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A Conceptual and Empirical Investigation**

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## ABSTRACT

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# Why Should We Integrate Income and Employment Support? A Conceptual and Empirical Investigation\*

The integration of active labour market policies within income support schemes – such as unemployment insurance and social assistance – has been a key component of social protection in high-income countries since the 1990s, with a rich literature reviewing its effects and implementation characteristics. More recently, this approach has spread beyond high-income economies, and is prominent today in many middle-income economies. Yet, despite the increasing adoption of integrated approaches, their conceptual and practical applications have not been studied in detail outside of high-income countries. This paper conceptualizes, for the first time, the implementation of integrated approaches, focusing on low- and middle-income countries (LMIC). We first develop a conceptual framework to understand how integrated policies can address labour market challenges, exploring the theoretical effects they exert on selected labour market and social dimensions. We then contrast these theoretical expectations with findings from the empirical literature on the effectiveness of integrated approaches. While many empirical studies find positive effects across different labour market dimensions, this is evidently not always the case. To reconcile this discrepancy, we investigate the design and implementation of integrated approaches across LMIC and identify factors which contribute to their effectiveness.

**JEL Classification:** I38, J08, J46, J81

**Keywords:** active labour market policies, unemployment insurance, cash transfers, policy integration, low- and middle-income countries

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## 1 Introduction

During the COVID-19 pandemic – as in all previous economic and financial crises – a major challenge for governments has been to counterbalance negative long-term consequences for labour markets. Addressing the immediate needs of people most affected, while laying the foundation for sustainable job creation in the medium term, requires a comprehensive policy response. This paper focuses on the central role that active labour market policies (ALMPs) can play when combined with income support policies, in providing people with protection and opportunities to find sustainable ways of living.

ALMPs are government policies aimed at helping and incentivizing workers to enhance their employability, actively search for employment, and find suitable work relatively quickly. ALMPs include training, public works, employment subsidies, support for self-employment and micro-enterprise creation, and labour market services (see ILO (2016) and Asenjo et al. (2019)). Furthermore, we focus on income support policies seeking to provide basic income security for working-age individuals, distinguishing between contributory and non-contributory schemes. The former is mostly meant to compensate for income declines during unemployment, while the latter focuses on the provision of basic financial aid to poor households (Berg 2015).<sup>1</sup>

The integration of ALMPs within unemployment and social assistance schemes has become a key component in fostering decent work opportunities in low and middle-income countries (LMIC).<sup>2</sup> Although ALMPs and income support schemes have been used extensively in those countries for several decades, the shift towards integration has only occurred recently. This policy shift is in line with recommendations from international organizations and some streams of the academic literature. Yet, the policy integration has been implemented through multiple approaches with potentially differing effects on poverty and employment. Therefore, the conceptual and practical application of integrated approaches outside of high-income countries merits attention.

This paper conceptualizes, for the first time, the implementation of integrated approaches in LMIC. We develop a conceptual framework to understand how such integrated policies can address labour market challenges and explore the role of implementation factors. To this end we first trace the concept of

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<sup>1</sup> Contributory schemes typically consist of unemployment insurance policies financed through salary deductions, whereby benefit entitlement is conditional on prior contributions, usually by formally employed individuals only. General taxation often finances non-contributory schemes, which provide unemployment assistance and cash transfers. Benefit entitlement depends on vulnerability criteria (e.g. means-tested targeted policies) or, in the case of universal measures, on citizenship.

<sup>2</sup> Although Chile and Uruguay are high-income countries according to the World Bank's country categorization by income, they are included in our analysis as they share similar ALMP and income support experiences with other countries in their region.

“activation” to its origins in Europe, discussing the shift in its understanding and the growing support for integrated approaches within the international community (section 2). We then develop a conceptual framework to better understand the potential benefits of approaches that integrate ALMPs with income support policies. We look at the theoretical effects that each component of integrated approaches alone has on selected labour market dimensions and contrast this with the effects of combined policies (section 3). Third, we delve into the empirical evidence. Here, we review the empirical literature on the effectiveness of integrated approaches and discuss the prevalence of such approaches and their characteristics in LMIC (section 4). We find that, while institutional context is key, it is possible to achieve policy integration through a variety of institutional arrangements. Some architectures have the advantage of enabling a greater integration of policies (e.g. one-stop shops), but require a stronger coordination between agents and an enhanced set of policy tools. Other architectures are more flexible in terms of administration (e.g. models that coordinate links between existing policies, which are implemented separately), but their weaker integration makes favourable enabling conditions an even more important element. Finally, given the variation in the implementation of combined approaches, and the fact that the empirical findings are not systematically positive, we explore the features that shape the effectiveness of integrated approaches in LMIC (section 5). We build on the existing (though limited) empirical literature and complement it with quantitative and qualitative information drawn from our own experience in implementing field studies. We put forward three sets of enabling conditions that are needed to harness the full potential of integrating approaches, contrasting them with the barriers that LMIC need to tackle to achieve effective policy integration.

We conclude that integrated approaches – when properly designed and implemented – have the potential to protect people from acute material vulnerabilities, while improving workers’ prospects, including addressing the lack of job quality that disproportionately affects the most vulnerable. Such a combination ultimately enables people to leave behind poverty.

## 2 The move towards integration: its beginnings and the discussion within the international community<sup>3</sup>

### 2.1 *Origins of the concept of “activation” in high-income countries*

The high unemployment rates experienced by several European countries from the second half of the 1980s onwards led to the development of new forms of policies. These interventions aimed at a lowering unemployment by combining income support with ALMPs. Specifically, great emphasis was placed on “activation strategies” (Martin 2015) designed to enhance the role of ALMPs while also adjusting social protection systems so as to “encourage people to work ... and for expenditure to be targeted more accurately to concentrate the effort on those in real need” (European Communities 1993, 141). Both the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) supported this approach to activation (Weishaupt 2011) with the intention of reducing the potential negative effects of unemployment insurance, including reduced efforts to find a new job. Increasingly, such strategies stressed the role of conditionality in accessing income support, redirecting resources towards ALMPs while providing less generous income support.

However, there are important shortcomings in the activation strategies implemented in Europe since the 1990s. This first approach to activation required participants to work in exchange for social benefits; de facto transforming policies into “workfare” programmes. This was criticized for acting contrary the right of social protection, incentivizing low-quality employment and intensifying competition among low-wage workers (Lødemel and Moreira 2014; Peck 2003; Peck and Theodore 2000). Furthermore, empirical studies have shown that these activation strategies achieved mixed results, failing precisely where they should have been particularly effective, that is, in exploiting the complementarities between the institutions and policies involved (Snower 1994; IER 1999; Paggiaro and Trivellato 2002; Paggiaro, Rettore, and Trivellato 2009).

Consequently, a new form of activation strategy has been proposed more recently, namely one that leverages the complementary nature of ALMPs and income support schemes (Martin, 2015). In this article, we focus on this new concept of activation to assess such “integrated approaches” from a conceptual point of view. In so doing, we define as our focus, those approaches or strategies that combine ALMPs and social protection measures with the aim of improving their respective effectiveness by complementing and reinforcing each other’s goal of supporting individuals through immediate protection and sustainable employment promotion.<sup>4</sup> This includes support for vulnerable

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<sup>3</sup> This section draws from Asenjo et al. (2019).

<sup>4</sup> Such integrated approaches can be implemented in several ways, depending on which specific income support and ALMP measures are combined, their degree of integration and how they are administered, as discussed in sections 3 and 4. Throughout this article, we refer to “integrated”, “joint” and “combined” policies in general, without a specific form of integration in mind.

groups and people with disabilities, with *inclusion* being a primary objective of this new form of activation strategy (Etherington and Ingold 2012).

At the beginning of the 2000s, high-income countries were quite slow and inconsistent in their adoption of integrated approaches. Nevertheless, over time, these approaches have become more widespread. Importantly, those OECD countries that adopted some form of activation strategy integrated with income support in the early 2000s had a better overall labour market performance during the Great Recession than those that had not (Martin 2015). Indeed, cross-country comparisons indicate that integrated measures can lead to better outcomes than what is achievable through policies implemented in a compartmentalised way (Martin 2015; OECD 2013a; Immervoll and Scarpetta 2012). For OECD countries, Immervoll and Scarpetta (2012) explain that when ALMPs are proposed in combination with income support they contribute to reducing unemployment in times of recession while keeping vulnerable workers attached to the labour market.

The OECD countries that integrated approaches successfully had carefully tailored policy mixes. This seems to indicate that, rather than adopting a “one-size-fits-all” strategy, successful policymakers fit integrated approaches to the needs of a specific country. Differences in policy integration across countries relate both to the specific interactions between the various institutions providing the services and to the chosen mix of ALMPs and types of income support.<sup>5</sup>

By and large, evaluation studies of contemporary integrated approaches in high-income countries demonstrate that such measures can decrease unemployment rates and improve the working conditions of individuals transitioning into new jobs. Research findings indicate that well-designed and comprehensive activation models can not only reduce the number of people claiming unemployment benefits, but also decrease long-term unemployment (Finn 2016), stimulate the creation of quality jobs (OECD 2018) and support workers from vulnerable groups in finding and retaining better jobs (Etherington and Ingold 2012; OECD 2013b). Overall, these studies find that for policies to be successful, they need to be well-designed and target specific groups, paying attention to the ways in which income support, work incentives and activation work together, and to conditions in the local labour market (ILO 2016; Immervoll and Scarpetta 2012; Martin 2015; McKnight and Vaganay 2016; OECD 2018).

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<sup>5</sup> To give an example, in Norway, one-stop shops, where individuals are able to access all unemployment-related services, stand for strong policy integration (see Duell, Singh, and Tergeist 2009). In contrast, in Switzerland, the implementation and decision-making processes regarding policies continues to be the prerogative of the institutions involved (Duell et al. 2010).

## 2.2 *Movement within the international community*

LMIC differ substantially from high-income countries. This pertains to labour market characteristics – since, e.g., informality is widespread outside of high-income countries – and to the design and implementation of policies. Therefore, insights from high-income countries cannot be projected directly on to countries outside this group. This calls for the examination of the various strategies that LMIC have used to integrate labour market policies, and to investigate their theoretical and empirically observed effects.

The adoption of income support and activation measures became increasingly widespread in Latin America, Africa, Asia and Eastern Europe during the early 2000s. However, policies were not always introduced and implemented within a common framework (Bastagli et al. 2016; Escudero et al. 2019; ILO 2017a).<sup>6</sup> In recent years, both the coverage of social protection and the availability of jobs of good quality have increased in LMIC. Yet, access to decent work still varies considerably across regions and countries.

Over the last two decades, policymakers and intergovernmental organizations have tried to respond to this challenge. International organizations, in particular, have often lent support to the implementation of integrated approaches, or at least to their conceptual development and the creation of a legal basis (FAO 2017a; ILO 2012; OAS, ECLAC, and ILO 2010; OECD 2006; World Bank 2012).

The advantages of the integrated approaches were recognized first in international labour standards. This includes several ILO instruments, whose introduction dates back as far as 1988.<sup>7</sup> These standards supported the implementation of integrated approaches in countries with a well-established social security system. The Social Protection Floors Recommendation, 2012 (No. 202) extended the concept of social security to include countries with a more diverse and less comprehensive social protection scheme. Access to social security became a recognized human right. Its integrated implementation with ALMPs was duly advanced as an option for the expansion of social protection coverage that allowed for gradually formalizing informal employment and firms (ILO 2017a).<sup>8</sup> In 2019, the ILO implemented a global assessment of the extent to which Recommendation No. 202 (ILO 2019) had been implemented,

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<sup>6</sup> ILO (2017a) presents the empirical patterns of the expansion of social protection coverage in LMIC and Bastagli et al. (2016) study the labour market effects of cash transfers. Card, Kluve, and Weber (2010, 2018) analyse the impact of ALMPs in a global perspective, whereas Escudero et al. (2019) do so for Latin America and the Caribbean.

<sup>7</sup> See the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) and its accompanying recommendation (No. 176).

