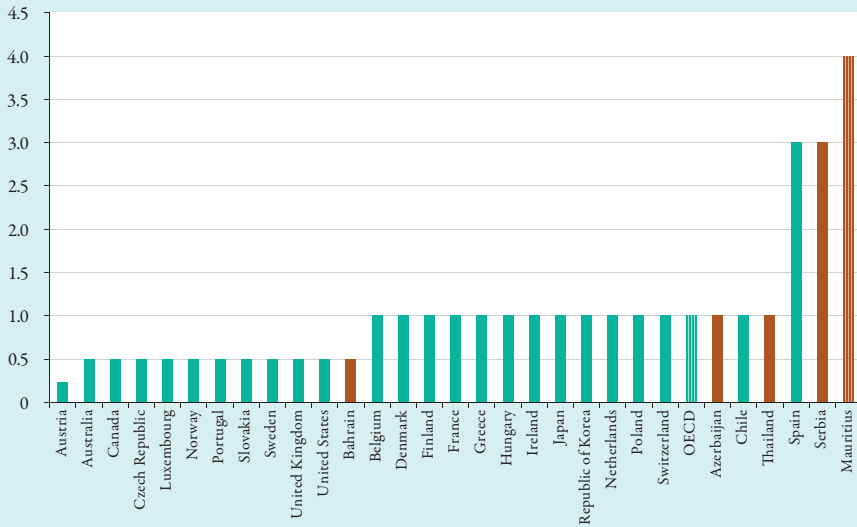
<sup>26</sup> Both excessively low and high levels of participation in activation measures during unemployment spells may be counterproductive (ILO, 2018b).

<sup>27</sup> Of course, the prescribed interval for reporting to the employment services depends on administrative capacity and/or the structure of the labour market in a given country.

<sup>28</sup> SME Mauritius Ltd organizes (a) crafts and skill development courses (e.g. cookery, garment design, woodcraft); (b) courses on small business management (e.g. marketing, "manage your business", "start your own business"); (c) workshops on regulations that small businesses have to comply with (e.g. procurement, import and export procedures, human resources); and (d) specialized workshops (e.g. on industrial property rights, blockchains).

<sup>29</sup> The length of the reporting interval depends on the calendar month in which registration takes place.

**Figure 4.10. Time interval (in months) between compulsory visits to the employment centre, selected countries, 2007 or latest available year**



Note: The data refer to 2007 for OECD countries (except Chile), which are marked in green, and to the current law for all other selected upper-income emerging economies, which are marked in orange, and for Chile. Germany, Italy, New Zealand and Turkey do not have regular reporting requirements.

Source: Asenjo and Pignatti (2019).

self-reported information provided by the participant, which obviously introduces the risk of under-reporting.

Finally, individuals opting for training and reskilling initiatives had slightly more stringent reporting obligations vis-à-vis the institutional provider (i.e. the National Empowerment Foundation). Participants' profiles were directly sent to employers (if they opted for placement) or to the training institution (if they opted for standard training), and they were contacted if a suitable job or training opportunity became available (see box 4.1 above for details). Participants refusing two consecutive job or training offers had to leave the Workfare Programme. The enforcement of this rule was in practice limited, and there are no reported cases of individuals having left the Workfare Programme for such reasons. Our discussions with the local authorities highlighted the fact that participants were likely to be offered a placement or training opportunity, and that they generally accepted the

first offer that was made to them.<sup>30</sup> Unfortunately, the training option for Workfare Programme participants was discontinued in 2016.

#### 4. Beneficiaries' outcomes after participation in the Workfare Programme

Finally, our assessment must consider the key question of whether these two sets of benefits (income support and activation measures) have achieved their stated purpose. In other words, are participants better off in terms of their labour market prospects thanks to the Workfare Programme?

##### *Re-employment patterns are strongly influenced by previous labour market histories*

A key measure of the effectiveness of the Workfare Programme is whether it has been able to reduce the length of unemployment spells, thereby accelerating re-employment. Indeed, from the jobseeker's perspective, swift reintegration into the labour market reduces the risk of human capital depreciation, social exclusion, income loss, and labour market detachment. For governments, achieving a high rate of re-employment is important because longer unemployment spells place a burden on public finances, with direct costs in the form of additional unemployment benefits and indirect costs in the form of lower tax revenues.

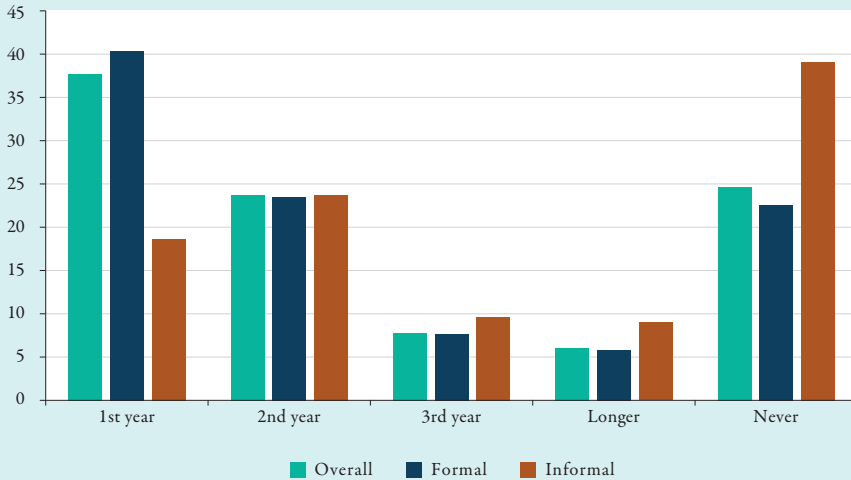
Our analysis reveals that 38 per cent of Workfare Programme participants find a formal job<sup>31</sup> already in the first year after job loss (figure 4.11).<sup>32</sup> An additional 24 per cent of participants find a job in the second year, 8 per cent in the third year and 6 per cent in the fourth year after job loss. This means that one in four Workfare Programme participants never

<sup>30</sup> The National Empowerment Foundation has a good track record of training and placing individuals with employers. In 2013, it trained 2,932 jobseekers and placed 348 other jobseekers in a job. These figures, however, refer to the entire population, as it is unfortunately not possible to isolate Workfare Programme participants.

<sup>31</sup> Defined here according to whether social security contributions were paid for the job, which we were able to ascertain from the data of the Ministry of Social Security. Although the use of a more complete definition of formal employment (see footnote 5) would have been preferable, our findings remain valid for various reasons. First, one may legitimately assume that jobs found as a result of a government programme are of sufficient quality. Second, most participants (more than 80 per cent) came to the programme from a formal job, and it is likely that they aspired to re-employment in the formal sector.

<sup>32</sup> This is higher than the share of participants leaving the programme before the end of the 12 months' period (around 30 per cent, as shown in figure 4.6). The discrepancy is due to the use of different data sources, though it may also indicate that some jobseekers do not report having found a formal job and that the Ministry of Social Security fails to detect these cases and/or notify MLIRET.

**Figure 4.11. Time elapsed between job loss and re-entry into formal employment, by formality status prior to enrolment in the programme (% of total participants in the Workfare Programme)**



Note: The figure shows the time between job loss and re-entry into formal employment for all programme participants and with disaggregation by formality status prior to joining the programme. The data refer to all individuals who participated in the programme from 2009 to 2015. This figure, moreover, focuses exclusively on first participation in the programme.

Source: Authors' calculations based on MLIRET administrative data and social security records obtained from the Ministry of Social Security.

re-enter the formal labour market in the period studied.<sup>33</sup> A significantly different pattern emerges if we divide the participants into two groups according to their previous status in the labour market. Thus, participants who were previously employed formally have shorter unemployment spells before re-entering formal employment. On the other hand, jobseekers who were previously employed informally have a harder time finding a formal job after their participation in the Workfare Programme: in fact, almost 40 per cent of them never find a formal job after leaving the programme. Finally, if we look at the quality of the new jobs, our analysis reveals that participants receive, on average, slightly higher wages after participation (i.e. compared with the wages received in their last job before joining the Workfare Programme). The average wage gain is MUR180 (2017 values), and it is higher for women (MUR390) than for men (MUR40).<sup>34</sup> This wage gain increases in the following years after participation, but the available data do not allow us to disentangle the actual effects of the programme from simple career effects (i.e. wages increasing with age).

<sup>33</sup> For our analysis we considered individuals who had joined the programme in the years up to and including 2015, and observed their labour market patterns until April 2018.

<sup>34</sup> The three values correspond, respectively, to US\$11, US\$24, and US\$2 in PPP terms.

*A more generous Transitional Unemployment Benefit may delay re-employment, but it does not affect employment patterns in the medium term.*

Having looked at the overall re-employment rates of Workfare Programme participants once they have left the programme, we shall now consider the effects of the various programme components (i.e. the TUB and the activation measures), which we studied by means of counter-factual impact evaluations. Such evaluations make it possible to go beyond a merely descriptive assessment and to identify causal links between participation in the programme and the outcomes of interest. Unfortunately, the available data do not allow us to assess overall programme effectiveness (i.e. participants compared with non-participants), but we can shed light on the effectiveness of its various components considered separately. This is particularly useful for understanding whether there are any trade-offs that need to be considered (e.g. does a more generous TUB delay re-employment?). Moreover, analysis of the various components also serves as an assessment of the programme as a whole.

In order to assess the role of the income support component, an impact evaluation has been carried out using a “regression kink design”, which is appropriate because of the very nature of the TUB entitlement – namely, the presence of lower and upper bounds in benefit generosity as a source of exogenous variation in the amount of benefits received. The purpose of the evaluation is to determine whether a more generous TUB affects the short- and medium-term employment patterns of Workfare Programme participants. Indeed, a key concern over the implementation of unemployment benefit schemes is whether income support delays re-employment owing to participants’ reliance on the benefit, and whether this effect persists over time. In view of its importance from the perspective of policy-makers, it is not surprising that a great deal of research has been devoted to this topic in the context of advanced economies (see Landais, 2015; Schmieder and von Wachter, 2016 for a review). However, very few analyses of this type have been conducted in emerging and developing economies (the study by Gerard and Gonzaga (2018) is one of the

## Box 4.2. Labour market effects of unemployment benefits in Mauritius

An impact evaluation has been conducted to assess the effects of the generosity of unemployment benefits on Workfare Programme participants' length of stay in the programme and post-participation employment outcomes (Liepmann and Pignatti, forthcoming). The analysis matches administrative data on Workfare Programme participants (from MLIRET) with their entire employment histories, which are reconstructed on the basis of social security records (obtained from the Ministry of Social Security).

A key challenge in estimating the causal effect of benefit levels on labour market outcomes is to identify valid comparison and treatment groups that differ only with regard to the level of generosity of the unemployment benefit. Our analysis exploits the fact that the Workfare Programme includes upper and lower bounds for benefit levels (i.e. the TUB may not exceed a specific ceiling nor fall below a given floor). This generates exogenous variations in the amount of benefits received by individuals around the bounds, which are used in the impact evaluation for identification purposes. For example, participants whose TUB entitlements would fall just below the lower bound will receive a slightly higher average TUB compared with individuals on the other side of the bound. This feature allows to compare otherwise similar individuals that differ merely with respect to the relative generosity of the TUB and it is exploited in the analysis through a regression kink design (RKD) (Landais, 2015). The RKD is an extension of the regression discontinuity design (RDD), which is an integral part of the impact evaluation toolkit (Angrist and Pischke, 2014). While the RDD exploits a jump or discontinuity in the likelihood of being treated, the RKD exploits changes in the slope of the treatment indicator (in this case, relative TUB amount) at a specific point of its distribution (called the "kink", in this case corresponding to the upper and lower bounds). If a similar change is observed exactly at the kink point for the different outcomes of interest, this change is ascribed to the presence of a kink in the treatment indicator. The causal impact would then be calculated as the ratio between the change in slope of the outcome and the change in slope for the treatment (Landais, 2015).

Our analysis focuses on the effect of benefit generosity on: (a) length of stay in the programme; (b) number of months until re-employment; and (c) number of months spent in employment during the first and second year after job loss. The results show that a slightly more generous TUB increases the length of stay in the programme, thus delaying re-employment in a formal job. However, the effect is moderate and disappears already after the individual becomes no longer eligible to participate in the Workfare Programme (i.e. in the second year after job loss).



exceptions). The present impact evaluation matches administrative data on Workfare Programme participants from MLIRET with their entire social security records in order to examine the effect of benefit generosity on immediate re-employment patterns and longer-term labour market performance (box 4.2).

Our analysis indicates that a relatively more generous TUB slightly increases length of stay in the Workfare Programme and consequently delays re-employment. The effect is stronger for individuals at the median of the income distribution compared with those in the top decile. In particular, an increase of the benefit level by MUR1,000 (around US\$60 in PPP terms, or 16.67 per cent of the average monthly TUB entitlement over the 12 months) increases the length of stay in the Workfare Programme by 0.06 months for relatively high-income individuals (for whom the upper bound is binding), compared with 0.9 months for relatively less affluent individuals (for whom the lower bound is binding).<sup>35</sup> For relatively poorer individuals, therefore, a slightly more generous level of income support decreases the pressure to immediately find a job in order to avoid out-of-work poverty. This is in line with the rationale behind income support schemes, which seek to protect participants from the risk of falling into poverty and to prevent them from being forced into lower-paying jobs and potentially precarious forms of employment. It is also consistent with the fact that the receipt of income support is more important for people who are suffering relatively greater credit constraint (Landais, 2015).

