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## Effectiveness of Active Labour Market Policies: Literature review

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**Abstract:** The field of labor market policy covers a very wide array of instruments, through which governments intervene on behalf of citizens encountering difficulties in the labor market (Clegg, 2015). This paper focuses on the Active Labor Market Policies, as an instrument to improve access to jobs for unemployed jobseekers, especially jobseekers belonging to vulnerable categories. The aim of this paper is to present the latest findings regarding the ALMPs effectiveness, through a literature review process. The qualitative method approach analyzes the effectiveness of ALMPs in the context. This paper is based on and presents the review of many articles and working papers in this field. Many observational evaluation studies have been published. The findings indicate that there are many factors determining the effectiveness of the interventions (through ALMPs) like program length, monetary incentives, individualized follow up and activity targeting. Also, a recent study suggests that these programs are more likely to yield positive results when GDP growth is higher and unemployment lower, and that programs aimed at building human capital show significant positive impact. This paper contributes to the increase in knowledge regarding the effectiveness of ALMPs in general and especially in Albania, focusing on the recent literature and data regarding ALMPs implementation in this country.

**Keywords:** labor market policy; active labor market programs (ALMPs); empirical evidence

**JEL Classification:** E24; E62; H61

### 1. Introduction

Jobs are the number one policy concern of policy makers in many countries. The global financial crisis, rising demographic pressures, high unemployment rates, and concerns over automation all make it seem imperative that policy makers employ increasingly more active labour market policies (McKenzie, 2017). Active labor market policies (ALMPs) are publicly financed interventions intended to improve the functioning of the labor market by inducing changes in labor demand and labor supply, as well as their matching process. Specifically, these policies aim to preserve existing jobs and create new employment opportunities, encouraging labor market attachment and the reintegration of long-term unemployed and inactive individuals, and facilitating the job-search and job-matching process (Ernst, Merola & Reljic, 2022).

Active labor market programs are typically classified into four categories in the literature (OECD 20060) (i) Job Search Assistance, (ii) Training, (iii) Private sector employment incentives, and (iv) Public sector employment. According to Kluge (2016), other efforts to categorize these programs exist: sometimes the “subsidy” programs and the “enterprise start-up” programs comprising the private sector employment incentive category (see details below) are separated out; and/ or a distinct category for “entrepreneurship” programs (potentially comprising both a skills training and a financial component) is defined. This paper uses the parsimonious version of four main categories that has been used mostly in OECD countries and are also being applied in Albania.

ALMPs may be targeted at specific groups, e.g., youths, long-term unemployed, displaced workers, welfare recipients etc. or not. They target the most disadvantaged individuals and aims at poverty alleviation. They also vary widely across countries. In some countries, programs are the responsibility

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of the Public Employment Service (PES); others receive only referrals from it. Some programs may be administered at the federal level, others at regional or local levels. Funding may be centrally governed or jointly funded with various regions (Caliendo & Schmidl, 2016).

Albania is currently implementing six different ALMPs, foreseen and approved with four different Decisions of the Council of Ministers (DCM). The programs are being implemented by the Albanian National Agency for Employment and Skills.

The purpose of this paper is to present some theoretical concepts about the importance of ALMPs and theories and findings of different authors regarding the effectiveness of ALMPs, in the first and second part. In the third part we will focus on the current ALMPs in Albania.

## 2. Literature Review

Since the 1990s, there has been an increased acceptance in the developed world of the need for ALMPs to strengthen the link between social protection, labour market policies and employment. Today, these policies are widely regarded as an important tool in fighting unemployment. As a result, expenditure in ALMPs is sizeable in most advanced economies and continues to increase (Escudero, 2018).

Having an effective set of active labour market policies (ALMPs) is essential to meet the challenges that automation, globalisation and demographic change impose on the labour market. Active Labour Market Policies are a general denomination for specific policies that could be broadly grouped into four big policy clusters – vocational training, assistance in the job search process, wage subsidies or public works programmes, and support to micro-entrepreneurs or independent workers (Levy Yeati et al, 2019).

As stipulated by the majority of researchers, the key outcome of ALMPs should be the employment of the participating individual. The most important question evaluations of active labour market measures should answer, is whether a person participating in a measure gets a higher chance to find a job as a result of it'. However, the review of available literature reveals that there are numerous assumed outcomes of ALMPs (see Table 1.1), covering both employment and earnings outcomes, as well as wider societal effects (European Training Foundation, 2022).