<sup>8</sup> In 2015, this was further emphasized in the Transition from the Informal to the Formal Economy Recommendation (No. 204).

emphasizing the importance of creating a comprehensive social security scheme fitted to national conditions, with a view to achieving social justice. ALMPs were regarded as a central pillar in tackling persistent labour market exclusion.

The World Bank's Social Protection and Labor Strategy 2012–2022 also advocated to include ALMPs in social protection schemes, thereby supporting an integrated approach. Its goal was to improve economic opportunities and stimulate self-sufficiency (World Bank 2012). The strategy supported a systematic connection being made between policies designed to increase opportunity (e.g. policies aimed at developing human capital and skills, policies for labour market integration) and measures typically aimed at reducing risk (e.g. income support). The main objective of the World Bank's strategy was to promote economic growth, compared to which access to social protection was a secondary consideration (Devereux and Solórzano 2016).

Multisectoral strategies feature in the social protection framework of the Food and Agriculture Organization of the United Nations (FAO), to address immediate needs and offer longer-term livelihood support. The framework is focused on the rural economy and is in line with the Graduation Approach, which stands for multifaceted interventions designed to enable extremely poor people to transition into sustainable livelihoods. This approach recommends asset transfers and skills training to boost income-generating activities with higher returns. It has informed social protection throughout many rural regions in Africa and South Asia (Devereux and Sabates-Wheeler 2015).

Indeed, the deeper integration of policies has a regional relevance. The Organization of American States and the Economic Commission for Latin America and the Caribbean (ECLAC) has encouraged the inclusion of policy measures aimed at fostering employability within conditional cash transfer programmes (CCTs). This is based on the idea that, while CCTs are valid short-term instruments for poverty alleviation, increasing the likelihood that recipients will be able to access the labour market helps create more stable income flows in the longer term (ECLAC and ILO 2014, 14). ECLAC thus considers it essential to exploit synergies between CCTs and policies that enhance individuals' employability. This is meant to work against poverty traps, which are created against the backdrop of informal employment with low productivity.

### *2.3 The academic debate*

Overall, international organizations can be seen as pointing towards the use of integrated policies as an effective means of tackling labour market and poverty issues in LMIC. In comparison, the academic literature is more nuanced.

Barrientos and Hulme (2009) highlight how, by focusing on human capabilities, anti-poverty programmes based on integrated approaches consider the constraints of vulnerable groups in a holistic manner.<sup>9</sup> Within these frameworks, decent work is not regarded as solely a means to generate incomes and escape poverty (an “instrumentalist” view), but as also important in relation to its human-rights value (Barrientos 2010). Synergies between employment promotion and social protection are central to this approach.

Cash transfer schemes, combined with training and other employment promotion schemes, are likewise in line with a “transformative” approach whereby income support is intended to tackle the factors leading to poverty (Molyneux, Jones, and Samuels 2016).<sup>10</sup> That integrated approaches encourage beneficiaries to take part in activation measures means they offer a sustainable pathway for moving out of poverty and facilitating social integration (Devereux and Sabates-Wheeler 2004). A relationship between income support and active policies also emerges from the contribution by Mazza (2013). The author focuses on Latin America and the Caribbean and how for that region’s economies the transition to productive and formal labour market outcomes can be fully realised by the widening of labour intermediation services to include private providers. Furthermore, the author highlights the need for these services to be linked more effectively to social protection, including CCTs and other measures against poverty.

Voices critical of the attempt to combine ALMPs and social protections include Choi (2012) and Roelen (2014). They point out that the economic focus on productivity and growth risks diluting the purpose of social protection. Moreover, critics emphasize that mandatory activation components could force beneficiaries to exit a programme before they have attained a minimum subsistence level. To illustrate this, there are examples of initiatives undertaken in LMIC whose integrated approach is aimed at promoting self-employment, a form of employment which in these countries is often characterized by informality, working poverty and vulnerability. Finally, McCord and Slater (2015) highlight the risk that labour market strategies are implemented in place of more ambitious policies seeking removal of the structural obstacles to decent work.

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<sup>9</sup> Drawing on the capability approach, Barrientos and Hulme (2009) understand “integrated anti-poverty programmes” as an innovative approach to social protection. As in the example of *Chile Solidario*, these programmes not only respond to short-term needs, but also have longer-term objectives, among which are access to quality employment and tackling deficits in human development more generally.

<sup>10</sup> This transformative approach gives poor individuals influence on how the policies are designed and implemented (Devereux and Sabates-Wheeler 2004).

### 3 Conceptual underpinnings: what effects can be expected from an integrated approach?

In view of an increasing adoption beyond high-income countries, the conceptual basis of integrated approaches merits closer examination. To this end, we put forward five clusters of labour market dimensions and consider the effects each component of an integrated approach can alone exert on the clusters. We then assess the complementary nature of ALMPs and income support schemes and develop a conceptual framework to understand the potential benefits of integrated approaches. We focus – where possible – on LMIC. Table 1 summarizes the theoretical effects by cluster, separately for income support (rows in light blue), ALMPs (rows in mid-blue) and integrated policies (rows in dark blue).

#### 3.1 *Labour market dimensions against which policy effectiveness is measured*

Labour market policies exert their effects over a plurality of labour market dimensions. Such effects can be direct or indirect, intended or unintended, and may differ across target groups. To systematically capture the key effects, we introduce five clusters: labour demand, labour supply, quality of matching, in-work poverty reduction, and work quality. The first three are standard dimensions traditionally studied by economic literature (Blundell and Macurdy 1999; Card 1987; Flinn 1986; Jovanovic 1979; Pencavel 1986). Labour demand, labour supply and the matching of the two determine employment levels and wages, and hence inform some of the most relevant labour market indicators. Thus, a deeper analysis of the effects of policies on these three clusters helps conceptualize other aspects that expand beyond those observed within the labour demand and supply clusters, such as hours of work, the duration of work contracts and the share of part-time contracts in the market (which we explicitly capture under the “in-work poverty reduction” and “work quality” clusters below).

*Labour demand* and *labour supply* are two clusters on which one must focus when evaluating the impact of labour market policies. The declared central aim of many labour market policies is to stimulate labour force participation and employment. In a neoclassical model, this translates into a movement of either the demand or supply curves, or both. For instance, the introduction of employment subsidies can expand labour demand, due to firms hiring more workers, and wages increase as a consequence (Blundell et al. 2004). Conversely, a more generous level of income support can result in a contraction in the supply of labour for a given wage, with a consequent decrease in the employment rate (Chetty 2008; Schmieder and von Wachter 2016).

Looking at the third cluster, *quality of matching*, allows us to capture the effects of policies on those labour market aspects that go beyond employment and wage levels. Quality of matching captures the intrinsic value of a job in which the skills and the career ambitions of an employee (or jobseeker) match

those required and expected by an employer (see also Ferreira and Taylor 2011; Zhang, Salm, and van Soest 2021). In this respect, labour market policies can be deemed successful when they favour matches where the needs of employees and employers truly coincide. At the individual level, this is important, as it is reasonable to expect workers, whose tasks are either systematically above or below their skills level, to soon lose motivation and/or underperform. Similarly, an employer whose workers cannot guarantee an appropriate level of productivity may find operating in the market less profitable or even unsustainable. From a social point of view, a labour market is inefficient when there is a systematic over- or under-qualification of workers, as this indicates a structural misallocation of resources and a loss of economic and human potential (McGuinness 2006; McGuinness et al. 2018; Tsang 1987).

However, the final aim of labour market policies ought not to simply be about workers obtaining “a job”. Rather, labour market policies should be conducive to decent jobs guaranteeing workers appropriate working conditions, besides those determined by mere wage levels. The availability of jobs of an adequate quality is a basic right for workers central to achieving justice within societies. To capture this explicitly, we introduce a second set of clusters that accounts for job characteristics. Among the clusters belonging to this second group, we include *in-work poverty reduction*. The prevalence of in-work poverty is greater in the labour markets of LMIC, due to a lack of formal protection for workers, but is also present in high-income countries (Kenworthy and Marx 2017; Peña-Casas et al. 2019). Earning a wage above the poverty line is one important characteristic of decent work.<sup>11</sup> Therefore, an effective policy, with a related disbursement of public resources, must facilitate the reduction of in-work poverty.

Our fifth and final cluster is *work quality* itself. The wage level is certainly one of the most relevant determinants of quality within an employment relation. In this respect, this final cluster overlaps with the fourth already presented. Nevertheless, work quality goes well beyond wages, capturing a wider range of characteristics (Tatsiramos 2014). The relevance of these dimensions has been highlighted not least in the context of the COVID-19 pandemic (see Sachs et al. 2021), which demonstrated the importance of formal work arrangements based on contractual conditions inclusive of social insurance payments, sick leave, flexible work arrangements, and so on. Such arrangements need not be the sole prerogative of high-income countries. To the contrary, the introduction of labour market policies gives

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<sup>11</sup> The ILO defines “decent work” as “work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men” (Decent Work, ILO, 2022).

governments the leverage to facilitate the diffusion of formal jobs. This, in turn, can favour an improvement in working conditions, as well as strengthen the formal economy.

Table 1. Expected theoretical effects of single and integrated policies by cluster. Effects post-participation unless stated otherwise

Type of policy		Income support				
		ALMP: Training	ALMP: Public works	ALMP: Employment subsidies	ALMP: Self-employment and micro-enterprise creation	ALMP: Labour market services
Type of policy cluster	<i>Integrated policy: ALMP + income support*</i>					
Labour demand	NO direct effect					
	POSITIVE indirect effect, ↑ aggregate consumer demand ⇒ employment creation					
	<b>POSITIVE</b> ↑ labour demand (via ↑ marginal productivity)	<b>POSITIVE</b> ↑ short-term jobs (during participation)	<b>POSITIVE</b> <ul style="list-style-type: none"> <li>open-up jobs</li> <li>sustain existing jobs</li> <li>↑ demand via income effect</li> </ul> <b>NEGATIVE</b> <ul style="list-style-type: none"> <li>displace excluded workers</li> </ul>	<b>POSITIVE</b> ↑ jobs ⇒ multiplier effects  <b>NEGATIVE</b> Potential displacement effect: ↑ competition ⇒ unsubsidised businesses pushed out of market	<b>POSITIVE</b> ↑ labour demand via ↓ vacancy costs	
<b>POSITIVE</b> <i>Protects workers' incomes ⇒ they adapt to new demand for skills</i>	<b>POSITIVE</b> <i>↑ Short-term jobs (during participation)</i>	<b>POSITIVE</b> <i>On balance, ↑ labour demand dominates</i>	<b>POSITIVE</b> <i>• ↑ Jobs (⇒ multiplier effects) • ↓ Displacement via ↑ in aggregate consumer demand</i>	<b>POSITIVE</b> <i>↑ Labour demand (also during recessions) via ↑ in aggregate consumer demand</i>		
Labour supply	AMBIGUOUS potentially ↓ job-search efforts ⇒ longer unemployment					
	<b>POSITIVE</b> <ul style="list-style-type: none"> <li>Keeps people active in the labour market</li> <li>↓ LT unemployment and discouragement</li> <li>↑ medium-term employability</li> </ul>	<b>POSITIVE</b> Keep people active in the labour market  <b>NEGATIVE</b> <ul style="list-style-type: none"> <li>Lock-in effect</li> <li>Potential deadweight loss</li> </ul>	<b>POSITIVE</b> <ul style="list-style-type: none"> <li>Incentives to workers: ↑ labour supply</li> <li>incentives to workers and incentives to firms</li> <li>keep people active in the labour market</li> </ul>	<b>POSITIVE</b> Keep people active in the labour market	<b>POSITIVE</b> ↑ supply by ↓ information constraints and ↑ employability via counselling	