A longer stay in the Workfare Programme and a slight delay in re-employment are not necessarily alarming phenomena if the more generous TUB actually enhances income protection during joblessness without affecting the quality of subsequent employment patterns. In order to investigate whether that is true, we evaluated the effect that receiving a more generous TUB has on employment outcomes after participants have left the Workfare Programme. Our analysis, which followed exactly the same methodology as that presented in box 4.2 above, found that benefit generosity had a small and statistically non-significant effect on the number of months spent in employment during the second year after job loss (i.e.

<sup>35</sup> The effects on time spent in employment during the first year after job loss are similar in magnitude. In particular, an additional MUR1,000 (around US\$60 in PPP terms) reduces months in employment during the first year after job loss by 0.14 months for individuals at the upper bound and by 0.9 months for those at the lower bound.

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the year following the end of eligibility to participate in the Workfare Programme). This suggests that, whilst a more generous TUB may affect re-employment patterns while a participant is in the programme (as discussed above), it has no noticeable effect on labour supply as soon as individuals leave the programme.

*Among the activation measures offered, start-up support may have the unintended effect of increasing informal employment.*

As with the unemployment benefit component of the Workfare Programme, it is important to understand the effect of participation in the three different activation measures with regard to speeding up the transition to stable employment and also with regard to the quality of subsequent employment. The different types of active support differ substantially in terms of their objectives and the services provided, and also in their cost to the public purse. In this respect, it is important to understand which ALMPs are more effective with regard to specific dimensions, such as employment and wages. An additional impact evaluation was, therefore, conducted to examine the relative effectiveness of the three activation measures under the Workfare Programme. Specifically, we compared the employment trends of individuals who opted for one of the three measures (i.e. job placement, start-up support and training) before and after their participation in the programme. As in the preceding evaluation, the analysis involved matching administrative records of Workfare Programme participants with their entire employment histories, which can be reconstructed from social security records. In this case, the identification of a causal effect (i.e. the effect of participating in any of these measures on subsequent employment outcomes) is achieved by comparing trends in the outcomes of interest before and after participation in the programme using a “difference-in-differences” method (box 4.3).

The results of the evaluation indicate that whilst employment patterns were similar and evolved in parallel before individuals joined the Workfare Programme (box 4.3), after participation, those who had opted for start-up support reported a lower probability of being employed formally compared

**Box 4.3. Relative effectiveness of activation measures under the Workfare Programme**

An impact evaluation was conducted to assess the relative effectiveness of the three activation measures available to jobseekers under the Workfare Programme (Pignatti, forthcoming). Importantly, since participation in one of the activation measures is compulsory for all individuals, a comparison group that does not receive the active support is unavailable. We could thus not examine the effect of a specific activation measure (e.g. training) relative to not benefiting from any activation measure at all. Instead, we examined whether a specific activation measure was more or less effective than the others across a number of dimensions (e.g. employment, wages).

For our evaluation we combined administrative data on all Workfare Programme participants (available from MLIRET) with their entire employment histories (i.e. before and after participation in the programme), which were reconstructed from social security records obtained from the Ministry of Social Security. In order to identify a causal effect, we exploited the panel dimension of the data set through a difference-in-differences (DiD) method. This estimation strategy compares trends in the outcomes of interest between treated individuals and those belonging to the comparison group before and after their participation in the intervention as a way of identifying the effects of treatment. The effect of an intervention can be estimated as the differences over time of the differences across groups (difference-in-differences). The soundness of this estimation strategy relies on the validity of the common trend assumption, which requires that trends in the outcomes of interest would not have differed between treated individuals and the comparison group before participation, i.e. in the absence of treatment. Although it is not possible to test the common trend assumption directly, evidence in support of the assumption can be obtained by looking at trends before participation. These trends are indeed common (i.e. parallel) for treated and comparison observations, which indicates that they would have remained parallel for the whole duration of the analysis had the treatment not taken place.

The results of our evaluation show that job placement accelerates re-employment, and that training and job placement are equally effective in helping individuals find a formal job after leaving the Workfare Programme. By contrast, start-up support is less effective than the other two options in helping individuals find a formal job. Neither start-up support nor job placement have a positive impact on post-participation wages. However, the training option increases participants' wages in the years after their participation in the Workfare Programme.

**Figure 4.12. Average employment rate before and after participation in the Workfare Programme, by type of active support chosen, 2009–2016 (%)**



Source: Pignatti (forthcoming).

with individuals who opted for job placement support or training. This can be seen in figure 4.12, which shows the average employment rates for individuals who opted for one of the three activation measures at different points in time before and after their participation in the Workfare Programme (which is identified in months 0-12). At around 10 percentage points, this difference in effects is statistically significant and large in magnitude. One possible explanation for this difference is that start-up support may lead to the establishment of micro-enterprises, which often begin by operating in the informal economy.<sup>36</sup> Meanwhile, re-employment trends for individuals who opted for training or job placement support are similar after participation in the programme, which implies that these two activation measures are equally effective in helping individuals find a formal job in the short run.<sup>37</sup> However, our analysis also shows that, regardless of

<sup>36</sup> This finding is consistent with existing evidence of the risk of start-up support encouraging labour informality (Escudero et al., 2019; Escudero, 2018). As discussed in Chapter 3 of ILO (2016), this may be driven by the strong correlation between self-employment and informality, and by the fact that small and micro-enterprises often operate in the informal sector.

<sup>37</sup> This contrasts with the results of previous impact evaluations which concluded that training might produce a lock-in effect (Card, Kluve and Weber, 2018). While the more positive result for the training option under the Workfare Programme may be a genuine effect of the intervention, it could also be explained by the actually limited engagement in training activities of individuals choosing this option. Specifically, individuals opting for training may be free to look for a job during their participation in the Workfare Programme and they may, therefore, have similar employment chances as those opting for job placement support.

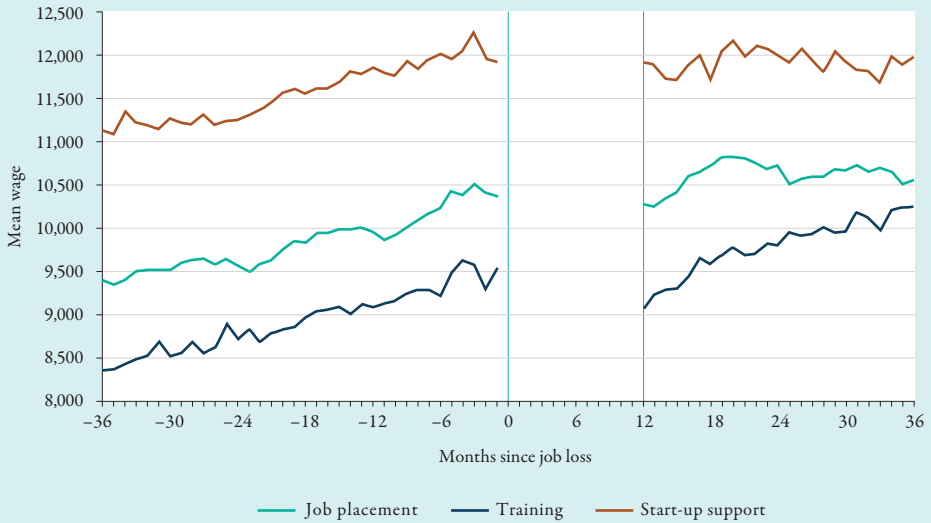
the type of active support chosen, all participants experience a large drop in employment rates after participation (i.e. compared with the average employment levels before joining the Workfare Programme). This suggests that for everyone it takes some time to re-enter formal employment after job loss, which provides further evidence of the difficulty of finding employment in the formal sector.<sup>38</sup>

*The training option has the strongest effect on wages thanks to human capital accumulation.*

When analysing the effectiveness of the three activation measures under the Workfare Programme, it is also interesting to examine their effects on post-participation wages (for those who find a new formal job). After all, the three types of active support have very different objectives – human capital accumulation in the case of training; swift re-employment in the case of job-placement; and opening a small business in the case of start-up support – that would be expected to result in different wage impacts and thus reduce working poverty. An assessment focused exclusively on the impact of ALMPs on employment levels would thus risk overlooking an important part of the overall effect. Our analysis reveals that individuals who opt for training and reskilling experience the strongest wage increase after participation in the programme (figure 4.13). This suggests that the training option builds up human capital, which translates into a sustained increase of wages over time – clear evidence of the effectiveness of the training option, which, however, was discontinued in 2016. Meanwhile, the evaluation indicates that the job placement and start-up support options do not have any positive effect on wages (which would have become noticeable from changes in trends, rather than from a difference in levels – see box 4.3). Indeed, post-participation wage trends for individuals choosing one of these two options remain constant over time. These results are generally in line with those obtained by previous impact evaluations of the effectiveness of ALMPs, which have been summarized in recent meta-analyses. In particular, training programmes are generally found to be the most effective type of active support in terms of raising participants’ wages – especially if effects are measured in the medium

<sup>38</sup> It is worth emphasizing that figure 4.12 presents employment rates exclusively in the formal sector both before and after Workfare Programme participation. This means that the drop in employment rates observed after participation could be due to (a) higher rates of unemployment/inactivity and/or (b) higher rates of participation in the informal labour market.

**Figure 4.13. Average wage before and after participation in the Workfare Programme, by type of active support chosen, 2009–2016 (Mauritian rupees)**



Note: Wages have been adjusted for inflation.  
Source: Pignatti (forthcoming).

to the long term (Card, Kluve and Weber, 2018). This also applies to emerging and developing economies, where it has been found that training increases both earnings and formal employment (Escudero et al., 2019).

## C. POLICY CONSIDERATIONS

This chapter summarizes the results of a research project conducted between 2017 and 2019 to evaluate the Workfare Programme in Mauritius – in particular, to assess the institutional characteristics of the programme and its effectiveness across a number of dimensions. We conducted our evaluation and accompanying qualitative analyses in collaboration with national authorities and ILO stakeholders to ensure that the findings accurately reflected the situation of Mauritius and that the views and priorities of the various parties involved were taken into account. In particular, during two missions to the country, we held meetings with MLIRET, the Ministry of Social Security, Statistics Mauritius and other institutions involved in administering the Workfare Programme, and also with trade union confederations, employers' organizations, United Nations specialized agencies and other international organizations, universities and research centres.

Close examination of the Workfare Programme has confirmed its innovative character. It is one of the rare examples – among emerging and developing economies – of an integrated approach combining income support with mandatory participation in activation measures, which reflects a clear commitment to address simultaneously different barriers to decent employment. Studying this programme is instructive also from the perspective of international labour standards, which emphasize both the advantages of including ALMPs within unemployment benefit schemes and the need to extend social security to informal workers (see Chapter 2). By combining provision of the TUB with mandatory participation in one of three types of active support, the Workfare Programme aims to protect jobless individuals while providing them with the tools to find more sustainable sources of income in the future. Moreover, this dual support is provided to jobless individuals regardless of whether they were previously employed in a formal or an informal job. As such, the programme should be regarded as a major effort to expand social protection so that it covers the informal sector as well. By considering a number of lessons that emerge

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from our analysis, policy-makers in Mauritius could ensure even greater equality of opportunity and harness the programme's full potential to promote quality jobs and social progress.

*Coverage of the Workfare Programme should be increased across the entire population.*

Although the coverage of the Workfare Programme has increased over time and is now roughly on a par with relevant programmes in other emerging and developing economies, it remains highly concentrated among specific groups in the labour market. At present, the programme assists mostly men, older workers and jobless individuals who were previously employed formally – groups that generally tend to enjoy better employment conditions anyway (e.g. higher wages, social security coverage, paid leave). This impairs the programme's ability to reach the most vulnerable groups in the population – which are most in need of income and active support during periods of joblessness – and it also risks entrenching low quality jobs. For in the absence of support in searching for an adequate job and under pressure to make a living, such people may end up switching repeatedly from unemployment to informal jobs and vice versa. In this section we set out a number of recommendations on how to break the vicious cycle of low-quality employment. It is important to bear in mind, though, that increasing the coverage of the Workfare Programme would have direct financial costs (in terms of TUB disbursements) and would also create pressure on the entities managing the programme (i.e. both MLIRET and the providers of active support). Any increase in coverage must, therefore, be financially sustainable and should also be accompanied by a reinforcement of administrative capacity (e.g. at the Employment Information Centres).

*Relaxing the relatively strict eligibility criteria of the Workfare Programme could help resolve the problem of uneven coverage.*

The relatively strict eligibility criteria are preventing more vulnerable groups from joining the Workfare Programme. In particular, while only



one in five unemployed persons fulfilled the three eligibility criteria for participating in the programme in 2016 (see section B), this share is lower among particular groups in the labour market. For instance, young unemployed workers are less likely to meet the requirement of having previously been employed for a continuous period of 180 days and are more likely to have left their jobs voluntarily. Women, too, are more likely to have resigned from their jobs, mostly for family reasons. Further, only 13 per cent of unemployed individuals previously employed in an informal job met the three criteria for participating in the programme in 2016, compared with 26 per cent among those previously employed formally. Comparison with other countries indicates that Mauritius has stricter eligibility criteria in terms of the reasons for unemployment, yet slightly milder requirements in terms of the length of previous employment (Asenjo and Pignatti, 2019).

