

ADB



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# Activating active labor market policies

**Duncan Campbell**

Former Director, ILO

Consultant to ADB

# **Active Labor Market Policies: an «FAQ» introduction addressing the following:**

- **what are labor market policies and why are they needed?**
- **Why does the APAC region invest so little in them?**
- **Are ALMPs effective, i.e. do they work?**

# **There are 5 types of ALMPs operating on supply or demand side of the labor market – or mediating both**

- **Training schemes**
- **Entrepreneurial support**
- **Public employment («public works») programs**
- **Employment or wage subsidies to the worker or employer**
- **Job matching through the public employment service**

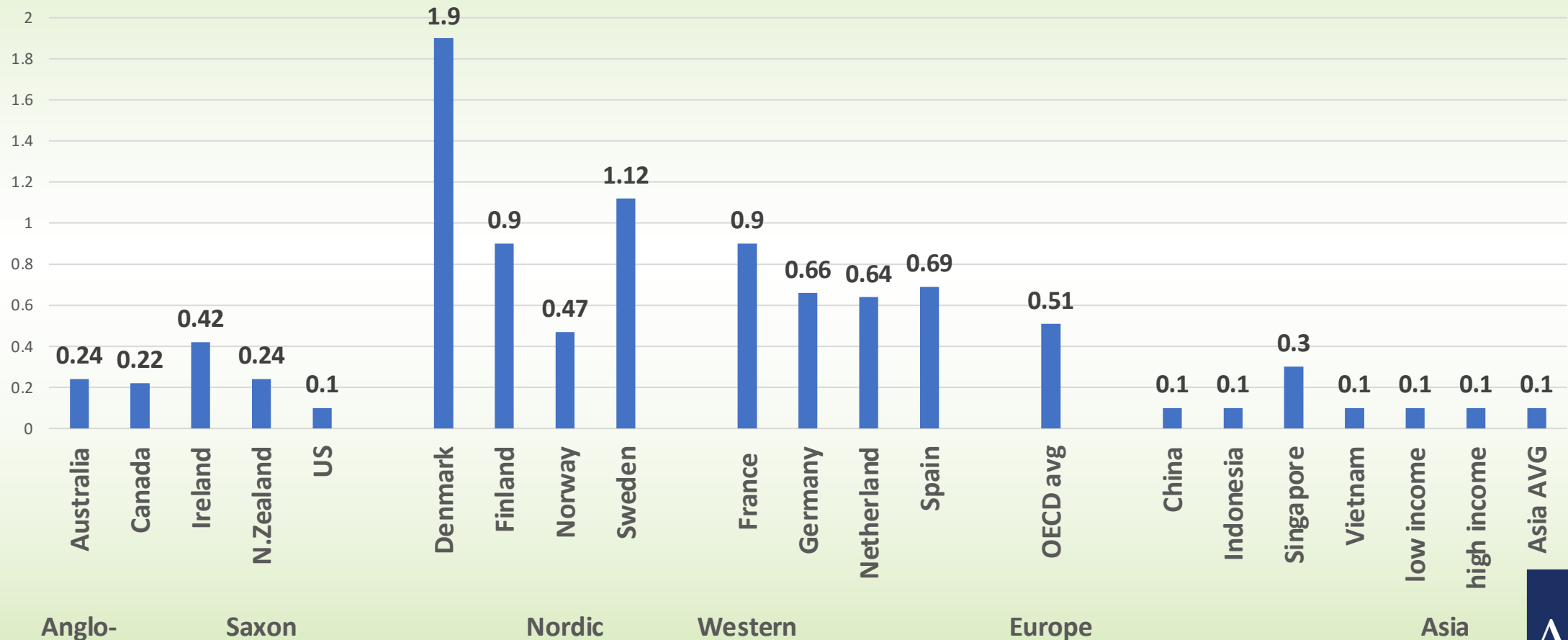
# **ALMPs address those in the working-age population who:**

- **Have an attachment to the labor market, i.e. are willing and available to work**
- **... but face impediments for a number of reasons – lacking skills, or are disadvantaged, again, for a number of reasons**
- **«Active» policies are intended to be more efficient than mere income replacement («passive») policies**
- **Employers benefit through higher productivity and lower costs**

# APAC countries under-invest in ALMPs. Why?

- **Less needed in an earlier growth model based on undifferentiated factor accumulation, i.e. the transition from surplus agricultural labor to low-skilled industrial labor**
- **ALMPs become more important when growth relies on productivity increases dependent on the quality of labor, not just its quantity**
- **Inequality, moreover, has risen in APAC countries: growth has become less inclusive**