	<b>NEGATIVE</b> Lock-in effect while in training	<b>AMBIGUOUS</b> Effects post-participation	<b>NEGATIVE</b> Potential deadweight loss		
	<b>POSITIVE</b> <ul style="list-style-type: none"> <li>• ↑ attachment to labour market</li> <li>• ↑ participation in training ⇒ ↑ skills and overall productivity</li> </ul>	<b>POSITIVE</b> ↑ participation through increases in incentives, at least in short-term	<b>POSITIVE</b> ↑ participation and ↓ labour discouragement	<b>POSITIVE</b> ↑ participation	<b>POSITIVE</b> ↑ participation in services that can help the transition into higher added value jobs
Quality of matching	<b>AMBIGUOUS</b> facilitates longer job search but potential ↓ in job-search efforts				
	<b>POSITIVE</b> <ul style="list-style-type: none"> <li>• ↓ skills bottlenecks</li> <li>• ↓ information constraints, serving as a signal during hiring processes</li> </ul>	<b>POSITIVE</b> Improve matching by ↓ inactivity  <b>AMBIGUOUS</b> Effects post-participation	<b>POSITIVE</b> Improve matching by ↓ asymmetric information between workers and employers	None	<b>POSITIVE</b> Improves matching quality
	<b>POSITIVE</b> longer participation in training ⇒ improves matching	<b>POSITIVE</b> ALMP reinforces effect of income support. Longer search ⇒ improves matching	<b>POSITIVE</b> Improved matching	None	<b>POSITIVE</b> ALMP ↑ effect of income support. Longer search ⇒ improves matching
In-work poverty reduction	<b>POSITIVE</b> Guarantees minimum income standards; can facilitate access to basic services				
	<b>POSITIVE</b> ↓ in-work poverty via ↑ workers' skills	<b>POSITIVE</b> ↓ in-work poverty during participation (if salary > poverty line)  <b>AMBIGUOUS</b> Effects post-participation	<b>POSITIVE</b> ↓ in-work poverty during and potentially post-participation by improving skills on the job and working in formal sector firms	<b>AMBIGUOUS</b> ↓ ↑ in-work poverty depending on level of start-up revenues and whether firm operates in formal sector	<b>POSITIVE</b> Job-search assistance and counselling ⇒ ↓ in-work poverty
	<b>POSITIVE</b> ↓ in-work poverty as training ↑ access to better jobs	<b>POSITIVE</b> ↓ in-work poverty at least during participation	<b>POSITIVE</b> ↓ in-work poverty during and post-participation as income support reinforces ALMP effect	<b>POSITIVE</b> ↓ in-work poverty during and potentially post-participation, as worker receives income and technical support for creation of start-up	<b>POSITIVE</b> Income support reinforces positive effect of ALMP

<b>Work quality</b>	<b>AMBIGUOUS</b> facilitates longer job search but potential ↓ in work efforts; possible incentives to move into informal employment				
	<b>POSITIVE</b> ↑ workers' skills	<b>AMBIGUOUS</b> ↑ work quality, if activities' human accumulation aspect matches demand of local labour markets	<b>POSITIVE</b> ↑ work quality during and potentially post-participation, as firms are in formal sector and workers ↑ skills on the job	<b>AMBIGUOUS</b> ↓↑ work quality, if start-up revenues are high enough and firms operate in formal sector (⇒ impact on working conditions)	<b>POSITIVE</b> ↑ work quality by ↑ employability and improved matching
	<b>POSITIVE</b> <i>Income support reinforces skills acquisition ⇒ access to better jobs</i>	<b>AMBIGUOUS</b> <i>Can ↑ living standards, but may lead to low-quality jobs</i>	<b>POSITIVE</b> <i>Policies reinforce each other ⇒ ↑ odds of finding better jobs</i>	<b>POSITIVE</b> <i>Potential ↑ in-work quality, as start-up created through government support</i>	<b>POSITIVE</b> <i>Policies reinforce each other ⇒ ↑ odds of finding better jobs</i>

Note: \*Dark blue cells illustrate the overall gains from an integrated approach, which are often expected to be greater than the effects of individual policies implemented independently, as explained in the text.

### 3.2 Expected effects of income support policies

Contributory social protection schemes play a major role in supporting the income of workers in high-income countries. They exist in LMIC, too, although less systematically than in their high-income counterparts. They usually consist of unemployment insurance and cover mostly workers in formal employment. As the light blue rows in table 1 indicate, their main function is the immediate reduction of poverty through consumption-smoothing in situations when workers face a negative income shock after losing a job (Chetty 2008; Devereux and Sabates-Wheeler 2004; ILO 2017a). The consequences of job loss on household consumption are comparatively severe in LMIC (Gerard and Naritomi 2021; Liepmann and Pignatti 2021). In such circumstances, access to adequate unemployment insurance plays a crucial role for guaranteeing minimum income standards and protecting the limited physical and financial assets of unemployed workers (Devereux and Sabates-Wheeler 2004; ILO 2017a). By protecting incomes, unemployment insurance also allows workers to search more extensively for a suitable new job and prevents them from needing to accept lower quality jobs.

However, there is a limited availability of contributory schemes in countries where labour market regulations are poorly enforced. A significant share of the population works informally in LMIC, meaning social security contributions tend not to be paid for them. Therefore, non-contributory support is often the only available measure (Barrientos 2010). Such schemes distribute financial aid to the unemployed and complement the income of low-wage workers. Like unemployment insurance, non-contributory income support guarantees minimum income standards and can protect against needing to accept low-

quality jobs paying very low wages. Non-contributory schemes help act against social exclusion, encouraging transitions from low (subsistence-level) to more highly productive activities and enable the most disadvantaged to more actively participate in their communities and societies (Devereux and Sabates-Wheeler 2015; ILO 2012).

In terms of their interaction with the five clusters, because income support (contributory and non-contributory) allows workers to search longer for a suitable job, such schemes can positively affect the *quality of matching* and *reduce in-work poverty*, but only to the extent that there are decent work opportunities available in any given labour market (see the light blue rows in table 1). Non-contributory schemes go a step further in reducing in-work poverty, in that they are also meant to facilitate the access to basic services.

From a theoretical perspective, income support can also have the effect of reducing labour supply, because it allows workers to remain unemployed for a longer period (Chetty 2008; Schmieder and von Wachter 2016). This would imply a partial loss of human capital, and could have negative consequences for subsequent wages (Nekoei and Weber 2017). As a result, income support has the potential to negatively affect the *labour supply* cluster. The impact on this cluster has received considerable attention in the labour economics literature, as evidence from high-income countries shows that higher unemployment benefits tend to lengthen unemployment spells (Schmieder and von Wachter 2016).

However, in LMIC, the negative effects on labour supply can be expected to be smaller, as the level and duration of income support tend to be moderate, and individuals often have no choice other than to work for subsistence. Accordingly, empirical literature has shown that the employment disincentive effects of unemployment benefits are comparatively low in those contexts where informality is widespread (Britto 2022; Gerard and Gonzaga 2021; González-Rozada and Ruffo 2016; Liepmann and Pignatti 2021). Moreover, since formal employment opportunities are scarce for benefit recipients in these countries, individuals secure such jobs at a slow rate, regardless of the benefits they may receive (Gerard and Gonzaga 2021). In addition, social assistance programmes have no significant negative impact on employment (Alzúa, Cruces, and Ripani 2013; Banerjee et al. 2017; Barrientos 2012; Bosch and Schady 2019), meaning that the stereotype of the “lazy welfare recipient” is empirically untrue for LMIC (Banerjee et al. 2017). Taken together, these results indicate that the positive effect of income support on *quality of matching* and *in-work poverty reduction* dominates any potential negative effect that could arise due to a loss of human capital during periods of prolonged unemployment.

Eligibility for unemployment benefits usually ends when workers re-enter employment. However, informal employment typically remains unobserved by the authorities. From the perspective of

neoclassical economic theory, this may generate an incentive for benefit recipients to move into informal employment, as this would allow them to earn a wage while continuing to claim benefits (Gerard and Gonzaga 2021). Therefore, income support may negatively affect the *work quality* cluster, if workers replace formal with informal employment. Empirical evidence shows that significant shares of unemployment benefit recipients do indeed move into informal employment. However, informal jobs are poor substitutes for formal ones, and such a move typically entails a considerable wage and consumption penalty. Therefore, informal jobs appear to be largely taken up out of economic necessity, while the incentive for delaying formal re-employment in response to receiving higher unemployment benefits is comparatively small and temporary (Liepmann and Pignatti 2021).

In contrast, the incentive to move from formal to informal employment may be higher for recipients of non-contributory cash transfers. From a theoretical perspective, this can be expected to be the case for some means-tested programmes, where recipients exit the programme as soon as their income from formal employment (the only income that authorities can credibly monitor) exceeds a certain threshold. In line with this high implicit tax on formal income, some cash transfer recipients appear to move into informal jobs with the intention of remaining eligible for income support (Bergolo and Cruces 2021; Bosch and Schady 2019).

Finally, income support has no clear direct effect on the remaining cluster – *labour demand*. From a macroeconomic perspective, unemployment insurance is expected to stabilize aggregate demand for goods and services, especially during periods of economic downturns (Farber and Valletta 2016; ILO 2014; Rothstein and Valletta 2017). Likewise, cash transfers increase consumption and can thereby create economic growth (FAO 2017b; Mathers and Slater 2014). These macroeconomic effects are expected to indirectly stimulate labour demand and therefore lead to employment creation.

In sum, income support is needed to allow for individuals' consumption smoothing and indirectly stimulates the macro-economy. However, income support alone does not sufficiently improve workers' skills and employment prospects.

### 3.3 *Expected effects of ALMPs*

Like income support schemes, ALMPs can exert an effect on the labour market through the five clusters described above (see table 1). ALMPs can be applied in a range of contexts, due to their multidimensional and versatile nature (Card, Kluge, and Weber 2018), increasing their potential effects on several labour market outcomes simultaneously. Yet, the impact of ALMPs largely depends on the appropriateness of the implementation mechanism (as discussed in later sections). In LMIC, for example, a crucial factor is accessibility for eligible participants; and, indeed, the effectiveness of

various programmes has been limited through a lack of participation by targeted groups (ILO 2016). In this paper we argue that sustaining workers' incomes is an effective way of ensuring accessibility to activation programmes, thus improving their success. Ensuring the right conditions is especially relevant since ALMPs, on average, have long durations. Positive impacts tend to become evident only after individuals participated for a few months (Escudero et al. 2019).

The mid-blue cells in table 1 illustrate the effects that the different ALMPs have on labour market outcomes by cluster type. Various ALMPs are designed to directly stimulate *labour demand*: in the case of public works, jobs are created in the short-term only, whereas micro-enterprise creation programmes and employment subsidies aim for a more permanent job creation (the latter can also be used to support existing jobs at during economic crisis). Indirect income effects can further increase the effectiveness of these programmes and have a multiplier effect. For example, hiring subsidies reduce the wage costs for employers, which stimulates labour demand (Neumark 2013). Similar effects pertain to self-employment and micro-enterprise creation programmes (López Mourelo and Escudero 2017).<sup>12</sup> Some of these policies (e.g. hiring subsidies) can be of particular benefit to those groups hardest to employ, such as the disabled (Lalive, Wuellrich, and Zweimüller 2013). In comparison, labour market services and training policies have the potential to increase labour demand indirectly. Evidence from high-income countries indicates that labour market services, or more specifically assistance with job search, reduces the cost of vacancy creation for enterprises (Calmfors and Lang 1995; Pissarides 1990; Schmid, Speckesser, and Hilbert 2001). Similarly, the increase in marginal productivity driven by training policies can also push up labour demand, because it makes it efficient for firms to employ more workers (Calmfors 1994).<sup>13</sup> At the macroeconomic level, by promoting employment (or sustaining it, in the case of wage subsidies and short-time work) ALMPs can reduce adverse effects of recessions and/or of fundamental changes transforming labour markets (Escudero et al. 2019). Empirical evidence has confirmed the positive impact that ALMPs have on individual-level outcomes during a recession (Card, Kluge, and Weber 2018; Forslund, Fredriksson, and Vikström 2011; Lechner and Wusch 2009). In the context of the Great Recession, hiring subsidies were found to have encouraged job creation in France (Cahuc, Carcillo, and Le Barbanchon 2019), as well as in the United States for some of the schemes analysed (Neumark and Grijalva 2017). Short-term work has also helped sustain jobs in Luxembourg during severe recessions (Efstathion et al. 2017; Faia, Lechthaler, and Merkl 2013).