The eligibility criteria for the Workfare Programme could be relaxed in order to increase both overall participation and the participation of specific groups, such as informal workers, young people and women, by:

- *Allowing people who have quit their job to participate:* As already mentioned, individuals who voluntarily leave their jobs are not allowed to join the Workfare Programme. However, people may quit their jobs for several reasons, some of which are not entirely voluntary (e.g. taking on family responsibilities, dissatisfaction with one's current job). Many people do start looking for a new job immediately after resigning. In this sense, they are like other unemployed persons (i.e. looking for and willing to accept work): they do not want to lose attachment to the labour market and face challenges in finding a new job similar to those faced by their peers who have been dismissed. Accordingly, the majority of OECD countries allow individuals who have voluntarily resigned, too, to participate in unemployment benefit schemes. However, these countries generally have penalties in place that lead to changes in the amount and/or timing of the subsidy in order to avoid disincentive effects (i.e. individuals losing their job strategically). For example, Denmark extends the waiting period by an additional five weeks, while in France workers who resign must wait four months before receiving a payment (Carter,

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Bédard and Peyron Bista, 2013). A similar system could be introduced in Mauritius and would be likely to increase the participation of female and young unemployed workers in the Workfare Programme.

- *Relaxing the requirements concerning employment histories:* In order to join the Workfare Programme, individuals must have notched at least 180 days of continuous and full-time employment. As discussed above, this requirement may prevent some people (especially young and informal workers) from enrolling because their employment histories are often discontinuous and/or of a part-time nature. The requirements concerning employment histories could therefore be made more flexible in order to increase participation. By way of comparison, in the majority of OECD countries there is no need for previous employment to have been continuous. Instead, most countries simply require that the prescribed number of working days has been achieved over a longer period of time (e.g. six months of employment in the last twelve months; for details see ISSA, 2019). Two innovative examples include Chile, where the length of the contribution required is shorter for individuals under temporary contracts, and Canada, where the employment history criterion is based on the number of hours worked, rather than the number of days. Introducing similar measures in Mauritius would ensure that the Workfare Programme achieves higher coverage among young and informal workers.

***Additional incentives are necessary to raise participation among jobless individuals who were previously employed informally.***

Our analysis of the Workfare Programme has indicated that, despite having the right to participate, some eligible individuals do not join the programme. This is particularly so with eligible people who were previously employed informally: their take-up rate was around 25 per cent in 2016, compared with more or less full take-up among eligible individuals who were previously employed formally.

Although further research would be necessary to understand clearly which policy instruments could help increase participation in the Workfare

Programme of informal workers who have lost their jobs, looking at studies of programmes in other countries can yield a few pointers. In general, most such studies attribute low take-up of social benefits to information asymmetries and administrative barriers. Vulnerable individuals often lack any form of support, which means that they are also less likely to be aware of the benefits available to them. Moreover, registration is often a complex process and the less familiar people are with administrative procedures, the more daunting such registration must seem to them. In view of these considerations we may recommend the following:

- *Raising awareness of the programme, especially among informal workers:* Knowledge of the Workfare Programme (and of its eligibility requirements) still seems to be limited in Mauritius – particularly that it is also open to unemployed persons who were previously working in informal jobs, which may explain why the participation rate of this group is low. Raising awareness of the programme should, therefore, help increase take-up among eligible individuals. Evidence from both advanced and developing economies suggests that tackling information asymmetries can directly increase participation in such programmes. For instance, Barr and Turner (2018) find that information campaigns are sometimes more effective than increasing the generosity of benefits. Of particular relevance for Mauritius is the fact that awareness-raising tends to have a stronger effect among more vulnerable jobseekers (e.g. low earners, people with dependants, persons faced with language barriers), and also among women (Bhargava and Manoli, 2015; van Gestel et al., 2017) and older workers (Liebman and Luttmer, 2015).
- *Simplifying registration and reporting procedures:* As discussed earlier, complex registration procedures can discourage eligible people from joining the Workfare Programme – especially informal workers and other groups at risk of social exclusion. By simplifying these procedures it should, therefore, be possible to increase the participation of precisely those people who are at greatest risk of social exclusion. The current registration procedure – with the former employee having to present his or her contract at the Labour Office together with the letter of termination

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of employment, and the former employer having to confirm the details of the employment relationship and also that payment of the recycling fee to the National Pensions Fund has been made – seems to have been conceived specifically for individuals coming from a formal job, for which an employment contract was drawn up and an employer can easily be identified. One possible improvement would be to diversify the registration procedures depending on an individual's previous formality status in the labour market (i.e. less strict requirements for those who previously held informal jobs, and who often have no employment contract to show). Additionally, enrolment in the programme could be detached from labour inspection activities (e.g. retroactive collection of social security contributions) so that informal employees are not deterred by fear of the implications of formalizing their status or by reluctance to report their previous employer to the authorities.

*Certain design and implementation features of the Workfare Programme could be improved to increase its effectiveness.*

***The Transitional Unemployment Benefit should be adjusted to provide more effective protection against poverty, especially towards the end of the benefit schedule.***

Our assessment suggests that the TUB may decrease too sharply compared with the decreasing schedules used in unemployment benefit schemes in other countries. While a decreasing schedule is meant to increase incentives for individuals to look for a job (Esser et al., 2013), an overly severe reduction of benefits can place individuals at risk of poverty towards the end of their participation in the scheme. Moreover, in Mauritius so drastic a reduction seems unnecessary, given that jobless individuals participate in the Workfare Programme out of necessity rather than convenience (i.e. people do not lose their job strategically in order to join the programme).

In practice, the sharp decline in generosity of TUB entitlements translates into a replacement rate of 30 per cent for the last six months of participation, which is low by international standards and also relative to the country's poverty thresholds – especially for participants with dependent

children in the household. Two amendments to the design of the TUB could improve its capacity to protect income:

- *Increasing the minimum replacement rate and the lower bound of TUB entitlements:* From a rights-based perspective, the duration and generosity of an unemployment benefit should be set with a view to enabling unemployed individuals (and their households) to maintain their living standards throughout the unemployment spell. In particular, the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) calls for a benefit level of at least 50 per cent of previous earnings and for the benefit to be paid for at least 26 weeks in any given spell of unemployment (Asenjo and Pignatti, 2019).<sup>39</sup> Although the initial replacement rate under the Workfare Programme, at 90 per cent, is high by international standards and the one-year replacement rate, at 52.5 per cent, is broadly in line with the OECD median – and higher than in the majority of emerging and developing economies for which such data are available – the replacement rate during the last six months of participation, at just 30 per cent, is particularly low by international standards. Having the replacement rate decrease more smoothly over the length of stay in the programme would help protect individuals more effectively against the risk of poverty.

This is particularly important because the low final replacement rate is combined in the Workfare Programme with a low lower bound on benefit levels. The main purpose of such lower bounds is to provide a social protection floor that allows individuals to maintain a basic level of consumption (Robalino, 2014). To achieve this, lower bounds are generally benchmarked against minimum wages or poverty lines. However, both the minimum benefit (set at 30 per cent of the previous wage) and the lower bound under the Workfare Programme (at MUR3,000) are below the international poverty line of US\$5.50 per day, which exposes individuals and households (especially those with dependants) to the risk of falling into poverty during periods of unemployment. By contrast, in Brazil the minimum benefit is equal to the minimum wage, while in China the lower bound is determined regionally and generally falls between the minimum wage and the minimum living allowance

<sup>39</sup> Convention No. 168, specifically Articles 15 and 19.

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(Asenjo and Pignatti, 2019). Raising the lower bound of TUB entitlements would be helpful, particularly since it has remained unchanged since 2009.

- *Tailoring TUB entitlements to household characteristics:* Adjusting TUB transfers depending on individual or household characteristics would help ensure that the incomes and living standards of the most vulnerable groups in the labour market are protected. Most well-established systems of unemployment insurance operate on the principle of differential replacement rates that vary according to demographic and income characteristics so as to provide higher relative transfers to those who are worst off at the time of enrolment (Asenjo and Pignatti, 2019).<sup>40</sup> For instance, while the OECD median replacement rate is 58.5 per cent of the previous wage for an individual with an average income, it increases to 67.6 per cent for those with initial incomes below the average (i.e. 67 per cent of the average income) and it decreases to 46.1 per cent for those with an initial income above the average (i.e. 150 per cent of the average income). This “redistribution” is even more pronounced in countries such as Belgium, Denmark, Spain and Sweden. Similarly, in most OECD countries the generosity of the benefit depends also on marital status and the number of children in the household. Adopting such tailoring strategies in Mauritius would ensure that lower-income individuals enjoy more effective protection against poverty during their unemployment spell.

***The active support component also needs to be strengthened, mainly by increasing the attachment of participants to the Employment Information Centres.***

Provided alongside income support, activation measures are aimed at increasing individuals’ employability, thereby helping them find better jobs and more sustainable sources of income in the future. The joint provision of TUB entitlements and active support is clearly a positive feature of the Workfare Programme. In our assessment we found that job placement support was more effective than the other two activation measures in helping individuals to find a job quickly. Meanwhile, training has the

<sup>40</sup> Even in Mauritius, some social benefits (e.g. those provided by the Ministry of Social Security or the National Empowerment Foundation) are either means-tested or linked to certain household or individual characteristics.

strongest positive effect on wages, which is what one would expect as the accumulated human capital translates into higher wages upon re-employment. At first glance, one might conclude that each activation measure more or less achieves its stated objective.

However, as discussed in Chapter 2, the design, targeting and implementation of ALMPs are key factors in ensuring the effectiveness of such policies (Escudero et al., 2019). They are all the more relevant when ALMPs are implemented alongside income support policies, as in the Workfare Programme, because the success of an integrated approach depends largely on the extent to which the linkages between income support, work incentives and ALMPs are exploited. In this respect, there is room for enhancing the active support provided under the Workfare Programme by improving design and implementation aspects. A qualitative assessment of the programme points to two aspects in particular:

- *Enhancing the services provided by the Employment Information Centres:* Although participation in activation measures is mandatory for beneficiaries of the Workfare Programme, the support that individuals receive once they have chosen their preferred option is in practice limited, as are their reporting obligations (see section B.3). Increasing jobseekers' attachment to the various activation measures is, however, crucial in ensuring that actual employability-enhancing services are provided. This includes supporting unemployed individuals in their job searches, but also helping to verify that benefit claimants are searching for jobs actively. Many OECD countries, and also some of the upper-income-emerging countries in our sample (e.g. Azerbaijan, Bahrain, Chile and Thailand), require jobseekers to meet with the relevant caseworker every two weeks or once a month, the interval generally coinciding with the frequency of benefit payments (Asenjo and Pignatti, 2019). Such regular meetings can encourage unemployed people to search for jobs more actively (see Babcock et al., 2012). Turning to the Workfare Programme again, one could even envisage having all jobseekers referred to the Employment Information Centre of the district of residence (after registration at their local Labour Office) for an initial profiling exercise (e.g.

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career profile, job search preferences), after which they would choose their preferred activation measure (currently job placement or start-up support). In this way, participants would have a first substantial outline of their job search aspirations from the very first day of their participation in the programme.

However, regular meetings with caseworkers are on their own not sufficient to improve jobseekers' chances of finding a job. They should be complemented with personalized support provided by the Employment Information Centres, for such support has been shown to lead to more rapid re-employment and better conditions of employment (see J-PAL (2018) for a review). In this sense, the recent introduction of regular workshops at some Employment Information Centres, which cover such topics as CV writing and interview preparation, is a commendable initiative. Additionally, more frequent meetings and personalized services should increase the effectiveness of job placement support. For this to be achieved, though, it may be necessary to introduce regulations that encourage participants to show up at the Employment Information Centres in the first place. Linking the disbursement of benefits to reporting requirements is one of the most common approaches adopted in advanced economies and some upper-income-emerging countries. Introducing such arrangements in Mauritius would not only ensure more regular reporting by participants but also improve the ability of the Workfare Programme Unit within MLIRET to monitor and enforce the reporting requirements. This would generate direct cost savings and could be easily implemented through the communication channels that are already in place between the Employment Information Centres and the Workfare Programme Unit.

- *Enhancing start-up support:* The services provided by SME Mauritius Ltd as part of the start-up support option could be enhanced to achieve stronger engagement with the jobseekers and greater effectiveness. There is currently no obligation for individuals to report and/or participate in activities organized by SME Mauritius Ltd. Arrangements for reporting through regular meetings, similar to those proposed for the Employment



Information Centres, could be introduced for those opting for start-up support. Such meetings would provide an opportunity to discuss how the participants' business ideas are progressing and to offer guidance (or referral to other services) as needed.<sup>41</sup> Additionally, throughout the duration of their enrolment in the programme, jobseekers could indicate the types of workshop and other relevant events that they would be interested in attending. As with the suggested improvements to the services provided by Employment Information Centres, binding rules would be necessary to promote compliance. For example, repeated failure to sign up for such workshops could result in individuals losing part of their benefits or even their eligibility for participation in the Workfare Programme as such.