# With this legacy, public spending on ALMPs in APAC countries has not been generous

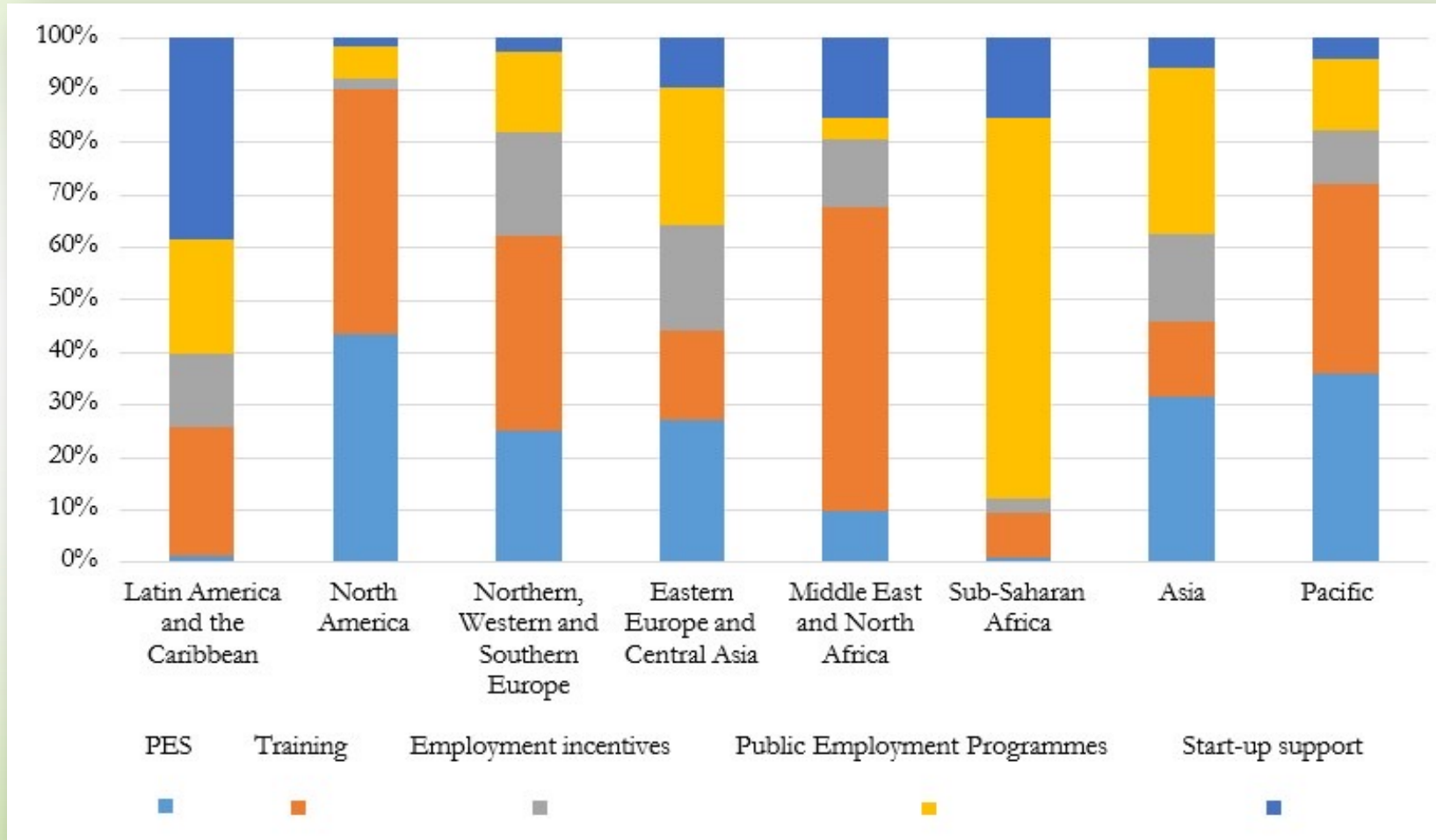


**Only a small share benefit from ALMPs in the region....**



Country	National	Poorest quintile	Rural	Urban
Armenia	3.51	3.69	1.78	4.58
Azerbaijan	3.61	3.81	2.77	4.20
Bangladesh	4.32	3.81	5.17	1.94
Cambodia	1.22	0.56	1.27	1.02
India	4.00	1.73	2.43	8.42
Indonesia	5.62	4.79	7.48	5.33
<b>Kyrgyz Republic</b>	<b>23.59</b>	<b>22.77</b>	<b>24.00</b>	<b>23.22</b>
Mongolia	5.55	8.98	5.56	5.50
Myanmar	2.34	0.78	1.26	5.41
Pakistan	6.93	4.87	5.95	8.64
<b>Viet Nam</b>	<b>11.92</b>	<b>29.28</b>	<b>18.00</b>	<b>4.56</b>

# ALMP spending in the region goes to training and the PES (+ public works in Pacific countries)



# Today's Interest in ALMPs is motivated by:

- **The incomplete recovery from the pandemic where 4 times the FTE equivalent of jobs were lost (255 million) than in the Great Recession**
- **...Meanwhile, structural transformation is occurring**
  - **Digital transformation**
  - **Transition to a low-carbon economy**
  - **... and demographics – an interest in extending the labor supply of older workers**
- **with implications for the quality of labor**

# The majority at work in the APAC region are in the informal economy

- If the reason for this is that there are barriers to entry to the formal economy, then ALMPs are a relevant tool for formalization
- This is all the more relevant is the demand for formal jobs is low
- It makes general sense, in the words of ADB Institute, that:

«middle-income countries may need to evolve their social protection systems to rely less on cash transfers for long-term support, shifting income instead to income-enhancing (-- and tax-revenue-receiving !) programs»

# **Do ALMPs work? Several meta-analyses say so. That said....**

- **Unit cost effectiveness varies: the PES is found to be the most effective**
- **Target groups need to be clearly identified**
- **Programs need income support or they won't be taken up by the needy**
- **Participants need to be monitored**
- **Program administrators need the competence to do the job**
- **Eligibility criteria shouldn't be too strict or complicated**
- **Programs can be costly and require fiscal space**

## **2 quick examples to close:**

- **first, Viet Nam's concept of «employment insurance»**
- **Second, Republic of Korea's Senior Employment Program**

# what is the cost of inaction ?

- The region is rife with labor underutilization, high NEET rates and still high moderate poverty (16% of labor force)
- All this can be subsidized, a passive response, or people can be invested in, the pay-off being productive jobs and higher well-being