



Social Protection & Labor Policy Note

April 2012 | Number 4

Background Note for the World Bank 2012–2022 Social Protection and Labor Strategy

Improving Access to Jobs and Earnings Opportunities

The Role of Activation and Graduation Policies in Developing Countries

The inexorable demographic change identified in the new Social Protection and Labor Strategy 2012–2022 estimates that 12 million new workers will seek jobs in the coming year in Asia and Africa alone. Well-conceived social protection and labor systems can effectively contribute to productive and inclusive growth, and activation and active labor market programs play an important role connecting individuals to jobs and improving earnings opportunities.¹

Across high, middle, and low income countries, the typology of activation and graduation programs and policies—and the principles that drive their design—have many similarities and remain relevant for individuals who are not receiving any type of transfer and yet are facing difficulties finding a salary job, moving into self-employment, or are involved in low productivity and low earnings activities. Indeed, a majority of the labor force in developing countries is engaged in low productivity activities either as self-employed or in household enterprises (often without pay).

To foster employability of these most vulnerable, countries generally use a package of policies—blending both incentives and programs/support services. The former is comprised of features or modifications of benefits programs to make recipients less prone to work disincentives and relate to the level or duration of a benefit, co-responsibilities, or financial incentives.² Alone, the incentive compatibility of income support schemes may not be sufficient; it also is important to have a wide range of complementary support programs/services to help target groups overcome an array of—and often multiple—barriers to work.³

In theory, the activation and graduation agendas should bring together social insurance, social assistance, and ac-

tive labor market programs; in practice, the social protection systems in most middle and low income countries are fragmented with little articulation between functions and lack a coherent framework to design and implement active labor market programs. The proposed conceptual framework aims to guide the assessment and design of interventions improving access to jobs and earnings opportunities in various contexts, and is accompanied by a selective review (focusing predominantly on evidence for developing countries and relying mostly on evidence from micro studies and impact evaluations) on the effectiveness of policies, discussing both incentive compatibility and employment support programs.

No one size fits all approach. An interplay of factors comprise optimal policy design, including the size of the informal sector, nature of the job loss, size and complexity of the country's social protection system, design and implementation arrangements of income support programs, country's administrative capacity, profile of the beneficiaries, and political economy context. Lastly, the impacts of most activation interventions are critically dependent on broad labor market conditions, particularly the dynamism of labor demand.

This note is based on Almeida, Rita, Juliana Arbelaez, Maddalena Honorati, Arvo Kuddo, Tanja Lohmann, Mirey Ovadiya, Lucian Pop, Maria Laura Sanchez Puerta and Michael Weber. 2012. "Improving Access to Jobs and Earnings Opportunities: The Role of Activation and Graduation Policies In Developing Countries." Social Protection & Labor Discussion Paper No. 1204. World Bank, Washington, D.C.

¹ This note concentrates on the policy agenda to remove the constraints or disincentives that individuals have to access better jobs and/or to improve the productivity of their current jobs, or "activation." The graduation agenda is more ambitious and involves interventions beyond the programs discussed.

² Because we narrow the concept of "incentives," important stand-alone instruments like "back-to-work bonuses" are excluded. These can be used as an activation approach and are not necessarily tied to a welfare or unemployment insurance transfer (Vodopivec 2004).

³ Such support services may be very diverse; however, employment-related support services are the focus here.

Beneficiary profiling and customization. The target population is an immensely diverse set of individuals. Their constraints include lack of appropriate skills (cognitive, non-cognitive, and technical), incomplete or no information (poor signaling and lack of networking), working capital constraints, and mobility restrictions. Their many needs require a comprehensive service model with a wide set of activation measures appropriately tailored (by combining training with work experience and employment services, cognitive with non-cognitive training, training with personalized counseling, and customized job search assistance). The development of an “individual action plan” is current practice in many OECD countries; MICs are increasingly following this trend.

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

Sustainability is deeply dependent on implementation arrangements. Even though overall conclusions are hard to draw, patterns have emerged and many open questions remain.

Governance requires a balance of roles and responsibilities between the central and local levels in order to give local service providers the managerial flexibility to identify local labor market needs; institutional capacity is crucial.

Performance-based contracts are a recent shift to funding outputs (often measured by the number of beneficiaries placed in a job after completion of the program);

sustainability also implies a movement away from government support and subsidies (MICs) and donor and non-governmental organization funding (LICs) to a more self-contributory approach, especially for the more skilled who can afford to pay.

Private sector involvement. Demand driven training programs, for example, seem to be more effective, as the acquired skills have higher chances to match private sector labor demand. In addition, encouraging a “market” for program provision has been generally associated with lower pressure on public budgets, greater cost effectiveness, and a wider array of services. Unfortunately, evidence is still very thin and challenges are involved, including the design and enforcement of contract execution.

Improving monitoring and evaluation systems is critical for better planning and decision-making. A key factor behind good performance is having a results-based management system where the local units can be held accountable for their performance. Programs need to be adjusted and optimized continuously, and this can only be done if real-time data are available on operations and performance. However, in some LICs and fragile situations, where survey data are not available on a regular basis and administrative data are still reported manually, building a functioning M&E system is challenging.

Throughout the developing world there is a growing demand for advice on the design of policies to facilitate access of the most vulnerable individuals to jobs, while reducing dependency from public income support schemes. Yet, very few programs in middle and low income countries have been evaluated. Among those evaluated, it is difficult to assess how different design features explain success or failure as well as determine the role of local conditions. Chile *Solidario*, for example, is a frontier system; it has lowered operating costs (resource sharing and efficient implementation arrangements due to scale) and enhanced the performance both of its own programs and the overall provision of social protection. ***A proactive safety net agenda—based on innovative designs and linking beneficiaries with effective labor market interventions—may prove to be the only politically sustainable pathway to expand the coverage of social protection in many countries today.***