- *Reintroducing training support:* Our literature review, the results of which were presented in Chapter 3, indicates that the joint provision of income support and training is one of the most successful policy combinations in terms of improving participants' economic and social outcomes, particularly in emerging and developing economies (Galasso, Ravallion and Salvia, 2004; Macours, Premand and Vakis, 2012; McCord, 2012; de Mel, McKenzie and Woodruff, 2014). This combination has, moreover, been found to lead to an increase in female labour market participation (McCord, 2012). In Mauritius, training is also the most effective of the three types of active support provided – in terms of raising post-participation wages – and yet, the training option was discontinued in 2016. Following some changes to its mandate, the National Empowerment Foundation was unable to continue collaborating with the Workfare Programme, and unfortunately it has not been replaced by a new training provider.<sup>42</sup> We would strongly recommend reintroducing training support as part of the Workfare Programme.

If a new training provider is found, it would also be an excellent opportunity to improve the design of the training support to make it more effective. For example, a referral system could be included at the stage of

<sup>41</sup> The current reporting scheme involves SME Mauritius Ltd telephoning the participants to check whether they have launched their proposed businesses. There is clearly a risk of serious mis- and under-reporting that could to some extent be addressed by introducing an obligation to attend face-to-face meetings.

<sup>42</sup> The representatives of local authorities we spoke to suggested that no attempt had been made to find a new training provider because only a few Workfare Programme participants chose the training option.

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the first visit by participants to the training provider. A counsellor would then assess their profiles carefully and, on the basis of this assessment, provide recommendations on the type of training that they should sign up for or whether other types of active support (i.e. job placement or start-up support) would be more pertinent. Such referral is carried out in most OECD countries through the labour offices of Public Employment Services. The Workfare Programme could implement it through the training provider so that participants receive support tailored to their needs. This would improve their labour market outcomes after participation in the programme.

*It is necessary to increase transparency and the representation of workers and employers in the management of the Workfare Programme.*

One final point is that it would be important to consider increasing transparency and the representation of workers and employers in the management of the Workfare Programme. Some of the policy recommendations presented above will have a direct fiscal cost if adopted, and so it is essential to assess the state of funding for the Workfare Programme and its sustainability in the long run. Unfortunately, this information is not publicly available and does not seem to be shared with relevant stakeholders (e.g. trade unions and employers' confederations). As a result, there are differences of opinion regarding the distribution of costs among the stakeholders (i.e. workers, employers and the Government) and the sustainability of the programme, which may give rise to mutual mistrust.

Similarly, when introducing changes to the implementation of the Workfare Programme it would be important to pay greater attention to social dialogue, i.e. to consultation between the Government, employers and workers (the social partners). This would make it possible to take into account insights that employers' and workers' organizations may have regarding the programme and, at the same time, ensure that the decision-making process is fair and transparent. To that end, a tripartite consultative body could be established to monitor and discuss the functioning of the Workfare Programme. Employers' and workers' representatives

sitting on such a body could help identify the skills currently required in the labour market and propose adjustments to the activation measures under the Workfare Programme so as to tackle skills mismatches. Further, workers' and employers' associations could collaborate in the delivery of training activities, ensuring that these are aligned with the needs of the labour market. The experience of advanced economies in the provision of public employment services confirms that involving employers and workers – either through advisory boards, as in Japan and the United Kingdom, or through management boards, as in France and Germany – does indeed lead to more efficient and effective services (ILO, 2016; Thuy, Hansen and Price, 2001).

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## CHAPTER 5

# COMBINING INCOME SUPPORT AND ACTIVATION MEASURES TO COMBAT EXTREME POVERTY: URUGUAY'S NATIONAL SOCIAL EMERGENCY RESPONSE PLAN (PANES)

## INTRODUCTION

The integration of income support measures with ALMPs is a well-established fact in the recent evolution of labour markets in advanced economies. By contrast, integrated approaches are found less frequently in emerging and developing economies. Moreover, as discussed in Chapter 2, labour market interventions in these countries that include a combination of income support and ALMPs are often small-scale and do not form part of a comprehensive strategy. There do nevertheless exist examples of well-structured integrated approaches adopted by the governments of such countries to tackle both the high level of poverty and the inadequate labour market outcomes that characterize their economies. The present chapter deals precisely with one of these: a poverty alleviation programme with an integrated ALMP component that was conducted in Uruguay between 2005 and 2007. The Uruguayan scheme differs from the “Workfare Programme” of Mauritius, discussed in the previous chapter, with respect to both the target population and the characteristics of the active component. Like the Mauritian programme, however, it also ties in with one of the principles embedded in recent international labour standards, namely the call for expanding the scope and coverage of social protection floors (see Chapter 2). Our evaluation of the Uruguayan programme, therefore, serves as a useful complement to the Mauritian case study from Chapter 4, and offers further evidence of how integrated approaches have worked out in practice.

In recent years, countries in Latin American and the Caribbean have been particularly active in launching innovative and comprehensive social assistance programmes. They have notably introduced a number of conditional cash transfer schemes, including the “Bolsa Familia” in



Brazil, “Jefes y Jefas” in Argentina, “Familias en Acción” in Colombia, and “Chile Solidario”. Although by no means done systematically, some of these schemes have included an ALMP component. This was also the case of the programme concerning us in this chapter: the “Plan de Asistencia Nacional a la Emergencia Social” (PANES; National Social Emergency Response Plan), implemented in Uruguay in the aftermath of a deep recession that affected the country in the early 2000s. As with other integrated approaches in the region, PANES had the dual objective of providing monetary support to vulnerable households so as to assist them with their immediate needs and to promote the reinsertion of disadvantaged people into society in order to prevent economic and social exclusion (Government of Uruguay, 2006). At least three features of PANES make it particularly interesting from the point of view of this report’s research questions. First, the programme reached a large share of Uruguay’s population: throughout its implementation, it covered around 10 per cent of all Uruguayan households and 14 per cent of the population. Second, in order to ensure that the programme achieved its objectives, the Government of Uruguay structured PANES into eight different types of intervention. This comprehensive approach was aimed at reducing the incidence of poverty and tackling the consequences of the recession on various fronts. One of these interventions, the cash transfer scheme “Ingreso Ciudadano” (Citizen’s Income), covered the entire pool of PANES participants. Other elements of the programme, meanwhile, covered only certain segments of the beneficiary population. In our analysis we exploit these differences in coverage to assess the complementary effects that such policies can have when executed together as part of a single framework. Our focus is on the complementarity between the income support component (Citizen’s Income) and the active support component, known as “Trabajo por Uruguay” (Work for Uruguay), which provided public work opportunities for unemployed PANES participants, who could join the scheme on a voluntary basis. Work for Uruguay is the third feature of particular interest in this case study: the implementation of the activation component under PANES was quite different from that of other schemes, which apply stricter conditions for accessing unemployment benefits.

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The provision of active support as part of a larger income support scheme means that PANES is a good example of the integrated approaches with which this report is concerned. Moreover, although PANES was introduced as a temporary programme and discontinued in 2007, several of its elements continue to influence the social protection system in Uruguay and in Latin America and the Caribbean as a whole – in particular, the “Plan de Equidad” (Plan for Social Equity), which replaced PANES and is still active today. The empirical results presented in this chapter are, therefore, still of great relevance if we wish to understand how multidimensional interventions can be used to deal with contemporary labour market problems. The voluntary nature of the active component and its focus on public works differentiate PANES from other programmes discussed in previous chapters.

Our analysis of PANES has, moreover, highlighted a number of good practices in the implementation of international labour standards. Specifically, the Uruguayan programme, by expanding the level and coverage of social protection, was closely aligned with the Social Security (Minimum Standards) Convention, 1952 (No. 102). It may even be said to have anticipated the more recent Social Protection Floors Recommendation, 2012 (No. 202), which calls for the establishment of “nationally defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion” (paragraph 2). The latter instrument also emphasizes that social protection is more effective when integrated within a wider framework that promotes socio-economic and human resources development (ILO, 2008).

The results presented in this chapter indicate that the integration of income support and active measures within PANES, succeeded in promoting employment opportunities and protection, and reducing some of the unintended negative effects that income support schemes, when implemented in isolation, can sometimes have on labour market outcomes. In fact, the employment probability of Work for Uruguay participants was higher after they had left the programme. Furthermore, the complementarities between policies enhanced the positive effects that both schemes had on other labour market outcomes.

The chapter is structured as follows: section A describes the social protection system in Uruguay, and discusses the context in which PANES was introduced and the rationale behind the programme; it also presents the main features of PANES, in particular its income support (Citizen's Income) and activation (Work for Uruguay) components. The results of our empirical analysis of the labour market effects of these two components are presented in section B. Finally, in section C we discuss some of the policy considerations that may be derived from these findings.

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## A. GAPS IN SOCIAL PROTECTION AND THE ECONOMIC CRISIS OF 2002: THE MOTIVATION BEHIND PANES

*Uruguay's social protection system has long set an example for the whole region.*

Because of its comparatively good social and economic performance, Uruguay has for many years stood out within Latin America and the Caribbean as a prosperous country. The development of social protection institutions of a contributory nature from the 1920s onwards proved a pioneering step, and Uruguay's social expenditure rates have remained among the highest in the region since then (UNDP, 2008). Historically, social protection in Uruguay has sought to protect the country's citizens from multiple risks during their lifetime through employment-based contributory schemes. The measures adopted have included old-age pension schemes and protection during working age by means of unemployment benefits and family-based schemes. In the 1970s, over 70 per cent of the labour force was covered by social insurance schemes (Barrientos, 2004). Similar coverage rates at the time could be observed only in a few other countries in the region, such as Chile, Argentina and Brazil.

Working-age individuals and their households were protected through two main programmes, which went back several decades: "Asignaciones Familiares" (Family Allowances) and the unemployment insurance scheme ("Seguro por Desempleo"). While the former was intended to protect children – who, as in other countries in the region, faced the highest rates of economic vulnerability – by providing benefits to working parents who were formally employed, the latter was designed to provide income support to formal workers facing unemployment (box 5.1). The system of protection thus covered households with a specific family structure (i.e. single-earner households with children) and individuals with a formal and stable employment trajectory (Barrientos and Hinojosa-Valencia, 2009). The expectation in Uruguay and in other countries in the region with similar systems was that formal employment would expand in parallel with economic growth, thereby ensuring that employment-related contributory schemes would provide adequate protection – from both life-course and

**Box 5.1. Family benefits and the unemployment insurance scheme in Uruguay**

Created in 1943, the “Asignaciones Familiares” (Family Allowances) scheme was originally conceived as a wage top-up for private sector workers who had dependent children below a certain age. Its focus was on protecting children by providing benefits to working parents who were formally employed. As these allowances were meant to complement wages, the benefit level was relatively low in comparison with other social security benefits (e.g. unemployment insurance and old-age pensions). For example, in 2006 it equalled just 7 per cent of the average unemployment benefit (UNDP, 2008).

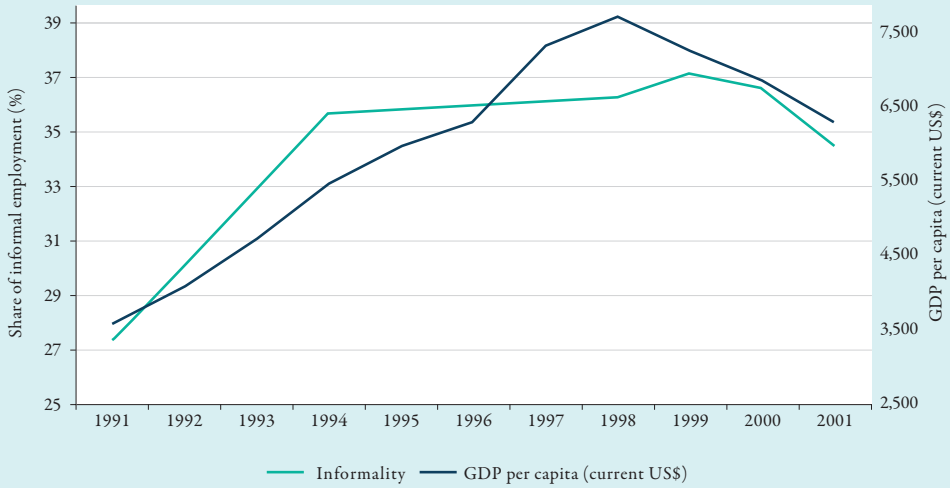
In addition to family benefits, Uruguay has a long history of implementing unemployment insurance schemes, which goes back to 1919, when the first scheme was introduced to protect civil servants (Dean, 2016). A system similar to the current arrangements was established as early as 1958. The current scheme has an eligibility requirement of 180 days of continuous employment and covers only involuntary unemployment for a maximum period of six months. The income support provided is higher than the family allowance and is set at 50 per cent of the worker’s previous wage, with a maximum level of 11,856 Uruguayan pesos (UYU) and a minimum of 745 UYU (in 2006 values) (equal to US\$498 and US\$31 in PPP terms). Although the level of protection offered by the unemployment insurance scheme may be more adequate than that offered by the family allowances, its strict eligibility requirements and limited duration mean that the target group is restricted mainly to workers with more stable labour trajectories who have held formal jobs (World Bank, 2007).

work-related contingencies – for the majority of the population (Barrientos and Hinojosa-Valencia, 2009).