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<sup>12</sup> The effect of the policy is “multiplied” beyond just the participants: e.g. a start-up incentive which creates a micro-enterprise that later grows and creates additional jobs.

<sup>13</sup> This is the so-called “scale effect”, which needs to dominate the less common “substitution effect” (arising when a given production output requires fewer labour units) for labour demand to increase (Calmfors 1994).

In terms of *labour supply*, some measures targeting the supply side of the labour market (i.e. training and employment subsidies), and even some demand-oriented measures (i.e. public works and micro-enterprise creation) play a major role in keeping people active in the labour market when hiring is low, as well as improving their chances of re-employment. By limiting long-term unemployment and discouragement (something difficult to reverse), these measures prevent workers from permanently leaving the labour market. Meanwhile, employment subsidies directly increase labour supply, by topping up incomes during a downturn for a particular group or groups of workers. Similarly, labour market services – which bridge the gap between labour supply and demand through job placement schemes – can be expected to increase employment by addressing information constraints and improving workers’ employability. Even when labour supply-oriented ALMPs do not immediately reduce unemployment (Schmid 1996), they can counterbalance skills shortages (e.g. by providing training and labour market services), facilitate a reallocation of employment opportunities and improve the perspectives of groups facing particular disadvantages, including unskilled workers and individuals who have been unemployed over extended periods (OECD 1993). Training, in particular, aims at improving employment prospects. Training can contribute to adjusting the qualifications of jobseekers, so as to increase mobility into sectors and across regions where labour demand is growing (Bellmann and Jackman 1996a). When ALMPs target disadvantaged groups, including poorer or low-qualified workers and minorities, this can be beneficial (J-PAL 2017; Kluge 2010; Lyons and Zhang 2017). For example, evidence from Uganda indicates that, in comparison to workers in the control group, young workers in receipt of either vocational or firm-provided training significantly improve (i) their sector-specific skills, (ii) employment probabilities; and (iii) labour market situations as captured by a composite index (Alfonsi et al. 2020).

Several ALMPs can be effective in tackling information constraints and improving *the quality of matching*. This is the case with labour market services whose main objective is to make job search and hiring more effective through counselling, placement and job-search assistance programmes (Abrassart 2015; Boone and van Ours 2004b). The empirical literature identifies two conditions for ensuring that labour market services have a positive effect on the matching process. First, small caseloads improve the quality of counselling and placement; second, close monitoring and follow-up increase job-search incentives for participants (J-PAL 2018; Blasco and Pertold-Gebicka 2013; de Koning and Arents 2001; Fredriksson 2021). Training policies also have the potential to improve the quality of the matching process. By equipping workers with new skills, training measures can indirectly address information constraints and improve the effectiveness of workers’ job searches. Search effectiveness is further enhanced by the positive signal that completed training gives to employers (Abrassart 2015; Bellmann and Jackman 1996b; Boone and van Ours 2009; Layard and Nickell 1986). The positive effect of training

policies in preventing skills bottlenecks mentioned above also serves to increase the quality of the matching process (Schmid, Speckesser, and Hilbert 2001). Finally, employment subsidies can improve matching by reducing the prevailing information asymmetries in the hiring process. Employers can learn what characteristics a worker has, including their motivation and productivity. Meanwhile, the participants themselves can gain specific work experience useful to the hiring firm or for continued job search (Fredriksson 2021; Schünemann, Lechner, and Wunsch 2015). This can increase labour demand and workers' labour force attachment (McKnight and Vaganay 2016).

In addition to their positive effects, ALMPs can lead to unintended, negative outcomes. To begin with, ALMPs that increase participants' employment may displace non-participants (Crépon et al. 2013). This is particularly apparent with regards to employment subsidies for specific categories of workers (de Koning and Arents 2001), such as people with disabilities (Datta Gupta, Larsen, and Thomsen 2015). A similar displacement effect could happen in the case of self-employment and micro-enterprise creation schemes. The new micro-enterprises set up by the beneficiaries of such schemes increase market competition, which creates disadvantages for unsubsidised enterprises and may even result in firm closures (Román, Congregado, and Millan 2013). However, such negative effects can be expected mostly during a crisis, when labour demand is depressed and jobs scarce. In such situations, given that ALMPs are particularly effective for disadvantaged groups, redistributing employment opportunities in the favour of such groups can be justified both economically and socially, even if an ALMP has small aggregate effects. Participation in activation programmes may also lead participants not to search for new jobs throughout the duration of the programme. This can decrease workers' incomes and employment rates in the shorter term (van Ours 2004). However, this "lock-in" effect can be and usually is counterbalanced by the positive participation effects (Card, Kluve, and Weber 2018; Lechner and Wunsch 2009). Moreover, "lock-in" effects are less of a concern in LMIC, where employment rates are comparatively large among vulnerable workers (Layard, Nickell, and Jackman 1991). Finally, some of the policies implemented may be redundant, in which case their effects would have materialized in their absence. This potential "deadweight loss" is mentioned in the literature, mostly in relation to public works and employment subsidies (Bassanini and Duval 2006; Cebrián, Moreno, and Toharia 2011; Martin and Grubb, 2001).

Traditional economic literature has focused primarily on the role of ALMPs in shifting *labour demand*, *labour supply* and on the matching process between the two (Layard, Nickell, and Jackman 1991; Layard and Nickell 1986; OECD 1993; Pissarides 1990). The literature has focused far less on predicting the effects of such policies on *in-work poverty reduction* and *work quality*. Yet, in those countries where workers are forced to revert to informal and low-productivity employment, in-work poverty reduction

and improving work quality might be the most relevant and challenging objectives of ALMPs (ILO 2016). In this context, all ALMPs can reduce in-work poverty and improve the quality of work, since their objective is to help people find better jobs faster. However, while reducing in-work poverty can be considered an improvement in job quality, poverty reduction does not in itself guarantee better working conditions more broadly, in terms of job formality, suitable working hours, appropriate use of skills, and so on. By construction, some policies – those that provide remuneration in exchange for participation, such as micro-enterprise creation programmes, employment subsidies and public works – can potentially reduce in-work poverty through participation, provided the income received while participating is sufficiently high. In fact, the ultimate objective of some policies, such as public works and employment subsidies during a crisis, might be to counteract poverty while individuals participate. However, most programmes implemented have longer-term post-participation objectives. These objectives include improved employability and reduced in-work poverty, but often also the improvement of labour market conditions.

Post participation, the potential effect of ALMPs on these objectives is not homogenous across policy types. In practice, there is consensus on the potential effectiveness of two types of policy on employment probabilities, formalization, and wages. Training policies, for one, are expected to lead to better quality work (including lower in-work poverty), due to workers acquiring improved skills during participation. For the other, employment subsidies can similarly be expected to positively affect work quality, as they allow people to improve their skills on the job and participate in firms in the formal sector.

There is, however, some uncertainty with respect to the delay with which the effects of training materialise; i.e., in the longer term in high-income countries (Card, Kluve, and Weber 2018; Forslund, Fredriksson, and Vikström 2011), and already in the short run in Latin America (Escudero et al. 2019). In their study on Uganda, Alfonsi et al. (2020) show that gains from firm-provided training materialise quickly but fade over time, whereas those from vocational training emerge slowly but are long lasting.

The effects of the remaining three ALMPs on work quality are less clear.

- Labour market services could reduce *in-work poverty* and improve *work quality* thanks to the job-search assistance and counselling provided. These effects have been largely confirmed in individual-level studies of high-income countries (Card, Kluve, and Weber 2018; Crépon et al. 2013; Kluve 2010). With regards to LMIC, there is a shortage of studies. Although some positive effects have been observed (Acero et al. 2009; Dammert, Galdo, and Galdo 2015), it is difficult

to generalize. In some of these countries, public employment services may suffer from a limited institutional capacity, thus weakening their ability to provide effective and efficient services.

- Support to micro-enterprise creation will have a positive effect on *work quality*, but only if remuneration for the owners of the ventures thereby created is above the poverty level and there is implicit access to other dimensions of decent work. While the empirical literature has confirmed the positive employment impact made by these types of programme (Klinger and Schündeln 2011; Macours, Premand, and Vakis 2013; Steiner, Rojas, and Millán 2010), and their positive effect on profits and earnings (Baird, McKenzie, and Özler 2018; Blattman, Fiala, and Martinez 2014; de Mel, McKenzie, and Woodruff 2008; Fafchamps and Quinn 2017), it is more difficult to assess the effects on other work quality indicators, such as job formality. Though it varies across different countries, there appears to be a significant relationship between informality and self-employment in LMIC (Maloney 2003), which would lead one to question the capacity of micro-enterprise creation programmes to support an effective transition towards formal work.
- Finally, the effect of public works is ambiguous. In terms of poverty reduction, they raise the living standard of beneficiaries while they participate (Jalan and Ravallion 2003; Ronconi, Sanguinetti, and Fachelli Oliva 2006), but the effects following participation are less clear (Escudero 2018a; Escudero et al. 2019). For example, public works could improve work quality, if those activities in which workers are employed are in line with the demand from local labour markets, and if there is a human-capital accumulation component. In a few cases, the empirical literature has confirmed this intuition (Escudero, López Mourelo, and Pignatti 2020); but often public works do no more than perpetuate the incidence of low-quality jobs (Escudero 2018a; Hernani-Limarino, Villegas, and Yáñez 2011; Zimmermann 2012).

### *3.4 Conceptual framework for the integration of income support with ALMPs*

ALMPs have the potential to improve workers' employability. However, sometimes the effectiveness of such policies is limited, according to empirical analyses. In LMIC, a major challenge is that targeted workers participate in ALMPs, as this is costly and requires a time investment. Without basic financial support, many workers are not able to participate (ILO 2016). Unemployment insurance or cash transfers provide the financial support to allow workers to take the time to search for a new job. However, income support alone does not sustainably improve employment prospects in the medium term, as it is not meant to enhance skills. This implies that workers likely continue to work for low pay and without decent working conditions (ILO 2017b). Social protection and employment promotion are

therefore jointly required. Only through their integration, these policies are fully effective in improving labour market outcomes. Indeed, integrated approaches exploit policy complementarities, while implementing one type of policy while reducing the other, or implementing policies in parallel but without their integration could create competition between policy objectives (Asenjo et al. 2019).

But how do integrated approaches improve labour market outcomes? The dark blue cells in table 1 illustrate the potential overall impact of integrated approaches, which, as explained below, often exceed the sum of the impact of individually implemented measures. Although income support policies have no direct effect on *labour demand*, integrated approaches are expected to generate greater gains than produced by ALMPs alone. This is, first, because income support provides incentives for people to participate in ALMPs. Second, integrated approaches can be an appropriate reaction to major labour market disruptions, including those related to recessions and crises induced by the weather (floods, droughts, and so on). Such shocks have a disproportionate impact in LMIC, where most workers are not covered by contributory social protection schemes. In addition, the social assistance available tends to be limited in its duration and regional reach and suffers from insufficient financing and legal foundation (ILO 2017a, Asenjo et al. 2019). An integrated approach would aim to provide the necessary income support to protect people from drastic income loss, while ensuring that disadvantaged workers are able to participate in ALMPs.<sup>14</sup> Adequate income support also implies that workers do not rush into low-quality employment (ILO 2017b). This allows ALMPs to perform their usual role, including enabling individuals to respond to changes in skills demand, while also benefiting the labour market more broadly when faced with a shock.

The integration of policies can also enhance *labour supply* and the *quality of matching*. When combined with income support, ALMPs help counteract mismatches in skills demand and supply and increase workers' productivity levels, both through their impact on individual participants and externalities (Calmfors and Skedinger 1995; OECD 1993). In combination, ALMPs increase labour force attachment and can help individuals to move into higher value-added employment. Productivity is further enhanced if workers possess the skills demanded in a given labour market and do not suffer from severe forms of poverty. In the case of *quality of matching*, ALMPs reinforce the income support effect by facilitating a longer and more active job search, which enables better matching. This requires regarding poverty alleviation and enhanced productivity as complementary policy objectives (Asenjo et al. 2019).