Active Labor Market Programs are widely used in European countries, but despite many econometric evaluation studies analysing particular programs, no conclusive cross-country evidence exists regarding “what program works for what target group under what (economic and institutional) circumstances”(Kluge, 2010). Most research in this area focuses on OECD countries, which differ from many other countries in Eastern and Central Europe, regarding the socio-economic context, capacity of public employment services (PESs) and level of informality in the economy.

According to Kluge (2016) there are different possible objectives of ALMP that include the increased creation of jobs, the improved matching of supply and demand on the labour market, increasing participants welfare and lowering government costs. Consumption smoothing through provision of alternative employment options may also be an objective. **Overall, however the employment probability plays the central role both as the key programme objective and as the outcome measure most frequently analysed in programme evaluations.** For this reason, the subsequent discussion on ALMP effectiveness considers mainly employment as the measure of programme success, typically assessed empirically as the average employment rate x months after the end of the programme (within the first 12 months called “short term effect”, 12-24 months “medium-term” and  $\geq 24$  months “long-term”).

According to a study conducted by Escudero (2018) through an extended pooled cross-country and time series database for 31 advanced countries during the period 1985–2010, it results that ALMPs matter at the aggregate level, but mostly through appropriate implementation aspects. ALMPs seem to be more effective in improving labour market outcomes of the low skilled and training seems to be effective mostly for the overall population.

According to a study conducted by Levy Yeyati et al (2019), the effectiveness of multidimensional and complex policies such as ALMPs, depends on how they are designed on the quality of their implementation, on the context in which they were developed, and on their target population. For example, a vocational training programme may differ in its cost and duration, in its curricular content, and in whether or not, and how, the private sector participates, and may address a very diverse public, from experienced software programmers to disadvantaged youth. An analysis that ignores these considerations can hardly give specific and conclusive lessons for policymakers.

Kluge and Schmidt (2002) find that training measures are more effective than subsidy schemes. An analysis of 20 OECD countries between 1985 and 1999 finds that training measures have a positive impact on the labor market employment rate.

According to an assessment of the European Training Foundation, subsidies with a more targeted program structure (e.g. for women or steel workers) are found to improve effectiveness. Targeting the long-term unemployed people in particular, has the biggest employment effect. Program structure also ought to involve the monitoring of employer behavior to prevent subsidy programs being abused to recruit cheap labor. On top of this, increased resources devoted to wage subsidies can be expected to reduce unemployment rates. It is also worth noting that wage subsidies can play an important role as a counter-cyclical labor market stabilizer, as pointed out by McKenzie (2017). This means that wage subsidies, when used as job retention schemes, might not generate additional employment but can still play a social protection role during recessions.

According to Dengler (2019), who conducted a study on the effectiveness of active labour market programmes on the job quality of welfare recipients in Germany, the results imply that all four programs increase the probability of holding a high-quality job and participation in an ALMP helps to obtain a high-quality job compared with non-participation. The effects differ among programmes and the dimensions of job quality. Participation in classroom training also reveals positive effects on some dimensions of employment quality for all subgroups. Participation in in-firm training is very effective at obtaining a high-quality job for some dimensions of employment quality. Studies analysing the effectiveness of ALMPs only on the employment probability do not go far enough. It is very important that job centres focus on job quality, such as stable jobs, because otherwise individuals will become unemployed again. Because participation in a programme mostly increases the probability of taking jobs and holding a high-quality job for some dimensions of job quality, job centres should focus on the activation of unemployed welfare recipients.

The chances of success of an ALMP depend on several factors, including the characteristics of the labor markets in which they operate. Hence, it is important to avoid assessing ALMPs in isolation (Fay, 1996). The most common outcome on which evaluations focus is whether the individual gets a job and/or experiences earnings gains following a program. But it is also important that evaluations consider carefully the different possible outcomes from an ALMP, e.g. employment, unemployment, participation in another labor market program, or non-participation. An individual may experience stable or falling earnings following participation in a program because of unemployment, enrolment in another program, or in the case of training, enrolment in further education. The policy implications of each situation, however, are quite different (Fay, 1996).

### **3. Methodology**

This paper is based on the review of different authors and institution's reports regarding this topic. Several journal articles and reports have been used in order to formulate and point out some main findings regarding the ALMPs. Different studies have come to different conclusions which are presented and summarized in this paper.

The information regarding ALMPs in Albania has been collected from national statistics and institutions, namely National Employment and Skills Agency and Ministry of Finance and Economy (MFE) and also reports and articles of Albanian authors.