*Increasing wage dispersion and informal employment, however, undermined the reach of existing social protection schemes.*

During the early 1990s, Uruguay experienced a period of sustained economic growth, with an average cumulative rate of 4 per cent between 1990 and 1998 (Amarante and Arim, 2005). This period saw an increase in average income per capita (figure 5.1), with unemployment rates remaining relatively stable at around 8 to 10 per cent of the total labour force (figure 5.2). Yet, these positive trends were unfortunately accompanied by two negative ones, which dampened previous expectations regarding

**Figure 5.1. GDP per capita and share of informal employment, Uruguay, 1991–2001**



Source: GDP per capita values were taken from the World Bank's DataBank. Data on informality were derived from Amarante and Arim (2005, p. 74); see footnote 1 for the definition of informality used in that study.

the gradual expansion of decent work. On the one hand, there was a rise in income inequality, which has been attributed to increasing returns on higher levels of education and changes to the collective bargaining and wage-setting mechanisms (Bucheli and Furtado, 2005). On the other hand, sustained economic growth did not translate into the expected expansion of formal employment. While in 1991, 27 per cent of the employed population was working under informal arrangements, by 1998 this share had increased to 36 per cent (figure 5.1).<sup>1</sup> Moreover, while public employees enjoyed almost universal social protection coverage, 30 per cent of private salaried workers in 2001 did not have access to contributory schemes. The gap was even wider for independent workers, more than 90 per cent of whom were not entitled to old-age pension benefits in 2001 (Amarante and Arim, 2005, p. 74). Education was one of the factors determining access to decent work, as informal employment continued to be much more common among low-educated workers (Bucheli and Furtado, 2005).

<sup>1</sup> According to the definition used by Amarante and Arim (2005), on whose study figure 5.1 is partly based, "informal arrangements" refer to employees, small and micro-enterprises, and the self-employed in the informal sector (i.e. unincorporated enterprises that are not constituted as legal entities independently of their owners) excluding all agricultural activities (ibid, 2005, p. 72). This definition differs from that of the ILO in that it is enterprise-based and refers to the characteristics of the place of work, whereas the ILO definition is job-based, with informality defined in terms of the employment relationship and the protection associated with the worker's job (ILO, 2018). The ILO definition is broader because it includes informal employment both in the informal and the formal sector (see footnote 5 in Chapter 4 for more details). It is likely that the actual informality rates in Uruguay during 1991–2001 were higher than those shown in figure 5.1.

These developments challenged the assumption that the coverage of contributory social protection would gradually increase with the expansion of formal employment that offered decent wages. It also became clear that vulnerability to both life-course and work-related contingencies remained concentrated among specific groups (i.e. people with low levels of education and own-account workers). Therefore, doubts emerged as to the extent to which employment-related contributory schemes could expand protection beyond public and formal sector workers (Barrientos and Hinojosa-Valencia, 2009). Furthermore, changes in family structure – especially the increase in the number of female-headed households – widened the gaps in existing protection schemes, which were based on a single-earner model (Alegre and Filgueira, 2009).

*Moreover, expenditure on income transfers for working-age individuals has been relatively low.*

At an average 20 per cent of GDP between 1990 and 2000, Uruguay's total social expenditure – that is, spending on social protection, education and health care – was high compared with the regional average of 14 per cent of GDP (World Bank, 2007). Indeed, during that period Uruguay was surpassed only by Argentina and Cuba, which, respectively, had levels of social expenditure of 20.4 and 25.1 per cent of GDP. Income transfers have traditionally accounted for a significant proportion of total social expenditure in Uruguay: during the above-mentioned period, the proportion was approximately 9 to 12 per cent of GDP (UNDP, 2008).

Close inspection reveals that social expenditure in Uruguay is overwhelmingly focused on old-age pensions, which made up 90 per cent of total income-transfer expenditure in 2006. By contrast, expenditure on family allowances and on unemployment insurance remained relatively low between 1990 and 2006, accounting, respectively, for around 0.3 and 0.2 per cent of GDP (table 5.1). Since family benefits were considered to be a wage top-up, benefit levels were lower than for the country's other social security schemes, equalling, for example, just 7 and 2.5 per cent of average unemployment and old-age income support, respectively. The income

**Table 5.1. Expenditure on main income transfers and relative level of benefits, Uruguay, 1991–2006**

	Expenditure on main income transfers as a share of GDP (%)					Relative average level of income transfer in 2006 (average level of old-age pension=1)
	1991	1995	1998	2002	2006	
Old-age and survival pension	8.8	11.0	11.1	11.7	9.2	1
Disability pension	0.48	0.51	0.53	0.56		0.49
Unemployment insurance	0.2	0.3	0.2	0.2	0.1	0.65
“Family Allowances”	0.3	0.3	0.3	0.3	0.3	0.025–0.05
“Citizen’s Income”					0.4	0.27
Total	9.9	12.1	12.1	12.8	10	

Source: UNDP (2008, p. 204).

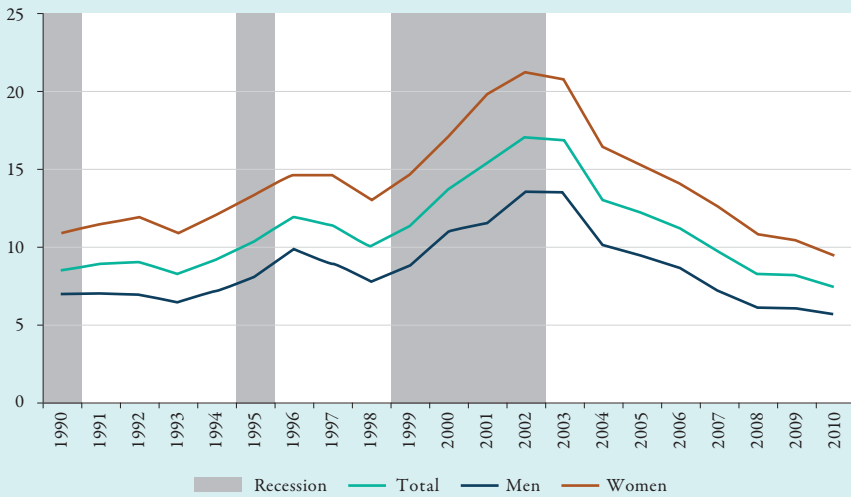
security provided by family allowances therefore depended on beneficiaries receiving sufficiently high wages.

This brief outline of Uruguay’s socio-economic context suggests that, even before the country experienced a major economic crisis during the early 2000s, specific groups of the population (e.g. households dependent on low-wage or informal workers) were not enjoying adequate protection. The crisis widened these gaps, highlighting the need for innovative solutions that could be used to extend social protection to a larger share of the population.

*The economic crisis of 2002 accelerated the deterioration of economic and social conditions observed in the preceding years, and called for an emergency solution.*

The positive economic trends of the early 1990s came to a halt as the loss of competitiveness of Uruguayan exports led to an economic recession in



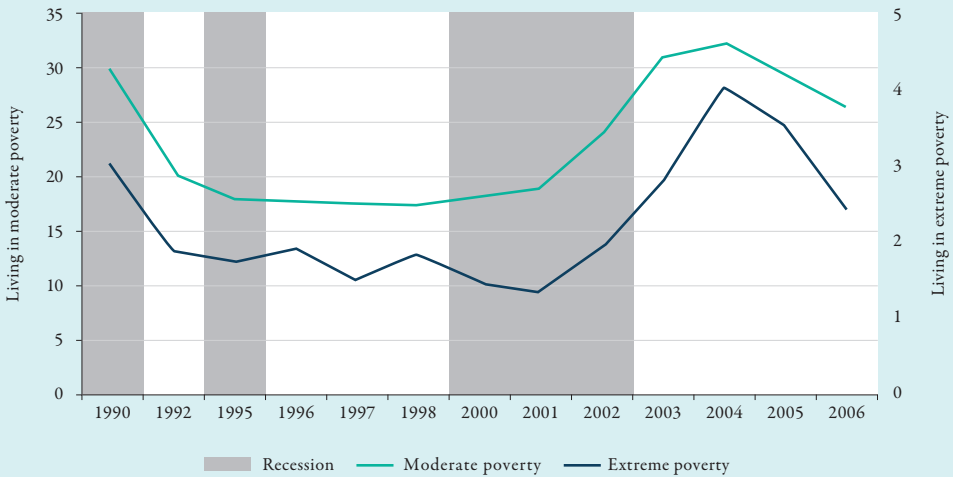
**Figure 5.2. Unemployment rate in Uruguay, by sex and year, 1990–2010 (%)**

Note: The data are based on unemployment rates in areas with more than 5,000 people.  
 Source: National Institute of Statistics (Instituto Nacional de Estadística; INE), 2019.

1999. Economic conditions in Uruguay's neighbours, Brazil and Argentina, along with internal factors (e.g. an outbreak of foot-and-mouth disease in 2001 – see Tommasino, Foladori and Simões (2004)), severely dented the country's economy and resulted in a cumulative output drop of 17.5 per cent between 1998 and 2002 (Bucheli and Furtado, 2005). The decline in economic activity had severe consequences for both average household incomes and unemployment rates. Thus, average per capita income fell by 20 per cent during this period (Amarante and Arim, 2005, p. 40), while the unemployment rate reached 17 per cent in the crisis year of 2002 (its highest recorded value); the female unemployment rate similarly peaked at 21 per cent in that year (figure 5.2).

The moderate poverty rate nearly doubled from 17.3 to 32.1 per cent between 1998 and 2004 (figure 5.3), with children and households with dependants bearing the brunt (Ferreira-Coimbra and Forteza, 2004, p. 40). Thus, nearly 40 per cent of children under the age of 6 were living in a poor household in the years 1998–2002; by contrast, less than 4 per cent of elderly individuals faced poverty over the same period (ibid). The rise in extreme poverty was also significant, with nearly 4 per cent of

**Figure 5.3. Share of the population in Uruguay living in moderate and extreme poverty, 1990–2006 (%)**



Note: The extreme poverty line refers to the cost of a basket of minimum essential food items, the moderate poverty line to the cost of a basket of essential food and non-food items. Both have been calculated by the National Institute of Statistics for each of the years shown above.

Source: Arim, Cruces and Vigorito (2009, p. 13).

households falling into that category in 2004, compared with 1.8 per cent in 1998. Although all population groups experienced worsening socio-economic conditions, households headed by low-educated workers were the worst hit by the crisis.

Record high unemployment led to a peak number of 35,000 unemployment insurance beneficiaries in the crisis year of 2002 (World Bank, 2007). Yet, owing to strict eligibility requirements and the duration of entitlement being limited to a maximum of six months, coverage rates between the years 2001 and 2006 remained below 6.5 per cent of the unemployed (*ibid*). The workers covered were mostly middle-income individuals and men, highlighting the social protection deficits faced by lower-income workers and female-headed households. In addition, the trend of growing informality observed in the early 1990s intensified during the crisis period, particularly among less educated workers (Bucheli and Furtado, 2005). The crisis therefore increased the vulnerability of population groups that were already in a weaker economic and social position. An emergency solution was required to tackle spiralling poverty rates and social exclusion.

*The crisis triggered a new wave of social protection programmes in Uruguay aimed at protecting the most vulnerable groups.*

In Uruguay, the crisis highlighted the need for innovative solutions to reach those who had remained excluded from formal schemes of protection (Barrientos and Hinojosa-Valencia, 2009). However, Uruguay was not alone in this policy shift.

During the time frame of implementation of PANES, several countries in the region introduced cash transfer programmes, including Brazil (“Bolsa Familia”), Argentina (“Jefes y Jefas”), Colombia (“Familias en Acción”), and Chile (“Chile Solidario”). These programmes were part of a common trend that started in the early 2000s and that was to transform the design of social protection schemes in Latin America and the Caribbean (Cecchini and Martínez, 2012). The new schemes were non-contributory and their benefits tended to be allocated through means-tested targeting mechanisms, thereby enabling them to concentrate their resources on households with higher vulnerability. Three other innovative features are worth singling out: (a) the programmes included a conditionality component designed to shape household behaviour so as to achieve improved medium- and longer-term outcomes related to health and education; (b) they sought to reach individuals facing social and economic exclusion who were not protected by the existing systems; and (c) they promoted the role of women by assigning to them responsibility for the entire household’s compliance with the participation requirements and by making them the direct recipients of the income support provided (Molyneux, 2006). The new trend marked a significant departure from the concepts of a family wage and a male breadwinner (i.e. single-earner household) that had underlain earlier protection schemes.

