

## Case Study: Design of Active Labor Market Programs (ALMP) for BALMI

### General Policy Context for ALMPs

Rationale: There are economic, social, and political objectives for providing social support packages to workers displaced by economic restructuring. From an *economic standpoint* the objectives are to reduce excess labor costs so enterprises can be competitive, and to facilitate the rapid return of workers to productive employment and thus reduce the duration of state supported income support payments. From a *social standpoint*, the objectives are to provide transitional income support while displaced workers are finding alternate employment and, for those who have difficulty finding employment, providing extended income support to prevent these workers and their families from slipping into poverty. From a *political standpoint* social support programs are intended to build public support for restructuring by signaling to citizens, communities, and labor representatives that those responsible for restructuring are attuned to the needs of affected workers and that they are ready and willing to assist those that need and want help.

Pull and Push Factors: Social support programs should include elements that combine to “*pull*” and entice excess labor to leave over-staffed enterprises, while at the same time helping “*push*” and assist displaced workers to quickly rejoin the labor market. These measures should include both temporary income support and active labor programs. To be effective the measures must be carefully designed and targeted. Furthermore, there should be continuing social monitoring of displaced workers to ensure the services are reaching the most needy workers and the most vulnerable are identified early and provided with special assistance as needed.

Active Labor Market Programs: These programs are designed to help “assist and push” displaced workers back into the labor force to increase overall productivity and decrease

- *Structural Unemployment:* Displaced workers lack skills, or their skills are not in demand, and need some re-skilling to compete and re-enter the labor market. Different types of retraining, including on-job-training and/or institutional training is needed in these circumstances and can help redeployment at a moderate unit cost per worker.
- *Lack of demand for Labor:* This is a particular problem in areas of high unemployment and in mono-enterprise communities where many workers are laid off. Programs include small business consulting assistance, incubators, and micro-loans (although the latter may not be critical if substantial severance payments are provided). These programs tend to be *more* expensive than other services, attract a limited number of workers displaced from large enterprises (e.g. 5-6 percent). Temporary Community Employment Programs are also sometimes used and, although the social and infrastructure benefits are recognized, these programs must be limited and carefully targeted to the vulnerable because of the high unit costs and considerable evidence that they have little or impact on post program employment and wages (Fretwell, 1999).<sup>1/</sup> Finally, local economic development planning grants, particularly in mono-enterprise communities, can have a long-term impact on job.

Different Contexts. Active labor programs can be applied and targeted in multiple contexts including: (a) to assist the general population of unemployed regain entry to the labor force, (b) to provide direct targeted support those directly displaced by restructuring and privatization of state-owned enterprises (SOEs), and/or (c) to assist a special groups of unemployed (i.e. those in poverty, ethnic groups, long term unemployed, etc.). Some of the general principles to all programs (i.e. all should support mobility and entry of a person from one locale to programs in another locale) but geographic, individual client, and program specific principles may vary between contexts. For example, the length of retraining may be longer for middle-aged SOE workers who are structurally unemployed.

poverty is still more than twice as high in BALMI than it was in 1995 (12 percent versus 5.5 percent), just before the economic crisis skyrocketed poverty levels to 36 percent in 1997). Forward looking economic reforms not only brought about four years of growth (1998-99: 3 percent p.a.; 2000-01: 5 percent p.a.) and reduced transient poverty by two thirds but also reduced the depth and severity of poverty compared to the crisis years.

Structure of Unemployment: The decline in measured poverty rates has taken place within the context of **increasing unemployment**, suggesting a large role for social assistance income, informal employment and remittances in mitigating the impact of labor shedding in the formal sector. Poverty is highest among unemployed and economically inactive people. The share of households headed by unemployed person grew from 7 percent in 1997 to 18.6 percent in 2001, and individuals in those households whose head is unemployed make up almost 40 percent of the poor.

**Basic Unemployment Data by Year**

	1999	2000	2001
Total Unemployed Persons	527 058	693 481	661 100
Unemployment %	13.8%	18.1%	19.4%
Absolute size of Working Population	2 811 000	2 735 500	2 751 500
Absolute size of Labor Force	3 387 900	3 272 200	3 412 600
Working population/labor force ratio	83%	83.6%	80.6%
Number of unemployed receiving benefits	146 023	185 580	149 892
Percentage of unemployed receiving benefits	27.7%	26.8%	22.7%

**Break-out by Type of Unemployment, Age, and Education by Year**

	1999		2000		2001	
	Nominal	Ratio	Nominal	Ratio	Nominal	Ratio
<b>Type of unemployed</b>						

large families. Poverty rates among female-headed urban households are twice as high as among male-headed ones. Poverty rates are the highest among younger, less educated individuals: almost two thirds of those between 18-21 with primary education or less are poor in BALMI. There is no comprehensive poverty study or data available, however there is good administrative and survey data on the unemployed, and data on families receiving social assistance.

Government Programs : Currently, the Government offers a menu of ALMPs -- including job search assistance, temporary work programs, targeted temporary wage subsidies, institutional and on-the-job training for unemployed and financial support to the unemployed to start business, as set out in the 'Unemployment Security and Employment Incentive Act'. However, the majority of funds are currently used for temporary work programs, and a study of the net impact of the programs financed by the RIF LIL has shown that the outcomes of these programs are very uneven. The strategic issue is how to ensure services are targeted to the poor and most needy instead of providing ALMPs, which may go to individuals, which may not need them. The programs are managed by some 100 Local Labor Offices, which serve 264 small municipalities in 39 regions.

### Key Questions:

1. Would you use ALMPs to mitigate poverty assist the unemployed re-enter the labor market, or would you put funds in other programs?
2. What methods would you use to investigate developing economic trends and labor market demand?
3. If you would finance ALMPs what principles would you use in designing the programs, and in particular what methods would you use to help target services to the most needy in poverty?
  - What agency would you use to manage the ALMP program?

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