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<sup>14</sup> Examples of integrated approaches being deployed or expanded during the COVID-19 pandemic abound (Escudero and Liepmann 2020). For instance, during the pandemic, the Chinese unemployment insurance decided to spend funds on online learning and training services, while South Africa continued to pay beneficiaries of the Expanded Public Works Programme (EPWP) (around 800 thousand people), even though works were suspended due to the pandemic.

Finally, integrated approaches help tackle long-standing barriers that prevent workers in LMICs from escaping *in-work poverty* and from accessing *work quality*. ALMPs help improve workers' education and skills. However, as argued before, this needs to be combined with financial support to allow for ALMP participation and to compensate for insufficient income and consumption among unemployed workers and the working poor.

In summary, integrated approaches can help the beneficiaries of income support to overcome barriers in their access to decent work, thereby reducing inequalities between different groups in the labour market. This policy integration fosters better working conditions for those otherwise stuck in employment with low remuneration, job quality, and productivity, with a view to enabling them to transition out of poverty in a sustainable manner (Asenjo et al. 2019).

## 4 Effectiveness of integrated approaches and the prevalence of such approaches in LMIC

### 4.1 Empirical evidence: What works in terms of integration?

Above, we described the main motives that led to the integration of income support and ALMPs within different countries of the EU in the late 1980s and early 1990s. Integration was primarily a reaction to persistent unemployment and the integration of both approaches was associated with a shift in favour of the "activation" of unemployed individuals, as opposed to more generous financial aid during periods of unemployment. The integration of these policies and the motivations that led to their joint implementation has nonetheless significantly evolved since its inception. During recent years, the main objective in integrating these two approaches has been to leverage the complementarities between both, and not to replace either one or the other.<sup>15</sup>

Under this more equilibrated and human-centred model of implementation, multiple evaluations of integrated approaches in high-income countries have illustrated that such policies can simultaneously help reduce the rate and duration of unemployment at the same time as improving employment conditions for those finding a job. Different studies have also shown that the effects of integrated approaches on labour market outcomes are greater than when policies are implemented separately (Martin 2015; OECD 2013a; Immervoll and Scarpetta 2012). They demonstrate that active and income support policies not only complement each other, but, through their interaction and joint implementation, reduce the detrimental effects of isolated policy implementation. In particular, the disincentive effects caused by a more generous unemployment income support are either offset or reduced in those countries with a higher average level of spending on ALMPs (Bassanini and Duval 2009, 2006; Elmeskov, Martin, and Scarpetta 1998). Activation policies also appear most effective when

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<sup>15</sup> This section builds on and updates Asenjo et al. (2019).

implemented within more generous unemployment insurance schemes, as Boone and van Ours (2004a) show with regards to training policies in OECD countries.

In addition, a review of the literature for high-income countries reveals that the success of integrated approaches is contingent on their implementation and design characteristics. Studies for different OECD countries have highlighted that programme effectiveness requires a correct definition of target groups; active policy components aligned with local context; and the interdependencies between social protection, employment incentives and ALMPs (Immervoll and Scarpetta 2012; Martin 2015; McKnight and Vaganay 2016; OECD 2013a). This explains why similar policies implemented across different countries have such diverse effects, as seen for example in the implementation of Youth Guarantee programmes in Europe (see Escudero and López Mourelo (2018) for a review). It also explains why different combinations of policies that accord with the specific labour market context can potentially all have similarly positive effects. An example is a set of German measures between 2005 and 2010, whose objective was the labour market re-integration of older and individuals with low formal qualification levels (OECD 2013a). The measures were considered successful because implementation and design characteristics – for example, the definition of each target group and the selection of specific training and employment services – were defined at the local level with the involvement of regional authorities to tailor the programme to the workers targeted and local labour demand.

While evidence on the effectiveness of integrated approaches is scantier in LMIC, existing evaluations detect some patterns. Foremost, the literature shows that integrated approaches can improve labour market and poverty outcomes in an economically meaningful way, when compared to the separate implementation of each type of policy. This appears to be especially the case among programmes targeted towards self-employed individuals engaged in diverse activities. For example, a randomized controlled trial of a conditional cash transfer programme in Nicaragua – *Atención a Crisis* – showed that participants who, in addition to a cash transfer, were provided with either vocational training or an investment grant, were more resilient to environmental shocks and had higher incomes and consumption in the two years following their programme participation (Macours, Premand, and Vakis 2012). These effects were not observed among households in receipt of a conditional cash transfer only. Similar positive results were observed for a programme in Sri Lanka that provided a combination of training with cash transfers to actual and would-be self-employed women (de Mel, McKenzie, and Woodruff 2014). This randomized experiment revealed that training in itself did not enhance firm productivity, whereas those participants who received also the monetary support experienced improvements in profits and sales. The combined provision of training and income support also led to an improvement in management practices and financial planning.

Micro-entrepreneurship schemes implemented as a part of wider social protection programmes have also yielded significant positive effects. One study analyses the Micro-entrepreneurship Support Programme (MESP) implemented in Chile in 2006 (Martínez, Puentes, and Ruiz-Tagle 2018). The MESP was directed at households registered on a social assistance programme and most participants were unemployed or underemployed female household members. While the control group only participated in the social assistance programme, the two treatment groups additionally received training courses on business and technical skills and start-up capital (US\$600 or US\$840, respectively). Nine months after participation, the likelihood of self-employment was 14.8 percentage points higher for the group that had received the smaller start-up capital and 25.2 percentage points higher for the one in receipt of the higher amount. Studies have also found positive effects within different institutional and social contexts, showing the potential of integrated approaches to support households, even in fragile and conflict-affected regions. In Afghanistan, the joint provision of assets, cash grants and skills training through the Targeting the Ultra Poor programme had a large positive impact on consumption, financial inclusion and women's empowerment (Bedoya et al. 2019).

Furthermore, interventions combining different ALMPs – for example, training and employment incentives within income support or social protection schemes – have also produced positive effects. This suggests that broader support is more effective for individuals experiencing various labour market challenges. One example of a comprehensive intervention is the unemployment insurance scheme of Mauritius. It is open to unemployed workers, independently from whether their former job was formal or informal, and involves a mandatory active component. Beneficiaries of income support are thus required to participate in different types of ALMP. An impact evaluation study revealed that training had the largest positive effects in the medium term; however, these took a while to materialize (Asenjo et al. 2019). This finding is consistent with the lagged positive effects of human capital accumulation. Integrated approaches based on the implementation of various types of ALMPs within social assistance schemes also produce consistently positive effects. A total of almost 10,500 extremely poor households were included in a randomized controlled trial of an integrated poverty relief programme in Ethiopia, Ghana, Honduras, India, Pakistan and Peru (Banerjee et al. 2015). This two-year programme provided access to comprehensive measures, with the objective of helping beneficiaries start and maintain a self-employment activity. The cross-country study revealed positive and significant effects for a range of outcomes, including increases in income and food security and improvements in mental and physical health. Positive effects continued to be observed three years after the programme had started; however, the same was not observed when only cash transfers were involved. Likewise, Bossuroy et al. (2021) explore the effect of a multifaceted economic inclusion intervention – including training and lump-sum capital grants – implemented in Niger for female beneficiaries of a national cash transfer

programme. Findings revealed significant positive impacts on consumption and food security among beneficiaries of income and active support six and 18 months post-intervention, relative to those in receipt of cash transfers only. Lastly, longer-term effects have been identified in a nationwide integrated programme implemented in Bangladesh, with positive impacts sustained four and seven years after participation (Bandiera et al. 2017).

Despite the positive effects observed in a wide range of contexts, the literature also highlights that integrated approaches are not by definition effective. Rather, their positive impact hinges on certain implementation and design characteristics. This is illustrated by an evaluation of a training component implemented within the unemployment insurance in Colombia (Medina, Núñez, and Tamayo 2013). This scheme did not have positive effects for programme participants or their households. This was because a comparatively large income support benefit was combined with voluntary enrolment in job training, which was associated with a high drop-out rate. A similar conclusion was drawn by an earlier study assessing a micro-entrepreneurship programme in Argentina for individuals participating in a social assistance scheme (Almeida and Galasso 2007). The *Microemprendimientos Productivos* programme had a similar structure to the one later implemented MESP in Chile (namely, the MESP) in that participants received a productivity cash grant combined with training. However, only young, and more educated participants saw their labour market outcomes improve. This lack of effectiveness seemed to be due to the implementation characteristics of the training activities, which were less well organized and less intense than in the Chilean MESP. This again emphasises the importance of identifying an optimal policy mix that meets the needs of participants and local labour market requirements. Similarly, a meta-analysis of 37 impact evaluation studies of entrepreneurship programmes conducted in LMIC finds a wide variation in programme effectiveness across different interventions, depending on the target group and the specific country context (Cho and Honorati 2014). Nevertheless, these findings suggest that stand-alone interventions are less likely to make a difference than integrated approaches that tackle multiple constraints.

Lastly, a similar conclusion can be drawn from an impact evaluation assessing the effect of a public works scheme implemented within a social assistance programme in Uruguay named *Plan de Asistencia Nacional a la Emergencia Social (PANES)* (Escudero, López Mourelo, and Pignatti 2020). This study analysed the effects of participating in the public works scheme *Trabajo por Uruguay* that aimed at fostering social inclusion and required beneficiaries of income support to work for a period of five months in community projects in return for a salary corresponding to twice the sum they would have otherwise received. Despite finding positive and mildly significant effects for this public works component in raising employment probabilities, no statistically significant effects were found among

any of the treatment arms (namely, only active support, only income support or joint implementation). The authors therefore argue that the programme fell short due to the limited benefits provided, its low intensity and the lack of human capital improvement within the ALMP.

Overall, two central conclusions can be drawn from the impact evaluations reviewed. First, independent of the specific implementation context, the integration of active elements with income support can be effective, both for employment probabilities and work quality outcomes. However, second, this requires appropriate implementation. The local labour market and social context must be taken fully into consideration when designing and implementing an integrated approach for potential improvements to be translated into concrete ones.

#### *4.2 International patterns and relevant national models*

The growing literature on the effectiveness of an integrated approach makes it appear that the combination of income support with activation measures is a rarity in LMIC. This is not the case, as integrated approaches can frequently be found in these countries. Nevertheless, the shift towards integration has only occurred recently, despite income support and ALMPs having been used extensively in LMIC for several decades.

We build on Asenjo et al. (2019) – who for the first time comprehensively mapped the implementation of integrated approaches outside high-income countries – to illustrate the quantity and diversity of the integrated approaches taken in LMIC. The original analysis draws on two databases – SSPTW and ASPIRE<sup>16</sup> – in its study of the joint implementation of income support with ALMPs, complementing these data with qualitative information gathered by Carter, Bédard, and Peyron Bista (2013) to fill the gaps discussed below.

We find that, today, many LMIC are implementing integrated approaches, but these vary substantially in a number of respects, which could determine their effectiveness. First, the degree of integration between individual policies varies across countries. Sometimes, pre-existing ALMPs are adapted such that beneficiaries of income support schemes access ALMPs. For example, the Argentinean programme *Seguro de Capacitación y Empleo* targets beneficiaries of the *CCT Plan Jefes y Jefas de Hogar Desocupados* (ILO 2016; López Mourelo and Escudero 2017). In other cases, countries use one-stop shops to deliver income support and ALMPs. For example, all regions in Mongolia have had one-stop

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<sup>16</sup> The Social Security Programs Throughout the World (SSPTW), prepared by the U.S. Social Security Administration and the International Social Security Association, has data on social security schemes that are part of national law. To exploit information on ALMPs that are combined with non-contributory financial aid, Asenjo et al. (2019) also relied on the ASPIRE data from the World Bank.

shops since 2012. There, workers can register for assistance programmes and claim social insurance benefits (Peyron Bista and Carter 2017).