Two modifications to the existing social protection scheme in Uruguay took place as part of this trend. The first was the extension of family allowances to workers in informal employment arrangements. In 2004, a year before PANES was launched, the eligibility requirements of the Family Allowances scheme were revised so that it became open to all workers in both formal and informal arrangements who lived in households

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with an income below three minimum wages. This expansion in coverage effectively established two tiers in the scheme: a contributory tier, in which the previous contribution requirement (implying participation in formal employment) was maintained; and a non-contributory tier, in which that requirement was abolished, since earnings could now also come from informal employment (World Bank, 2007).<sup>2</sup> There are some similarities with Mauritius’s Workfare Programme (discussed in Chapter 4): both seek to protect formal and informal workers from income poverty caused either by unemployment (in the case of the Workfare Programme) or by low wages (in the case of Family Allowances). The second and most significant modification, however, was the launch of a new emergency programme in 2005: the “Plan de Atención Nacional a la Emergencia Social” (PANES; National Social Emergency Response Plan)

*With its multidimensional approach, PANES was the main initiative undertaken by the Government of Uruguay to tackle existing social protection deficits and mitigate the effects of the economic crisis.*

PANES was a two-year emergency intervention designed to provide a swift response to the deterioration of social and economic conditions that had been exacerbated by the crisis of 2002. Its primary objective was to address the acute poverty faced by an increasing number of households following the crisis. It also helped to pave the way for a permanent restructuring of social assistance that would later be enshrined in the “Plan for Social Equity” (see section C for more details). Despite its restricted time frame, PANES was designed to tackle not only issues of a temporary, urgent nature – such as the increase in extreme income poverty in the wake of the crisis – but also structural obstacles, such as social exclusion and the lack of qualifications among vulnerable population groups (Arim, Cruces and Vigorito, 2009).

The complex means-tested targeting approach adopted for PANES allowed the programme to focus resources on households within the lowest income quintile (Escudero, López Mourelo and Pignatti, 2019). To participate in PANES, households needed to apply directly to the institution in charge

<sup>2</sup> A similar development occurred in Uruguay’s contributory pension scheme, the coverage and benefit levels of which were increased by the establishment of a complementary non-contributory programme.

of implementing the programme (i.e. the Ministry of Social Development) or to a local branch of the national social security institute. The targeting process was designed to capture both monetary and material poverty in two steps. First, households were required to report income information on all their members. The self-reported information was cross-checked with social security data, and only households with a monthly income per capita below UYU1,300 (US\$97.5 in PPP terms) were considered eligible. Second, households below the income threshold were asked to fill in a more detailed form. The information from these forms was used to conduct a multidimensional assessment of the poverty status of the households and to estimate, for each one, an index known as the “Índice de Carencias Críticas” (ICC; Critical Deprivation Index). Only households above a specific ICC threshold (which varied across regions) were finally selected to participate in PANES. Over the duration of the programme, PANES supported 102,000 households, which represents 10 per cent of all households in Uruguay and 14 per cent of the population at the time (Amarante et al., 2011).

From its inception, the programme sought to establish sustainable pathways out of moderate and extreme poverty by simultaneously tackling problems across several dimensions. To that end, PANES was structured into eight subsidiary schemes designed to support households by:

- Providing a minimum income – “Ingreso Ciudadano” (Citizen’s Income);
- Fostering participation in paid labour – “Trabajo por Uruguay” (Work for Uruguay);
- Providing food assistance – “Tarjeta Alimentaria” (Food Card);
- Facilitating access to housing – “Intervención de Hábitat” (Housing Intervention);
- Increasing social participation and fostering community development – “Construyendo Rutas de Salida” (Building Exit Routes);
- Improving access to education and health – “Intervenciones Específicas Educación” (Specific Interventions in Education) and “Intervenciones en Salud Pública” (Public Health Interventions); and

- 
- Assisting the homeless – “Plan de Apoyo ‘Sin Techo’” (Support Plan for the Homeless).<sup>3</sup>

Enrolling in Citizen’s Income was a necessary condition for accessing the other schemes. Therefore, this programme was the most relevant in terms of coverage, reaching nearly the entire pool of PANES participants.<sup>4</sup> It was also the most significant emergency measure because it addressed the acute income insecurity faced by the target households of PANES. The monthly income transfer of UYU1,480 (US\$111 in PPP terms) that it provided to each participating household during 2006 – the year in which Citizen’s Income was implemented – was about half the monthly minimum wage<sup>5</sup> and represented 48 per cent of the poverty line in 2006 (World Bank, 2007). The other PANES components were designed to address specific problems faced by households; they had different selection procedures and achieved lower coverage rates.<sup>6</sup>

*Citizen’s Income under PANES expanded the income support available to vulnerable groups in the population.*

PANES ran in parallel with both the Family Allowances scheme and the non-contributory old-age pension support. As these two existing schemes had proved unable to provide sufficient income security to vulnerable households, especially during and after the economic crisis, the income support component of PANES (Citizen’s Income) was seen as an important complementary measure.

The income support under PANES was more appropriate for dealing with the aftermath of the crisis by virtue of two design features. First, it envisaged a much higher income transfer than previous programmes with a similar target group – e.g. low-income households with dependent children. Although the level of spending on Citizen’s Income was similar to that for Family Allowances, the income support it provided was

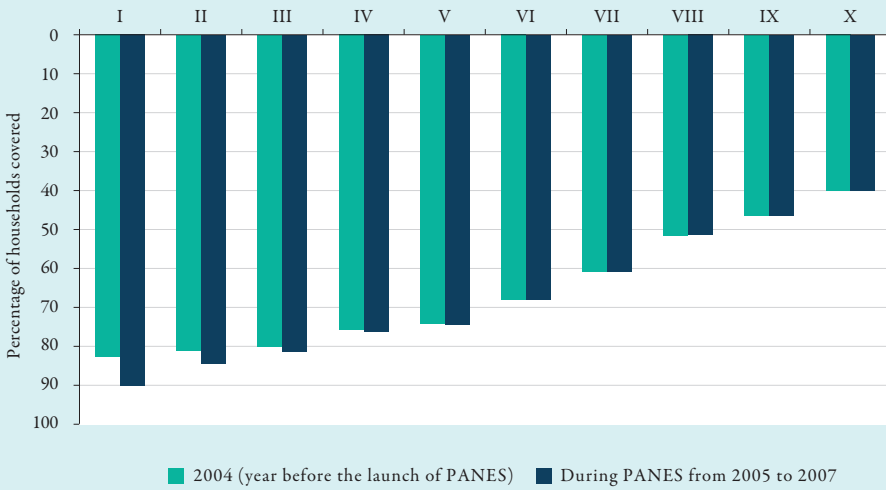
<sup>3</sup> With the exception of the Food Card, all interventions were implemented only while PANES was active.

<sup>4</sup> Citizen’s Income reached 98 per cent of PANES beneficiaries. Only individuals receiving assistance under the Support Plan for the Homeless were not covered by the Citizen’s Income scheme.

<sup>5</sup> The minimum wage was UYU2,617 and UYU3,000 in January and July 2006, respectively (Banco de Previsión Social, 2019).

<sup>6</sup> For example, some components targeted households with children or pregnant women (e.g. Food Card), while others required applicants to fulfil certain labour market-related conditions (e.g. only the unemployed were eligible to participate in Work for Uruguay) (Escudero, López Mourelo and Pignatti, 2019).

**Figure 5.4. Coverage rate of income transfers, by decile of the income distribution, 2004–2007 (%)**



Note: Coverage rates are calculated on the basis of the “Encuesta Continua de Hogares” (Continuous Household Survey) for 2007. It is assumed that households do not contribute to contributory social protection schemes. For more information on the calculations, see the study cited as the source below.

Source: Arim, Cruces and Vigorito (2009, p. 27).

almost 5.5 times greater than the average benefit provided through Family Allowances (see table 5.1 above).

Second, PANES expanded social protection to households that existing and earlier schemes had failed to reach. Although these schemes had achieved relatively high coverage rates in comparison with those of other countries in the region, nearly 20 per cent of the households within the poorest quintile of the income distribution were not covered by any transfer scheme in Uruguay before the introduction of Citizen’s Income (figure 5.4). The new scheme was specifically directed at these particularly vulnerable households. As a result, the coverage rate of income transfers increased to 90.2 per cent among the poorest 10 per cent of households. This increase was mostly concentrated among households with dependent children, yet it also included – albeit to a lesser degree – households without dependants. That the targeting of Citizen’s Income was very effective is reflected by the fact that 75 and 20 per cent of beneficiaries belonged to the lowest and second lowest quintiles of the income distribution, respectively (World Bank, 2007).

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Thanks to these two features – a higher benefit level and effective targeting – the Citizen’s Income scheme had a significant redistributive effect. During its implementation in 2006 it proved to be the most progressive non-contributory cash transfer scheme in Uruguay’s social protection system thus far (Amarante et al., 2009).

*The innovative public works scheme under PANES sought to break the cycle of poverty by promoting pathways to decent work.*

The innovative approach of PANES consisted in tackling poverty through multiple interventions. One of these was Work for Uruguay – a public works scheme based on the principle of labour market participation as a means of advancing social inclusion. The work provided under the scheme generally took the form of elementary tasks performed for local communities (e.g. cleaning public spaces or carrying out small repairs). Work for Uruguay was structured through projects managed by civil society organizations and the maximum duration of participation was five months. It provided income support set at twice the level of cash transfers under Citizen’s Income and required participants to work from Monday to Friday for six hours a day. Participants were, moreover, expected to attend 20 hours of mandatory training per month, and they received follow-up support and job-search assistance for an additional month after leaving the scheme. Based on the principle of voluntary participation, Work for Uruguay targeted a specific group of individuals among PANES beneficiaries, namely unemployed individuals aged 18 years or over.

Work for Uruguay was the most popular voluntary component of PANES. It reached 17 per cent of PANES beneficiaries, corresponding to a total of 15,684 households (Escudero, López Mourelo and Pignatti, 2019). The greater income support provided was clearly one of the main factors that attracted participants towards the programme (World Bank, 2008). Yet, individual characteristics also played a role in determining participation in this scheme among PANES beneficiaries (Escudero, López Mourelo and Pignatti, 2019):



- Work for Uruguay participants were more likely to be men than PANES participants who did not take part in that scheme (Work for Uruguay had a male share of 21 per cent, compared with an average 18 per cent for other PANES schemes);
- Work for Uruguay participants were younger, with an average age of 38.7 years, compared with 41 years among PANES beneficiaries not participating in Work for Uruguay;
- Living with an elderly person in the same household and receiving medical assistance were both factors that significantly reduced the likelihood of participating in Work for Uruguay. While 6 per cent of total PANES beneficiaries lived with an elderly person, this was the case of just 3 per cent of Work for Uruguay participants;
- Unemployment rates in 2005, during the registration process for accessing PANES, were slightly higher among Work for Uruguay participants, reaching 29 per cent, compared with 22 per cent among PANES beneficiaries not participating in Work for Uruguay.

The overall impression is that Work for Uruguay was popular mainly among PANES beneficiaries who were both able and willing to participate in the labour market. As participation in the scheme was voluntary, it seems to have attracted individuals who were less constrained by personal circumstances, and who were thus potentially more job-ready. People with children or with obligations to care for elderly relatives, or those with access to other types of work, tended not to self-select into the scheme (World Bank, 2008). Still, participation in Work for Uruguay was not associated with specific past employment histories: 60 per cent of participants had previously been in formal employment, while an additional 11 per cent had never worked before (*ibid*). The labour market constraints faced by these two groups of Work for Uruguay beneficiaries were evidently different. In the case of those who had worked before, the constraints were of a temporary nature: a consequence of the high unemployment rate of the period. Meanwhile, those who had never been employed before were contending with structural obstacles that are likely to have been exacerbated by the crisis.

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The simultaneous implementation of several schemes within the same programme is one of the main distinguishing features of PANES. What has not been considered yet, though, is whether this integrated approach succeeded in leveraging complementarities between the income support (Citizen's Income) and public works (Work for Uruguay) components. That is the subject of the next section, which seeks to disentangle the effects that each of these two schemes separately had on labour market outcomes from those generated by their being provided in combination.

## B. AN EMPIRICAL ASSESSMENT OF THE INTEGRATION OF THE PUBLIC WORKS SCHEME WITHIN PANES

The multiplicity of interventions implemented under PANES has understandably resulted in a considerable number of evaluations, which have focused on different aspects and outcomes of the programme. Many of these evaluations have looked at the effects of the income support component (Citizen's Income) across a number of dimensions. Within this set of evaluations, some have studied the extent to which the intended outcomes of PANES were achieved (which involves looking at, *inter alia*, poverty levels, civic engagement, and the health and education outcomes of household members), while others have also explored some of the unintended consequences of the income support provided. Overall, Citizen's Income was found to have made a positive contribution to reducing poverty levels during participation in the scheme (Amarante et al., 2009). This is a particularly important finding, since Citizen's Income was intended first and foremost to reduce the risk of poverty in the wake of the economic crisis. Moreover, the scheme was found to be associated with improvements in other indicators of well-being, such as health outcomes (Amarante et al., 2009), in particular with a reduction in the incidence of low birth weight (Amarante et al., 2016). No effect was found, though, in other dimensions, such as school attendance (Amarante et al., 2013). Previous evaluations of Citizen's Income have also identified some negative effects of the scheme on labour market outcomes, including working hours (Borraz and González, 2009),<sup>7</sup> formal employment (Amarante et al., 2011), earnings (Amarante et al., 2009, 2011), and labour market participation (Amarante et al., 2009).

We have taken a different approach in our analysis, since our aim is to study the effect of the income support component when implemented together with the active support component (*i.e.* Work for Uruguay). The impact evaluation of PANES conducted in preparation for this report<sup>8</sup> considers the post-participation effects of each of the two components,

<sup>7</sup> Specifically, a reduction in the number of hours worked per week was observed among female and male employed individuals (Borraz and González, 2009). Assuming that participants were not initially working an excessive amount of hours (*i.e.* more than 48 hours per week), this finding can be regarded as a negative effect of Citizen's Income on labour market outcomes.