#### 4. Effectiveness of Active Labour Market Policies in Albania

According to the Albanian National Employment and Skills Agency, in 2019 there was a reform in the employment promotion programs in Albania, by designing new ALMPs. The main aim of the reform was to design active labor market programs, standard in frame, but individualized in terms of addressing different vulnerabilities. All the programs rely on the principle of subsidizing the employer, different from the design prior to 2019, where the subsidy went directly to the jobseeker/employee. In Albania the responsible institutions for the ALMPs implementation is the National Employment and Skills Agency.

The current programs in Albania are Wage-Subsidy Program, On-the-Job Training Program, Internship Program, COVID-19 Employment Recovery Program, Community Employment Program and Self-Employment Program. Although the programs differ from each other and target different groups, in general we can say that there is a special focus on youth. One of the most successful programs in 2020-2021 has been the Covid 19 employment recovery program. As a result of Covid 19, many businesses were closed for a certain period, leaving many people without work. The aim of this employment program was to reintegrate into the labor market all unemployed job seekers who have become unemployed as a result of COVID-19, identified by the General Directorate of Taxes and registered in the employment office. The program itself offered 4-month, 8-month and 12-month employment programs.

Unfortunately, there are not many studies regarding the effectiveness of employment promotion programs in Albania. However, there are assessment reports produced mainly from the Albanian authorities. Usually, an impact evaluation report on the programs is prepared four years after the program implementation, to analyse the employability rate of the program beneficiaries after the end of the program. For the programs implemented through 2014-2018, the Impact Evaluation of Employment Promotion Programmes in Albania, has been done in 2019. This report was prepared by UNDP in collaboration with the Albania institutions responsible for the labour market, Ministry of Finance and National Employment Service. According to this report, ALMPs in the form of employment promotion programmes (EPPs) in Albania, are put in place with the aim of increasing employment, reducing unemployment, decreasing informality, supporting vulnerable groups, and paving the way to sustainable and formal employment.

Another important aspect is the inclusion of individuals who benefit from other current social support schemes. In this context the most important one is the *Exit Strategy*, referring to the exit from the economic aid scheme, by accommodating economic aid receivers in different job positions through these programs. The financing of these policies has always been increasing, albeit slowly over the past years.

The main question that is addressed in the impact evaluation of EPPs in Albania is the impact that they have on employment for the treated group. The evaluation of the programmes is done through the examination of its impact on employment status as the indicator of interest. The results of the assessment can be summarized as below.

The largest impact on the probability of being employed is found for the employment promotion programme of unemployed jobseekers in difficulty. The results for the employment promotion program of unemployed jobseekers in difficulty show that being treated in this programme, increases the probability of being employed by 33.8%. The results for the impact of on-the-job training employment promotion program show that relative to the control group, being on-the-job training programme increases the probability of employment by 27.9%. The cost-benefit analysis shows that: Both programmes result with positive gains to the whole society at the end of the programme. It should also be noted that issues of lack of randomization, lack of a proper control group per program, and low coverage of unemployed jobseekers in difficulty in, are still present and they reduce the accuracy of impact results increasing result bias. Consequently, there is a need for better targeting of vulnerable groups, improved program design with a clear methodology in assigning random treatment and control groups to improve common support and impact result accuracy avoiding bias.

The assessment presented above referred to the programs implemented during 2014-2018. Currently the National Employment and Skills Agency is running the survey to analyse the employability for the programs implemented in 2019, so called the new programs as mentioned in the beginning of this section. NAES will run a survey also for 2021 and 2022 and the next Impact Evaluation Assessment for the existing six programs will be prepared in 2022.

From the analysis conducted up to now from the relevant institutions it turns out that different programs are successful in different regions across Albania and targeting different vulnerable groups. Entrepreneurship and self-employment programs promote employment and generally generate results for a very small proportion of unemployed jobseekers. These programs have been more successful for the part of unemployed jobseekers who possess some skills and have shown to be less effective for vulnerable groups, such as women or less qualified groups. Wage subsidies and internship program turn out to be the most successful in terms of the number of the beneficiaries. The internship program is very important, considering the high rates of youth unemployment, as it is designed especially for youth.

The design and implementation of these policies and programs planned in transition economies should be done very carefully taking into consideration the specific conditions of a given country. There is no “one-size-fits-all” policy, which means that mixed schemes at the general level and more specific ones for specific target groups are needed.

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