Second, the policy administration also varies. In some countries, ALMPs are included within an unemployment benefit or social assistance scheme, where participation is compulsory. For example, the unemployment benefit scheme of Mauritius offers job placement and counselling support as well as support for microenterprise creation, while also providing income support for twelve months (Asenjo and Pignatti 2019; Liepmann and Pignatti 2019). Other countries implement ALMPs as voluntary offers within conditional cash transfer programmes. Uruguay's cash transfer programme PANES, for example, offers work-ready beneficiaries the possibility of participating in its public works programme *Trabajo por Uruguay* (Escudero, López Mourelo, and Pignatti 2020).

Third, the combinations of the different kind of ALMPs and social protection measures mainly depend on the development level of a social protection system. Indeed, the majority of low-income countries lack an unemployment benefit scheme anchored in national legislation (see the majority of sub-Saharan African countries in figure 2). Yet, integrated approaches are present in these countries, because ALMPs are integrated into non-contributory cash transfer programmes (see the same countries in figure 1). In fact, only six of the 34 LMIC with available data lack an ALMP that is part of a cash transfer programme. The variety of these ALMPs is greater as national income levels increase. As shown in figure 1, a total of 19 middle-income countries,<sup>17</sup> as well as Chile and Uruguay, have implemented a varied ALMP approach, while this is the case for only one low-income country (Rwanda).

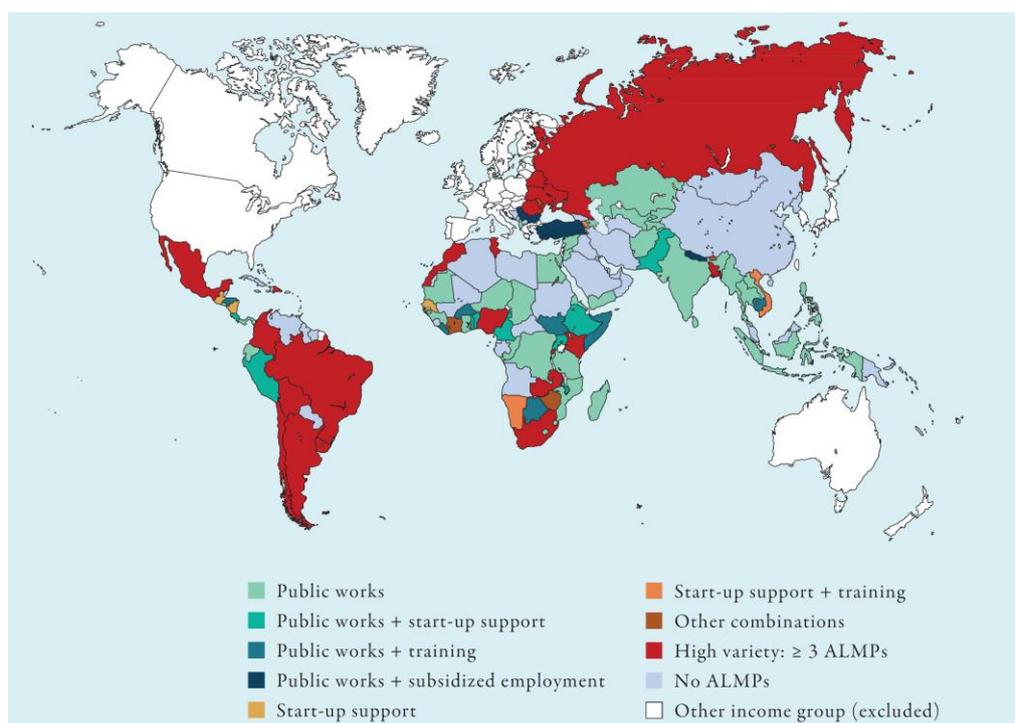
As a country's income level rises, unemployment insurance policies come to play an increasing role in protecting incomes after workers' job loss and are combined with a range of ALMPs. For example, all but one of the low-income countries in our sample have no national unemployment protection scheme (figure 2).<sup>18</sup> In Tajikistan, however, unemployment benefits exist and are provided along with labour market services and training. Meanwhile, 16 of the 42 lower-middle income countries with available information, and 28 of the 57 upper-middle-income countries, have unemployment support schemes enshrined in national law. This is most often the case in Europe and Central Asia, as figure 2 shows.

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<sup>17</sup> This group includes Argentina, Bangladesh, Belarus, Bolivia, Brazil, Colombia, Dominican Republic, Kenya, Mexico, Morocco, Nigeria, Romania, the Russian Federation, South Africa, Tunisia, Ukraine and Zambia.

<sup>18</sup> These countries either rely on severance pay as the only income compensation for the unemployed, or they do not have any unemployment insurance scheme (Asenjo et al. 2019, 82).

Figure 1. ALMPs included in cash transfer schemes, by country and type of measure

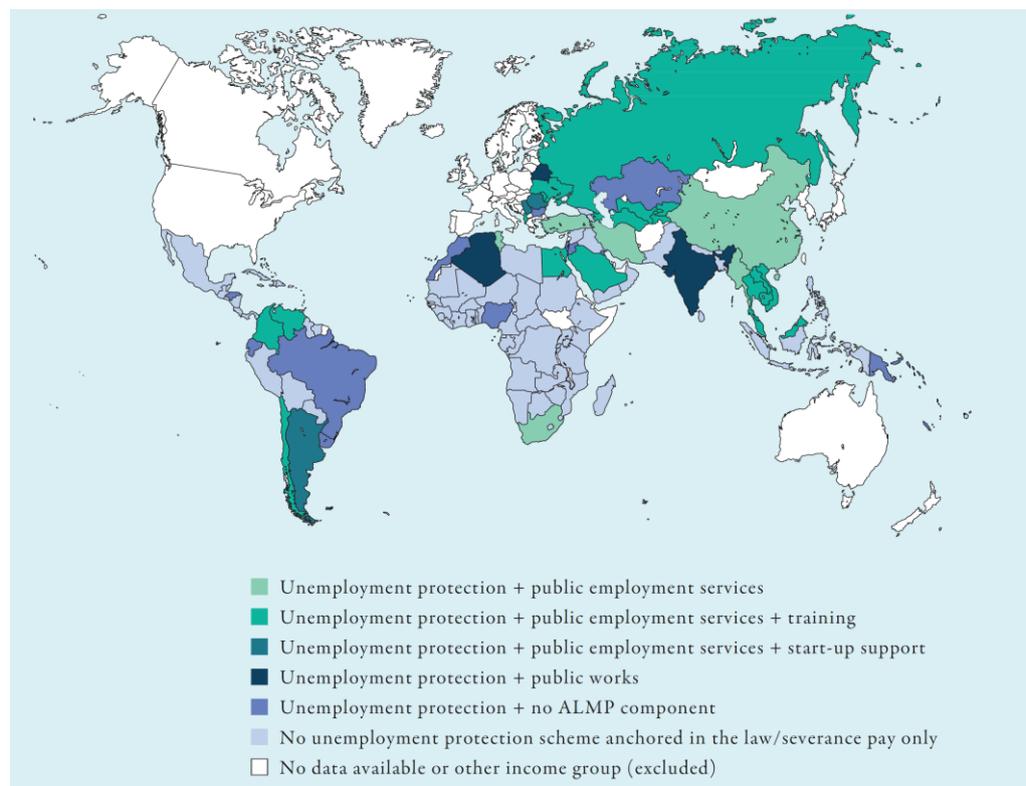


Source: Asenjo et al. (2019).

In terms of the types of ALMPs, public works is prevalent in LMIC, aimed at compensating for insufficient jobs and, in this way, redistributing incomes. Of all the LMIC for which information is available, 74 per cent have public works embedded in social protection. By contrast, higher-middle-income countries often combine different ALMPs, such as training and start-up incentives, thereby targeting labour supply and demand (Auer, Efendioglu, and Leschke 2008).

In general, ALMPs are more diverse when they are deployed together with a cash transfer scheme than together with unemployment insurance. Yet, the finding that integrated approaches in low-income countries are combined with cash transfer schemes has consequences, as these are typically based on means testing to target vulnerable groups.

Figure 2. Mandatory ALMPs included in unemployment protection schemes, by country and type of measure



Source: Asenjo et al. (2019).

Fourth, and finally, the design and implementation characteristics of integrated approaches are also varied, which, as discussed earlier, is known to have an influence on the effectiveness of policies. Looking at unemployment insurance schemes, these typically involve the mandatory participation in job placement services (Myanmar and Tunisia). In some lower-middle-income countries, the beneficiaries of unemployment insurance can also join a training intervention. This is the case in Egypt, Kyrgyzstan, Lao People’s Democratic Republic, Republic of Moldova, Ukraine, Uzbekistan, and Viet Nam. For upper-middle-income countries, the ALMPs available to the recipients of unemployment benefits are more varied. There are also those schemes that include voluntary ALMP participation. While not taken account of in quantitative databases, Carter, Bédard, and Peyron Bista (2013) have documented such approaches through case studies and find that they often target vulnerable groups of workers. For example, in the lower-middle income countries of Mongolia and Viet Nam, unemployed workers can benefit from job placement services and personalized counselling support; and, if appropriate, are referred to training programmes. Meanwhile in Argentina, China (upper-middle-income countries) and Chile, specific groups of vulnerable workers in receipt of unemployment benefits are referred to employment subsidies to incentivize businesses in the hiring of jobseekers. These schemes target labour market entrants or disabled workers in Argentina, older workers in China, and

disadvantaged young workers and women in Chile. However, the unemployment benefit programme of Bahrain offers training to workers with relatively advantaged labour market prospects.

All these different design and implementation characteristics have an impact on the effectiveness of policies. Signalling these differences is a step towards a better understanding of combined ALMPs and social protection approaches, but this is not enough. As discussed in the next section, it is imperative to know how and to what extent implementation characteristics shape policy effectiveness.

## 5 Characteristics driving programme success in LMIC

The combination of income support with ALMPs is expected to have beneficial effects from a conceptual perspective (section 3). Yet, the micro-econometric literature reviewed above includes studies that do not find significant improvements in participants' outcomes. This is line with systematic studies on ALMPs that yield varied finding on the magnitude and in, fewer instances, the direction of their impacts (Card, Kluve, and Weber 2010; Greenberg, Michalopoulos, and Robins 2003). The effects differ by country (Card, Kluve, and Weber 2010; Kluve 2010), among beneficiary types (Card, Kluve, and Weber 2018; Kluve et al. 2019) and among different policy combinations (Escudero et al. 2019). This illustrates that targeting, design and implementation characteristics determine whether integrated policies are effective (Asenjo et al. 2019; ILO 2016).

What are these characteristics? Although the preferred approach would be to give an answer based on impact evaluations capable of disentangling the causal mechanisms driving the success of such policies, the evidence is at present scant. However, getting an answer to this question is important, given the variability in the design and implementation of integrated approaches across countries described in the empirical evidence (see section 4). This section is a first effort at providing insights into this question. We build on the existing empirical literature – though this continues to be limited in part, with programme characteristics often not at the core of studies – and complement it with quantitative and qualitative information from our own field studies (hereafter referred to as *case studies*) in Mauritius and Uruguay (Asenjo et al. 2019), and in Argentina, Colombia and Peru (ILO 2016), to conceptualize what drives the success of integration strategies.

We organize our conclusions around three sets of enabling conditions: (i) correct identification and assured participation of target groups; (ii) quality of services and strong linkages between income support and ALMPs; and (iii) sufficient institutional capacity and financing.<sup>19</sup> As shown in section 4, institutional context is key to policy integration, which can be achieved through various institutional

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<sup>19</sup> Note that we further develop the conclusions drawn in our previous work, in particular Asenjo et al. (2019).

arrangements. Some architectures aim for a joint policy design, where ALMPs are designed to fit income support programmes administered jointly through dedicated agencies (e.g. one-stop shops). These have the advantage of enabling greater policy integration but require stronger institutional capacity to coordinate between agents and the enhanced set of policy tools on offer. At the other end of the spectrum are models whose objective is to coordinate links between pre-existing separate policies. These are more flexible in terms of administration (e.g. ALMPs referral to income support programmes), but the weaker level of integration makes the need for enabling conditions even more crucial. In the middle, is a range of architectures with varying degrees of leniency in the norms of administering the integration of policies. Approaches in which participation in activation measures is voluntary may be easier to implement, but at the cost of lower take-up, whereas those in which it is compulsory might assure participation in the various components, but could be onerous in terms of required institutional capacity. This section discusses these enabling conditions, contrasting them with the barriers that LMIC will need to overcome for effective policy integration. These conclusions – summarised in table 2 – could serve as the background for further research efforts.