<sup>8</sup> The original analysis is presented in Escudero, López Mourelo and Pignatti (2019).

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and also their combined effects, in relation to labour market status and work quality indicators. For all individuals in the sample we looked at their probability of being employed, unemployed or inactive after the end of the programme.<sup>9</sup> As for work quality, we assessed the effects on hourly earnings; the likelihood of being employed while the household income per capita remains below the poverty line; and the likelihood of working excessive hours, defined as more than 48 hours per week.<sup>10</sup>

The analysis draws on data from two main sources. The first of these is administrative data covering around 131,000 households that met at least some of the criteria for being admitted to PANES. The data were collected before the implementation of PANES, and around two-thirds of these households were to take part in the programme in 2005. Unlike typical sources of administrative data, the questionnaires used to collect data on (potential) PANES participants included questions on several demographic and socio-economic traits of the respondents. This facilitated empirical analysis of the programme and also allowed us to link the administrative data quite easily to the data from the second source, which consisted of two follow-up surveys conducted on a sample of PANES participants in 2006 and 2008. The variables included in these follow-up surveys are very similar to those in the administrative data, which means that the two sources provide consistent and complementary information on the same individuals at different points in time.

We used these data to estimate the causal effect for PANES beneficiaries of receiving income support, of participating in the public works, and of simultaneously participating in the two schemes, in order to determine whether any complementarity results from their integration. As explained in greater detail in box 5.2, counterfactual methodologies were used to disentangle the effects of each component of the programme on the outcomes. The results presented in tables 5.2 and 5.3 are based on the application of a difference-in-differences strategy. To ensure better comparability between the treatment group and the comparison

<sup>9</sup> Employment is defined as working at least one hour in the week prior to data collection (Escudero, López Mourelo and Pignatti, 2019). Unfortunately, the length and tenure of the employment found after participation in the programme, which are also potentially relevant indicators of work quality, could not be assessed because of insufficient data.

<sup>10</sup> The original analysis also considers an additional set of outcomes related to the civic and social engagement of PANES participants. The results are not conclusive and are not reported here, but they can be found in Escudero, López Mourelo and Pignatti (2019).

**Box 5.2. Evaluating the impact of the income support and activation components in PANES**

An empirical evaluation of the effects of the Citizen's Income and Work for Uruguay schemes was conducted for this report. The difference-in-differences (DiD) method was used to isolate the causal effects of the two policies on the outcomes of interest. This method involves selecting individuals in a treatment and a comparison group on the basis of their status following the introduction of a policy (see table 5.2 below); it then compares the outcomes for the individuals in these two groups, before and after the introduction of the policy. In the case of Work for Uruguay, for which participation was voluntary, the DiD method allows one to account for differences in the characteristics of individuals that may have influenced their decision to participate. For example, individuals with higher motivation or self-esteem may have been keener to participate in the public works scheme and, at the same time, they may have had greater chances of success after participation. With the DiD method it is possible to control for these differences using a relatively simple (and testable) assumption: in the absence of treatment, the difference between the treatment and comparison groups is constant over time. If the treatment and the comparison groups are chosen appropriately, any systematic difference in the outcomes across the periods before and after the introduction of the policy should be attributed to the policy itself.

The DiD method relies additionally on a more complex assumption: any difference in the unobservable characteristics that drive the selection of individuals into the two groups is also time-invariant. Following earlier studies (Gadonne, 2017; López Mourelo and Escudero, 2017; Novella et al., 2017), the implications of this assumption were reduced by combining the DiD method with a propensity score matching procedure, which minimized any observable pre-treatment difference between individuals in the treatment and comparison groups (for details, see Escudero, López Mourelo and Pignatti, 2019).

To analyse the effects of the Citizen's Income scheme, the treatment group was selected to comprise individuals who participated in PANES (therefore receiving the Citizen's Income, which covered all PANES participants) but not in Work for Uruguay (group 1). These individuals were compared with similar ones who did not participate in PANES (group 2). To analyse the effects of Work for Uruguay, participants in this scheme were compared with individuals who received the Citizen's Income, but did not participate in Work for Uruguay (i.e. the comparison group corresponds to the treatment group of the previous case). Since both treatment and comparison groups received the Citizen's Income, by comparing them one can disentangle the incremental effect of participating in the active component. Finally, the same individuals who participated in both the Citizen's Income and Work for Uruguay schemes (group 3) were compared with those who did not participate in PANES (group 2). This comparison makes it possible to assess the joint effect of Citizen's Income when combined with Work for Uruguay.

The analysis focused on two main sets of outcomes. The first set consisted of labour market status variables: we looked at how the individual probability of employment, unemployment and inactivity changed because of participation in Citizen's Income and Work for Uruguay. The second set consisted of work quality indicators: working hours, hourly earnings, likelihood of experiencing working poverty, and likelihood of working excessive hours. The results suggest that participation in the active component has positive effects on the labour market status indicators, and that these effects tend to counteract some negative effects arising from participation in the income support component. The effects on work quality indicators are, however, not as clear-cut: despite being positive, none of the coefficients is statistically significant.

**Table 5.2. Selection of treatment and comparison groups, and number of individuals in each group**

Identification of the effects of:	Income support	Active component	Income support + active component
Treatment group	Citizen's Income recipients, not Work for Uruguay participants (group 1)	Citizen's Income recipients who are Work for Uruguay participants (group 3)	Citizen's Income recipients who are Work for Uruguay participants (group 3)
Number of individuals	1,043	269	269
Comparison group	Non-PANES participants (group 2)	Citizen's Income recipients, not Work for Uruguay participants (group 1)	Non-PANES participants (group 2)
Number of individuals	764	1,043	764

Source: Escudero, López Mourelo and Pignatti (2019).

group, the analysis was repeated on a subsample of individuals, selected through propensity score matching. The latter involves selecting those individuals in the comparison group who most closely resemble those in the treatment group on the basis of their observable characteristics. The estimates obtained by combining the propensity score matching and difference-in-differences methods can be used to test the validity of the results obtained from the unmatched full sample.

*Work for Uruguay seems to have fulfilled its objective of improving participants' attachment to the labour market.*

The analysis reveals some important implications of participating simultaneously in both the active and income support components of PANES. Although most of the effects have not been estimated precisely from a statistical point of view, the patterns that emerge are nevertheless of interest.

We found that individuals who received income support (without benefiting from the active component), were less likely to end up in unemployment after the end of the programme, but they also had a lower probability of being in employment. While the effects of Citizen's Income on unemployment and inactivity are more ambiguous, the effect on employment is in line with the observed unintended effects of income support schemes in general: providing income support to vulnerable workers may cause them to be less active in their search for work (Blundell and Hoynes, 2004; Meyer and Rosenbaum, 2001; Zimmermann, 2012), even if the negative effect is more modest outside advanced economies (Amarante et al., 2013; Gerard and Gonzaga, 2018; Gonzalez-Rozada and Ruffo, 2016). It should be noted that the presence of this effect in income support schemes is not necessarily to be condemned, for it means that some individuals, as long as they are receiving income support, do not need to accept any available job (even of low quality and with poor working conditions) in order to meet basic needs. Moreover, in the case of PANES and Citizen's Income, all the estimated coefficients were small and not statistically significant at conventional levels.

However, we also found that participation in the active component – the public works scheme Work for Uruguay – made it more likely for beneficiaries to be in employment after leaving the programme, increased their probability of participating in the labour market, and reduced their likelihood of being unemployed (see table 5.3). The statistically significant positive effect of Work for Uruguay on employment is particularly important, because many studies have concluded that public work schemes have limited (sometimes even negative) effects on the post-participation labour market outcomes of participants owing to their usually limited

**Table 5.3. Results of the evaluation of the impact of PANES on labour market status**

	Full sample			Matched sample		
	Employed	Unemployed	Inactive	Employed	Unemployed	Inactive
Income support (Citizens' Income)	+	-	+	-	-	+
<i>Observations</i>	3,615			3,535		
Active component (Work for Uruguay)	+	-	-	+	-	-
<i>Observations</i>	2,628			2,578		
Active component and income support	+	-	-	+	-	-
<i>Observations</i>	2,067			2,021		

Note: The estimated effects are classified as positive (+) or negative (-). Statistically significant effects are reported in lilac cells.  
Source: Escudero, López Mourelo and Pignatti (2019).

skills component (Card, Kluve and Weber, 2010, 2018; Kluve, 2010). Our analysis of PANES suggests, instead, that positive effects can arise from the implementation of public works schemes, even in the case of those that have voluntary participation. A possible explanation is that Work for Uruguay kept individuals attached to the labour market during the recession and that this had positive effects on their labour force participation even after the end of the scheme, when the economic outlook had improved.

Finally, exploring the combined effect of the active and income support components on labour market outcomes, we found that, when compared with similar workers who did not join any of PANES's components, PANES beneficiaries who participated in both schemes had a lower probability of being unemployed or inactive and a higher probability of being employed afterwards. This last result indicates that the positive effect of the active component more than counterbalances the negative effect of the income support, leading to an overall positive effect. An integrated approach clearly has the potential to overcome the potential negative effects on employment that are typically associated with income support schemes. Although not precisely estimated, these findings clearly indicates a way for policy-makers to design more sustainable income support models.



*The impact of the integrated approach on employment quality is less encouraging.*

With regard to work quality, our analysis found only tentative evidence of the possible impact of the income support and active components. In particular, none of the coefficients estimated for their effects on various relevant indicators (hourly earnings, working poverty and excessive working time) was statistically significant at conventional levels (see table 5.4). This result is in line with previous studies, which have argued that a positive effect on work quality indicators is unlikely to be observed unless adequate measures to enhance human capital are provided (Card, Kluge and Weber, 2018; Escudero et al., 2019).

In contrast to their effects on the likelihood of being employed (see above), the income support and active components both pull in the same direction as far as indicators of employment quality are concerned: they both increase hourly earnings, reduce working poverty and reduce the probability of working an excessive number of hours after participation in the programme. When considered together, the estimated magnitude of their combined effect is greater than the magnitude of their individual effects, which suggests that an integrated approach leads to a mutual reinforcement. In the case of the risk of working an excessive number of hours, we may even observe a negative and statistically significant effect for the unmatched sample.<sup>11</sup> Overall, our analysis points to a consistently positive effect of both components on all indicators of employment quality. Even though these effects are not statistically significant in most cases, they do suggest that an integrated approach can help improve working conditions. Importantly, there is a high degree of coherence with regard to the direction of the estimated effects and their overall impact.<sup>12</sup>

<sup>11</sup> Once again, it is reassuring to see how the results from the matched and unmatched samples are consistent.

<sup>12</sup> It is worth noting that the regression results summarized in tables 5.3 and 5.4 are based on relatively small samples, each of which includes the same individuals twice owing to the longitudinal structure of the data. As indicated in box 5.2, some of the comparison groups contain fewer than 300 individuals, which evidently reduces statistical precision.

**Table 5.4. Results of the evaluation of the impact of PANES on work quality**

	Full sample			Matched sample		
	Hourly earnings	Working poverty	Excessive working time	Hourly earnings	Working poverty	Excessive working time
Income support (Citizen's Income)	+	-	-	+	-	-
<i>Observations</i>	1,811	2,069	1,921	1,772	2,027	1,882
Active component (Work for Uruguay)	+	-	-	+	-	-
<i>Observations</i>	1,298	1,480	1,382	1,274	1,453	1,358
Active component and income support	+	-	-	+	-	-
<i>Observations</i>	1,075	1,231	1,141	1,050	1,204	1,116

Notes: The estimated effects are classified as positive (+) or negative (-). Statistically significant effects are reported in lilac cells. Source: Escudero, López Mourelo and Pignatti (2019).

*The integrated approach has not produced any negative displacement effect.*

A further notable finding is the absence of displacement effects of the Work for Uruguay scheme at the household level. Our analysis exploits the fact that, although only one member of the household was allowed to participate in the scheme, the survey contains some data on all household members.<sup>13</sup> It is therefore possible to assess whether participation in Work for Uruguay generated any displacement effect on other household members. One might argue that an increase in labour supply on the part of one member of the household could be accompanied by a decrease in labour supply on the part of another member (e.g. if household needs are already met and/or if the other member needs to attend to family responsibilities). Some studies have indeed found that ALMPs may have negative spillover effects on non-participants (e.g. Crépon et al., 2013). If such negative externalities were to be present, the overall effectiveness of Work for Uruguay could be called into question because the scheme's positive effects on participants would be counteracted by the negative effects on non-participants. However, our analysis found that Work for Uruguay did not have any displacement effect on non-participants. This may be thanks to the scheme's accurate targeting (i.e. its focus on the most vulnerable

<sup>13</sup> The same analysis cannot be conducted for the income support provided under PANES, as that was targeted at the household level.

groups) and/or its limited scope (i.e. participants could not stay in the scheme for more than five months). In any case, the positive effects of the active component of PANES on the participants were not achieved at the expense of reduced labour market participation for other individuals.

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## C. POLICY CONSIDERATIONS

*PANES was a complex programme and its various components generally achieved their original objectives.*

When considering the policy implications of the schemes analysed in this chapter, it is important to keep in mind some of the overall features of PANES and its implementation. PANES was launched and managed as a short-term programme, its aim being to mitigate the most extreme consequences of the recession experienced by Uruguay in the early 2000s. To that end, it was directed at a specific segment of the population, namely individuals living in households in the lowest quintile of the income distribution. This means that the programme targeted individuals whose employability may have been reduced by a lack of education and work experience. All the same, PANES was a large-scale programme, reaching around 10 per cent of Uruguayan households and 14 per cent of the population.

The wide reach of PANES among low-income individuals, its broad design with multiple schemes bundled into a single programme, and its similarities with other programmes implemented in the Latin America and the Caribbean region have attracted the interest of researchers and policy-makers. Several studies have examined the role of PANES across a number of dimensions, though focusing mainly on its income support component. In this respect, the studies agree that the Citizens' Income scheme did achieve its main goal of providing income security to low-income individuals throughout the crisis so that these were spared even more acute economic and social distress. Moreover, the income support provided had some positive effects on other social dimensions, such as the health conditions of the participants.

By contrast, some negative effects of the income support component were reported with respect to labour market participation. Indeed, a common policy concern related to the implementation of unemployment benefits, including cash transfers, is the potential of these programmes to discourage work or delay re-employment. Many studies have addressed

this topic in the context of advanced economies, finding generally a negative relationship between the introduction of unemployment benefits and re-employment probabilities (see Landais (2015) and Schmieder and von Wachter (2016) for a review). However, the literature appears to be less conclusive when it comes to emerging and developing economies, with recent articles finding only modest negative effects of unemployment benefits (Amarante et al., 2013; Gerard and Gonzaga, 2018; Gonzalez-Rozada and Ruffo, 2016) and, in particular, no systematic evidence of a reduction in employment following the introduction of cash transfers (Alzúa, Cruces and Ripani, 2013; Banerjee et al., 2017). It is important to bear in mind that an increase in labour market participation was not the objective of Citizens' Income, and that its target population potentially faced severe constraints in finding quality and "suitable employment".<sup>14</sup> The provision of income support may well have reduced pressure on household members to accept the first available job (even if of low quality) in order to meet basic needs. As such, a delay in re-employment should not necessarily be seen as a negative effect, provided that individuals end up finding better quality and more productive employment that allows them to escape the trap of low-quality jobs.

The above-cited observations serve to highlight the importance of providing income support together with some sort of active intervention in order to ensure income security while either keeping individuals attached to the labour market or providing them with the tools for finding better jobs in the future. Labour market participation is the most sustainable pathway out of poverty in the long run, and integrated approaches can exploit the complementarities between different intervention types to attain that target.

The findings from the evaluation of PANES conducted for this report are in line with some of the findings of previous studies. A small negative effect of the income support component on labour market participation has been detected, although the results are not statistically significant. At the same time, we found that participation in Work for Uruguay increased employment chances afterwards. The joint provision of income and active support can therefore prevent the emergence of negative labour market effects. This is an important conclusion, especially if one takes

<sup>14</sup> See Chapter 2 for a definition of "suitable employment".

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into account the target population of PANES, which included individuals who were not necessarily ready to enter the labour market. The increased employability of PANES participants highlights once again the merits of an integrated approach. The findings related to employment quality variables are inconclusive, but they do seem to point to a positive effect of both the income support and the active component. Finally, our analysis did not find any evidence of possible displacement effects arising from participation in Work for Uruguay.

*Some policy improvements could be made to exploit the complementarities between income support and activation measures even more effectively.*

Despite the above-mentioned positive effects of the income support and activation components of PANES, our analysis points to a number of areas that could have been improved. These suggestions could be taken into account in the design and implementation of future programmes so that the complementarity between the various policy components is leveraged even more effectively, and they are as follows:

- *Improving the design of the income support in times of crisis:* The introduction of income support with low conditionality was clearly a welcome initiative at the start of the Uruguayan economic crisis, which threatened to widen existing gaps in the provision of social protection. Nevertheless, earlier studies have pointed out that the relatively low level of income support was insufficient to achieve some desirable outcomes (e.g. increasing school attendance of children) that require a substantial investment on the part of households (Amarante, Ferrando and Vigorito, 2012). Similarly, studies examining the effect of participation in PANES on poverty reduction have not found any significant relationship between the two (Amarante et al., 2009). These findings potentially call for the introduction of more generous income support, which would serve to reduce the risk of poverty in the short run and lead to a long-term positive cycle of poverty eradication (e.g. through higher investment in education). Naturally, the financial sustainability of raising income support also has to be taken into account – especially during recessions,

when public finances are under severe strain. One way of increasing the level of income support without straining public finances is to improve targeting. In the case of PANES, the programme was carefully directed at households in the lowest quintile of the income distribution. However, the Citizen's Income transfer was equal for all participating households, irrespective of their previous income level or the number of household members. This may have led to inequalities in the allocation of resources, which could have been avoided through a more tailored approach.

- *Strengthening the activation component:* Our impact evaluation showed that participation in the public works scheme Work for Uruguay had positive and statistically significant effects on the probability of being employed afterwards. This is an important finding, also in view of previous studies that had observed less positive results for public works schemes in general (Card, Kluve and Weber, 2018). Still, the effects are relatively small in magnitude and so there may have been room for strengthening the activation component in order to enhance its labour market effects. For instance, participation in Work for Uruguay was restricted to a maximum period of five months. Given that the effectiveness of ALMPs has been shown to increase when the length of the intervention is above four months (Escudero et al., 2019), it is quite possible that Work for Uruguay may have been at the lower end of the effectiveness spectrum. Extending the time frame of the scheme could have helped tackle more substantial barriers faced by the participants (e.g. educational deficits). This extension would still require that these opportunities are provided on a temporary basis, to prevent the transformation of public works into permanent jobs.

Work for Uruguay employed individuals in small community projects that generally required few skills (e.g. cleaning public parks). While this was in line with the generally low-skilled profile of participants in the scheme, skills development, as emphasized in Chapter 2, is a crucial component of any activation strategy. Had the participants (or at least specific groups) been given the opportunity to carry out relatively more demanding tasks, this could have helped improve their employability

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and made the scheme more effective in terms of work quality indicators. Work for Uruguay was in fact meant to promote labour market re-insertion by providing training courses and job-search assistance towards the end of participation in the scheme, yet the intensity and skills content of these courses were often inadequate. In this respect, strengthening collaboration between the various stakeholders (notably workers' unions and employers' associations) could help identify the most relevant skills required for participation in the labour market. Expanding the scope of public works schemes (including the training component) to include sectors with a greater capacity to absorb surplus labour, such as the social sector (e.g. education and health) and care work, could facilitate the reinsertion of jobseekers in the labour market after their participation in the scheme. Such modifications to the design and implementation of ALMPs obviously depend on there being sufficient institutional capacity.

- *Increasing the linkages between income and active support:* Finally, our evaluation indicated that, whilst the income support component of PANES may have had some negative effects on labour market participation, when this was coupled with the active component, the disincentive effect disappeared. This confirms that the joint provision of income and active support can achieve its dual objective of increasing income security while ensuring that people remain attached to the labour market. It is important that income support schemes are combined with activation measures in order to increase labour market participation. In the case of PANES, however, participation in Work for Uruguay was purely voluntary. Moreover, since the number of available places was limited, Work for Uruguay was oversubscribed and not all interested participants could eventually join the public works scheme.

Scaling up investment in Work for Uruguay could have helped reduce potentially negative effects on labour market outcomes (Amarante et al., 2011). For instance, participation in an active support scheme (either Work for Uruguay or some other hypothetical scheme) could have been made mandatory for PANES beneficiaries fulfilling specific conditions, such as being unemployed. Nevertheless, mandatory participation needs



to be accompanied by appropriate measures to ensure that the different circumstances of individuals are taken into account (e.g. health issues or care responsibilities). This would rule out the risk that, by imposing mandatory participation in an activation measure, access to basic income support benefits is effectively being restricted, which would violate the principles of social protection enshrined in international labour standards (ILO, 2019).

Similarly, the duration of participation in Work for Uruguay could have been made conditional on finding a job rather than being fixed at a specific length. Of course, these types of intervention need financial resources and organizational capacity in order to be effective. This can be achieved through a balanced system of incentives that guarantees the provision of income support throughout the unemployment spell and prescribes a progressive reduction of such support as programme participants transition into employment with a consequent increase in household earnings. As such, in the medium-term, these policies can prove to be self-financing, as they lead to a reduction in social transfers as people move to sustainable employment (Brown, Merkl and Snower, 2011; Brown and Koettl, 2015).

*Current policies could be adjusted to better fit the needs of the labour market in Uruguay.*

PANES was launched in 2005 as a temporary programme the principal aim of which was to help poor households affected by a severe recession. However, as discussed in section A, it was also meant to fill a gap in social protection in Uruguay, as increasing wage dispersion and persistent informality limited the ability of the existing system to provide protection to those most at risk (such as low wage informal workers with dependents). The new programme significantly helped to reduce coverage gaps among the poorest quintile of the income distribution (Arim, Cruces and Vigorito, 2009). Furthermore, PANES increased the level of income support provided to the poorest households. Lastly, as discussed above, the underlying policy framework of PANES was designed not only to tackle

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temporary income poverty but also to address long-term obstacles with a view to helping people leave poverty behind for good (World Bank, 2008). One may therefore legitimately argue that PANES paved the way towards a permanent restructuring of the social protection system in Uruguay.

After PANES was discontinued at the end of 2007, the Government of Uruguay launched the “Plan de Equidad” (Plan for Social Equity) in 2008. Several of the constitutive elements of PANES and lessons learned from its implementation informed the design of the new scheme. Thus, the Plan for Social Equity has even greater coverage than PANES (Arim, Cruces and Vigorito, 2009; World Bank, 2008). It was intended to amalgamate a social protection system that, historically, had been fragmented into poverty alleviation programmes such as PANES, implemented by the Ministry of Social Development, and employment-related contributory schemes which tended to be run by the Ministry of Labour. The Plan for Social Equity includes the provision of family allowances, increasing both their reach and level. In this way, households are integrated into a network of social protection mechanisms of both a non-contributory and a contributory nature (Sandberg, 2016). The Plan for Social Equity’s goal of achieving a comprehensive social security system is in line with the most recent ILO Recommendations, including the Social Protection Floors Recommendation, 2012 (No. 202) and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).<sup>15</sup>

Like PANES, the Plan for Social Equity addresses not only income poverty (through family allowances) but tackles multiple vulnerabilities simultaneously. It follows PANES in providing food support and educational interventions, yet goes further with a public works scheme (“Uruguay Trabaja”, Uruguay Works) that includes a training component and an employment subsidy for low-skill jobs (World Bank, 2008). Several of the policy considerations outlined above were taken into account in the design of the new public works component. Its length was extended to nine months and the involvement of relevant stakeholders strengthened through a partnership with the Construction Workers’ Union of Uruguay (Sindicato Único Nacional de Construcción y Anexos, SUNCA). As

<sup>15</sup> See ILO (2012, 2015) and the discussion in Chapter 2 on building integrated social security systems.

part of this collaborative effort, SUNCA provided training and human resources for certain tasks that required a relatively skilled labour force, and successfully campaigned for working conditions that were in line with the main collective agreements reached in the construction sector. As a way of fostering social inclusion and increasing participants' chances of finding employment after participation, the Plan for Social Equity has, moreover, promoted the creation of social cooperatives that are still entitled to receive financial and technical support after their members have left the programme.

The wide scope of the interventions included in the Plan for Social Equity, its fully integrated approach, and its emphasis on combining training and public work components, all suggest that the new programme, drawing on the lessons learned from PANES, is likely to succeed in providing even more comprehensive support to low-income individuals in Uruguay in accordance with the ILO's core principles. How these developments have fared in practice is, however, an empirical question and an important avenue for future research.

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## WHAT WORKS

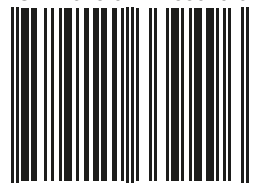
### PROMOTING PATHWAYS TO DECENT WORK

Both temporary and structural barriers limit access to decent work in emerging and developing countries, negatively impacting on the lives of millions of vulnerable workers and their families. As global forces transform the world of work, governments in these countries are adopting various combinations of policies to deal with current and future challenges. This report, issued in the *Studies on Growth with Equity* series, looks at how income support and active labour market policies (ALMPs) can be combined as part of an integrated approach in order to promote pathways to decent work for all.

To that end, the report first provides a conceptual framework for the analysis of the effects that such policy combinations have on individual and aggregate labour market outcomes. An innovative country mapping of integrated approaches is then presented, together with the findings from a literature review and a global macroeconomic study. The analysis is complemented with evidence from impact evaluations of two programmes in Mauritius and Uruguay that have combined income support and active support in different and novel ways.

The report shows that approaches exploiting the complementarity between ALMPs and income support are effective in improving the labour market perspectives of vulnerable workers while protecting them throughout working-life transitions. The success of such approaches depends on certain design and implementation features, including a transparent and inclusive governance system, appropriate targeting to ensure the participation of those in greatest need, sufficient engagement of beneficiaries in the activation components, and strong linkages between the policies so combined.

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