Table 2. Enabling conditions, barriers preventing their realisation and the facilitating factors put forward in this paper

Barriers to be tackled in LMICs	Facilitating factors that have shown effective results
<b>Enabling condition 1: Correct identification of target groups and assured participation</b>	
<ul style="list-style-type: none"> <li>– Proxy-means tests are costly and may entail imperfections in targeting</li> <li>– Employability-enhancing measures have a trade-off between targeting the most vulnerable and those most able to benefit from the intervention</li> </ul>	<ul style="list-style-type: none"> <li>– Targeting policies through proxy-means tests is the preferable strategy, despite imperfections</li> </ul>
<ul style="list-style-type: none"> <li>– Low take-up of interventions, even when targeted appropriately</li> </ul>	<ul style="list-style-type: none"> <li>– Avoid overly strict eligibility criteria</li> <li>– Facilitate registration and reduce bureaucratic procedures</li> <li>– Adapt participation mechanisms to the needs of the populations targeted (e.g. childcare grants, transport allowances)</li> <li>– Awareness campaigns to promote participation</li> </ul>
<ul style="list-style-type: none"> <li>– Excessive participation (abuse of the intervention)</li> </ul>	<ul style="list-style-type: none"> <li>– Appropriate monitoring of targeting rules at the local level</li> </ul>
<b>Enabling condition 2: Quality of services and strong linkages between income support and ALMPs</b>	
<ul style="list-style-type: none"> <li>– Low quality of services provided</li> </ul>	<ul style="list-style-type: none"> <li>– Sufficiently generous income support to keep individuals out of poverty during participation</li> <li>– Provision of services in line with country’s realities. Online services need to be coupled with face-to-face counselling provided at the local level</li> <li>– Individualised support provided over a sufficiently extended period</li> </ul>
<ul style="list-style-type: none"> <li>– Weak attachment of income support beneficiaries to ALMPs</li> </ul>	<ul style="list-style-type: none"> <li>– Regular reporting and follow-up meetings with participants; case management through public employment services</li> <li>– Comprehensive offer of ALMPs</li> <li>– Sometimes incentives and monitoring are not enough to promote participation. In such cases, mandatory participation in ALMPs may be required</li> </ul>
<b>Enabling condition 3: Sufficient institutional capacity and financing</b>	
<ul style="list-style-type: none"> <li>– Insufficient institutional capacity to combine and administer policies under a single framework</li> </ul>	<ul style="list-style-type: none"> <li>– Set up one-stop shops to enable greater integration</li> <li>– Increase capacity to identify and contact beneficiaries of ALMPs and monitor participation</li> <li>– Choose a more flexible integration architecture</li> </ul>
<ul style="list-style-type: none"> <li>– Difficulty coordinating separate ALMPs and income support schemes</li> </ul>	<ul style="list-style-type: none"> <li>– Reinforce administrative capacity at the local level to complement national efforts</li> <li>– Set up coordination agencies</li> <li>– Ensure appropriate referral of income support beneficiaries to existing ALMPs</li> </ul>
<ul style="list-style-type: none"> <li>– Excessive cost of the intervention</li> </ul>	<ul style="list-style-type: none"> <li>– Tailor the support based on demographic characteristics and income situations of individuals and their households</li> <li>– Internalizing the external cost of inaction in terms of poverty, informality and unproductive employment</li> </ul>

Note: Authors’ compilation.

### 5.1 Correct identification of target groups and assured participation

A major challenge for integrated approaches is how best to identify those groups in need who would benefit the most from the interventions. For example, cash transfer programmes in LMIC are often

based on imperfect methods of identifying beneficiaries (Hanna and Olken 2018). Given the lack of income-administrative data on informal employees (which are numerous), eligibility is in many countries proxied according to the assets of a household (e.g. durable goods, the number of rooms in the house and so on). Analysing data from Peru and Indonesia, Hanna and Olken (2018) show proxy measures to be imperfect in targeting beneficiaries, resulting in errors concerning who is and who is not included. Despite the challenges, the authors demonstrate that targeting through these methods is the preferable strategy. It allows for an explicit focus on the poor, which could be considered more efficient than a broader approach benefiting a larger group of households (with lower average benefits). Another example of a successful targeting strategy that relied on a proxy-means test was the Uruguayan programme PANES, which targeted the poorest 20 percent of households and helped many at the risk of extreme poverty. Not only did PANES manage to reach a large part of the population (i.e. 14 per cent) (Asenjo et al. 2019), but an evaluation study found that the programme reduced the risk of poverty in the short term (Amarante et al. 2009).

With respect to labour market policies with an employability objective, governments face an additional dilemma of whether to target those most in need or those that are slightly less poor but could benefit more from the intervention (e.g. because individuals are more job ready). However, the empirical literature on this question is limited. In the case of micro-entrepreneurship programmes, evidence does indeed point to a certain level of previous experience and complementary inputs or skills being necessary for households to benefit fully from such schemes. Meager (2020) aggregates the evidence on the distributional effects of seven microcredit randomized trials and finds that it is only those above the 75<sup>th</sup> percentile of household outcome (i.e. consumption, profit, revenues and so on) for whom there is a conclusive probability of a large positive impact on outcomes. This right-tail impact appears to be driven by households with previous business experience. Likewise, meta-regression analysis using 37 impact evaluation studies of entrepreneurship programmes in LMIC reveals that youth, higher education groups and urban beneficiaries seem to be the ones who benefit the most from programmes supporting self-employment (Cho and Honorati 2014). Programmes aimed at improving business knowledge and practice are also most effective for participants who already have their own businesses (Cho and Honorati 2014). More generally, Haushofer et al. (forthcoming) assess the trade-off between targeting based on deprivation versus targeting based on the potential impact of cash transfer programmes. For Kenya, they find there to be a trade-off between consumption and food security, whereby the most deprived gain the most in terms of food security but gain less in terms of consumption of other goods and services, while less deprived households make the largest gains overall. Therefore, targeting the most deprived is not always welfare-optimal, as it depends on the outcome of interest and redistributive preferences. This leads to a deeper ethical consideration.

Individuals are endowed with different abilities that determine how they translate opportunities (or resources) into outcomes (Sen 1999). Beyond economic welfare efficiency, is it important to ask whether it is fair to focus solely on the most advantaged among the poor. One may also question whether something so fundamental as food security should even be weighed against other economic objectives.

Yet, even when programmes are targeted appropriately, it can be challenging to ensure targeted groups have the opportunity and incentives to actually benefit from an intervention (ILO 2016). The case study of the unemployment insurance scheme of Mauritius indicates that overly strict eligibility criteria can have the effect of reducing coverage across different target groups. That programme is an innovative one in that unemployed individuals are eligible to participate, after the loss of either a formal or informal job. However, to be eligible, individuals need first to have lost a full-time job that lasted at least six months. For informal, young and female workers it is more difficult to meet this criterion, and thus to join the unemployment benefit scheme and take up its activation options (Asenjo et al. 2019; Liepmann and Pignatti 2019).

Take up among eligible individuals can be encouraged by facilitating registration and bureaucratic procedures. Evidence from the case study of the Public Employment Service in Colombia (the *Agencia Pública de Empleo (APE)*) shows its reach among eligible people to be limited – very few job matches are made through the APE. This share is considerably higher in other countries: 3.8 per cent in Brazil (ILO 2016); 9.4 per cent on average in the EU (European Commission 2017); and 20 per cent in Japan (OECD 2015). Excessive requirements for the use of these services and the unfriendliness of the electronic registration system, are thought to have either prevented or discouraged some Colombian jobseekers and employers from taking part (ILO 2016). Again with regards at Mauritius, informal workers appear to have been reluctant to register, even when eligible, possibly because they preferred not to go on record and thereby raise questions about their past informal employment (Liepmann and Pignatti 2019). Another example, of a South African wage subsidy programme, shows firms choosing not to participate due to the amount of bureaucracy entailed (Levinsohn et al. 2014).

Another method of guaranteeing the take-up of policies among eligible individuals is to adapt participation mechanisms to the needs of the populations targeted. Evaluation of the integrated approach adopted in Uruguay shows that certain of its characteristics played a significant role in determining participation. In particular, family responsibilities decreased the likelihood that cash transfer beneficiaries would self-select into accompanying activation programmes (Asenjo et al. 2019; Escudero, López Mourelo, and Pignatti 2020). Thus, integrated approaches need to be adapted to individual needs. For example, López Mourelo and Escudero (2017) and the underlying field study (ILO

2016) assess the effects of the Argentinian *Seguro de Capacitación y Empleo*, a set of ALMPs offered to beneficiaries of the prominent CCT programme, *Plan Jefes y Jefas de Hogar Desocupados*. The analyses illustrate how, women were *under*-represented in the programme's activation components, while, they were *over*-represented in the income support component (called *Plan Familias*) tailored to individuals considered less likely to find a job. The studies point to the need for the activation programmes to enable the participation of women to reduce non-participation and drop out. This includes providing childcare or grants for women with dependent children while they participate in an intervention. Similarly, Kluge et al.'s (2019) meta-analysis of youth policies show that transport allowances have a central role in boosting programme participation of young workers.

Likewise, awareness campaigns can help promote participation by overcoming the barriers to information disproportionately confronted by low-skilled workers and small firms. These groups and firms tend to rely on private networks of family and friends, often belonging to poorer neighbourhoods and the more marginalized segments of the labour market. Such networks can imply a disadvantage when it comes to accessing information about (formal) labour markets and policy options (Mazza 2013). In contrast, initiatives aimed at lowering barriers to information, such as through effective public employment services, can stimulate programme uptake and make it more efficient (Asenjo et al. 2019; Mazza 2016, 2013).

Finally, at the other end of the spectrum an excessive degree of participation and abuse by certain beneficiaries can constrain the ability of a programme to reach everyone initially targeted. The evaluation of *Construyendo Perú* – a public works programme – and its underlying case study (Escudero 2018a; ILO 2016) show that a meaningful proportion of beneficiaries participated multiple times, while some others exceeded the maximum programme duration. The analysis implies that better enforcement of targeting rules through appropriate monitoring, especially at the local level, could have prevented eligible individuals from benefiting more than permitted, and thereby could have afforded opportunities to other people.

## 5.2 *Quality of services and strong linkages between income support and ALMPs*

Whether integrated approaches are effective also depends on the quality of the support delivered, which is the basis for stronger integration between policies. With regard to the income support, this needs to be sufficiently generous to keep individuals out of poverty (Asenjo et al. 2019). Empirical evidence on the income support provided by PANES in Uruguay shows that sufficiently generous cash transfers are effective in mitigating the effects of a crisis and reducing the risk of poverty in the short term (Amarante et al. 2009). Moreover, because of the cash transfers households could make investments that had positive longer-term consequences, including improved health outcomes for

participants (Amarante et al. 2016), although there was no effect on children's school attendance rates (Amarante, Ferrando, and Vigorito 2013).

Regarding unemployment benefits, these often replace a share of previous income, where the associated replacement rates decline with time spent in unemployment, subject to upper and lower thresholds. This declining payment schedule is meant to encourage beneficiaries to actively job search and find work (Boeri and van Ours 2014). However, if the income replacement rate declines too drastically, this can imply that beneficiaries and their dependents live in poverty. This was the conclusion from the country study of the Mauritian unemployment scheme, where benefits replace only 30 per cent of initial wages after six months of unemployment (Asenjo et al. 2019). A similarly low final replacement rate exists in many LMIC, whereas benefits in high-income countries tend to decline less drastically (Asenjo and Pignatti 2019). Moreover, in these latter countries, unemployment benefits often take account of a recipient's family circumstances, including the number of children. Such a tailored approach can help prevent poverty, while being more cost efficient. Despite this, unemployment benefits in LMIC are typically calculated independently of family circumstances (Asenjo and Pignatti 2019).

Empirical analyses point also to the importance of increasing beneficiaries' attachment to ALMPs provided under an integrated approach. In this regard, regular reporting and follow-up meetings with caseworkers and other experts can prove effective. For example, individuals participating in start-up support programmes can use such meetings to discuss their business performance and receive managerial advice, as in the case of an effective micro-entrepreneurship programme in Chile (Martínez A., Puentes, and Ruiz-Tagle 2018). In Argentina, micro-entrepreneurs received technical assistance regarding organizational matters and administrative work, which a majority of participants found valuable (Almeida and Galasso 2007).

With regards to other types of active support, public employment services have an important role to play across countries with differing levels of economic development. A careful initial assessment of a jobseeker's background and interests, ideally through case management, can guide them to the appropriate services. At the higher end of the spectrum, caseworkers provide individualized support over an extended period, encompassing a detailed analysis of a worker's needs and competencies, job search support, and guidance when choosing and participating in an ALMP, with a view to fostering longer-term career development. Such holistic labour intermediation services are more typical of high-income countries, although there are examples in middle-income contexts (Mazza 2016, 2013). Thus, jobseekers have mandatory meetings with caseworkers once or twice a month in many high-income countries and likewise in some upper-middle-income countries, including Azerbaijan, Bahrain, Chile and

Thailand (Asenjo and Pignatti 2019). Meanwhile, such comprehensive services are lacking in most LMIC. The case study of Mauritius advocates for the Public Employment Service to work with beneficiaries during their programme participation, ensuring that they are able to comply with the programme requirements (Asenjo et al. 2019).

How these services are provided also matters. The impact assessment of the Colombian *Agencia Pública de Empleo* shows that the effectiveness of benefits accrues when there is face-to-face delivery of services rather than online communication (ILO 2016; Pignatti Morano 2016). However, online provision can be a way of reducing costs and widening the reach of services to remote geographical areas, provided there is good internet coverage and literacy among the local population. This is the case of Sweden, where public employment services rely heavily on online services provided through a variety of means (e.g. video meetings, webinars and so on). Understanding the trade-offs between face-to-face and online provision is especially important, as public employment services in LMIC are choosing to move towards online provision (including in Colombia), often because participants live at a considerable distance from a public employment service centre (ILO 2016). Nevertheless, face-to-face counselling, coupled with more standardized workshops and modules, remains a central component of core public employment services in these countries (Mazza 2013, 2016).

Strengthening the attachment of beneficiaries to ALMPs sometimes includes improving programme content and delivery. Our case studies of Peru and Uruguay illustrate that extended participation in public works programmes until jobseekers have found a job might have beneficial effects, especially since benefits are provided for a short time only (Asenjo et al. 2019; ILO 2016). This is in line with a meta-study of Latin America and the Caribbean that finds that ALMPs are more effective when participation exceeds four months in duration (Escudero et al. 2019). Moreover, beyond the question of duration, content matters, too. Training is key to improving employability, but “bad” training fails to deliver positive effects. Two studies on Nicaragua and Sri Lanka showed that training schemes that were combined with income support were successful in improving participants’ outcomes (de Mel, McKenzie, and Woodruff 2014; Macours, Premand, and Vakis 2012). However, such positive effects were not found for a programme in Colombia, where beneficiaries’ attachment to the training scheme was weak (Medina, Núñez, and Tamayo 2013). For positive participation effects to materialize, training needs to have an adequate skills content, take into consideration the participant’s profile and be of a sufficient intensity (as shown by case studies on Uruguay; see Escudero, López Mourelo, and Pignatti 2020). Moreover, contextual factors matter for programme effectiveness (Escudero et al. 2019; Kluge et al. 2019). Thus, the field study of *Construyendo Perú* posits that the likelihood of finding a job

following participation in the programme depended (among other things) on whether its capacity-building aspects were fitted to the productive needs of the local labour market (ILO 2016).

Finally, when the quality of the ALMP component is high and the component effective in promoting employment, but its incentives and monitoring ineffective, participation might need to be mandatory in order to ensure beneficiaries take advantage of the ALMP component of an integrated policy. Although a high-income country, the example of Norway shows the combining of generous income support with mandatory participation in well-tailored ALMPs to have been decisive in substantially raising employment rates among participants, who at the outset faced significant labour market difficulties; that said, they did not necessarily find high-quality jobs (Markussen and Røed 2016). The case study of PANES in Uruguay also indicates that mandatory ALMP participation for job-ready beneficiaries can improve a programme's effectiveness (Asenjo et al. 2019). Likewise, the Argentinian case study showed that the slow transition from income support to the activation components of *Seguro de Capacitación y Empleo* programme was largely due to participation being voluntary, and also because income support, although providing lower benefits, continued longer for recipients choosing not to participate in the activation components. This may have discouraged some low-income individuals from joining the activation components (ILO 2016; López Mourelo and Escudero 2017; see also Cruces, Rovner, and Schijman 2007).

Obviously, comprehensive programme delivery requires a large amount of financial resources and imposes high demands on organisation. In this context, it then becomes important to find an appropriate mix between needed financial support and measures that improve employment prospects.

### *5.3 Sufficient institutional capacity and financing*

The discussion above shows that ensuring institutional capacities are sufficient to administer policies is crucial for fully harnessing the potential of integrated approaches. Combining policies under single frameworks and then implementing them properly entails complex administrative procedures. These include the identification of and outreach to beneficiaries, the monitoring of ALMP participation where appropriate, and the timely transfer of financial support. It can also involve complex coordination across the different ministries concerned (Escudero and Liepmann 2020; Mazza 2016). At the regional and sectoral levels, there likewise needs to be sufficient institutional capacity for administering allocated resources and dealing with the more technical aspects of policies (Asenjo et al. 2019; ILO 2016). For example, the case studies of Argentina and Peru show that insufficient institutional capacity at the local level limits the reach and effectiveness of programmes. Meanwhile, the Argentinian Ministry of Labour developed a municipality-level network of public employment services through which it deployed

effectively the *Seguro de Capacitación de Empleo* by providing help with job searches and counselling, and expanding training services. However, this effort was not spread evenly throughout all areas of the country (i.e. in terms of number of offices) (Madoery 2011), meaning that a large proportion of those eligible for the programme were not given the option to join. Similarly, in the case of *Construyendo Perú*, overuse of services among a group of participants was made possible by the limited ability of local offices to monitor closely the allocation of eligible participants into the programme. This is closely related to a more profound problem of the insufficient allocation of resources to labour programmes in Peru (Cerutti et al. 2014).

Integrated approaches are also shaped by whether sufficient resources are invested in each of the two main policy components (income support and active support). As shown by macro-econometric analyses, in most countries current investments are below what is required for optimal implementation (Pignatti and Van Belle 2018). The need for sufficient financial investment is a major structural challenge outside of high-income countries (Samans 2021). Such investments, however, need to be compared with a scenario of inaction, which implies that later on, even more expensive actions are required to counterbalance the adverse economic and societal consequences (for a similar argument, see Sachs 2015). In countries with a long tradition of integrated social protection policies that include ALMPs, such as European countries, this cost of inaction is more evident, because unemployed individuals are covered by social security. In these countries, the opportunity cost of not investing in employability-enhancing policies (i.e. ALMPs) is paid for in higher unemployment insurance and unemployment assistance. It has been documented that continued benefit payments imply higher costs than the most expensive ALMP (usually a high-quality training programme) – for example, in France, the ratio of unemployment benefits to training costs for the unemployed is around 4:1 (Escudero 2018b). From this perspective, effectively implementing ALMPs – in combination with income support – is a cost-efficient solution.

This back-of-the-envelope calculation becomes more problematic in countries without a universal social protection system for the unemployed and where many workers transition quickly into informal, low-quality jobs. In these countries, the direct opportunity cost of not investing in ALMPs is less apparent from a fiscal perspective. Nevertheless, there are high economic and societal costs associated with not implementing integrated approaches in terms of the long-term negative consequences of perpetuated poverty, informality and low-quality jobs. People become trapped in poverty, because its detrimental physical and psychological consequences limit the capacity to work (Dasgupta and Ray 1986). Policies working against such poverty traps, in contrast, increase individuals' capacity to work,

allow for risky investments that yield positive returns in the longer run, and stimulate local economies (see the discussion in Banerjee *et al.*, 2017).

Moreover, integrated approaches can at least partially recover their costs with time, by resulting in a reduction in (mostly non-contributory) cash transfers, to the extent that participants transition into quality employment. In addition, ALMPs can help reduce the negative consequences that recessions have for labour markets (Escudero 2018b).<sup>20</sup> There are also possibilities of reducing implementation costs, while retaining policy effectiveness. In particular, support should be tailored to the demographic characteristics and income situations of recipients. Most well-designed unemployment insurance and assistance systems adjust wage replacement rates and the level of cash transfers in this way, ensuring that relatively larger amounts go to those in greatest need. Such a calibration of benefits however, is still difficult for most LMIC examined by Asenjo and Pignatti (2019).

## 6 Conclusions

This paper has discussed the conceptual basis for an understanding of why it is beneficial to integrate income and employment support, focusing specifically on LMIC. In terms of historical background, a move towards activation within social protection schemes implemented in Europe in the 1990s limited the right to income support and shifted the focus onto incentives to work, putting less emphasis on the quality of employment. Instead, our paper is based on more recent concepts of policy integration that have evolved substantially from the original activation approach. It has focused on the fostering of complementarities between income support and ALMPs. While these recent concepts are still the subject of an academic debate, they are advocated by various academics, as well as international organizations, including the ILO, the World Bank, the OECD, FAO and ECLAC, though with some differences in underlying rationale.

The central argument of our paper has been that, from a theoretical perspective, income support schemes and ALMPs yield positive effects when implemented jointly. To support this claim, we have discussed theoretical expectations with respect to policy effects on five labour market dimensions: labour demand, labour supply, quality of matching, in-work poverty reduction, and work quality. In short, by protecting workers' incomes, cash transfers and unemployment insurance schemes mean that workers do not have to accept the first low-quality job that becomes available, thereby allowing them to search more intensely (and usually for longer) for better jobs. Meanwhile, ALMPs assist workers in

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<sup>20</sup> In high-income countries, ALMPs are relatively more effective when implemented during a recession than during a period of economic expansion (Card *et al.* 2018; Forslund *et al.* 2011; Lechner and Wusch 2009). However, the same is not true in Latin America and the Caribbean (Escudero *et al.* 2019), potentially because the level of spending on ALMPs is insufficient (see Pignatti and Van Belle 2018).

their job search, create new employment opportunities and increase their employability through human capital accumulation. This helps improve workers' labour market outcomes in the longer term, thus sustainably improving workers' prospects. This theoretical examination has also revealed how theoretical expectations differ between LMIC, on the one hand, and high-income countries, on the other. Given how widespread informal and low-productivity employment is in LMIC, the effect of policies on the quality of work (including in-work poverty) is particularly pertinent for those countries, whereas extended periods of unemployment are less of a policy concern.

Empirically, there is a growing body of literature evaluating the impact of integrated policies. While many of these studies find positive effects across the different labour market dimensions, this is clearly not always the case. This points to a discrepancy between empirical findings and the positive theoretical expectations outlined. Understanding how to reconcile empirical and theoretical findings is all the more important in that a large number of countries are implementing integrated approaches that vary substantially in terms of their implementation characteristics.

To understand why there is such a discrepancy between theory and empirical findings, we have concluded the paper by examining which of the design and implementation characteristics determine a programme's success. Building on the existing literature and our own field work, we have identified three enabling conditions and examined them in detail: (i) correct identification of target groups and their assured participation; (ii) quality of service and strong linkages between income support and ALMPs; and (iii) sufficient institutional capacity and financing. These conclusions are based on various pieces of empirical evidence. We have incorporated quantitative and qualitative information drawn from our experience implementing field studies, because programme design and implementation characteristics are often not at the core of empirical research and therefore analysed only in passing. This highlights that more research identifying the causal effects of policy characteristics would be desirable.

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