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Active Labor Market Programs: Improvement of Effectiveness

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Evaluating Active Labor Market Programs  
in Transition Economies

Christopher J. O'Leary  
W.E. Upjohn Institute for Employment Research

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## Evaluating Active Labor Market Programs in Transition Economies

1. Introduction
2. Concepts in Evaluation
3. Performance Monitoring
4. Net Impact Estimation
5. Conclusion

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## 2. Concepts in Evaluation

Gross outcomes, gross impacts, and net impacts

An example: Rate of Reemployment

Program participants: 60%

Among all unemployed: 40%

Among matched pairs group: 50%

Gross outcome of program: 60%

Gross impact of program:  $60\% - 40\% = 20\%$

Net impact of program:  $60\% - 50\% = 10\%$

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## 2. Concepts in Evaluation—continued

Performance monitoring

Net impact estimation

- Classically designed experiments
- Quasi-experimental econometric studies

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### 3. Performance Monitoring

#### Process:

- Nation-wide involvement
- Set goals
- Agree on performance indicators
- Consensus building--ownership
- Iterative

#### Appeal:

- Develop an information system
- Culture of cost effectiveness
- Professionalism in employment service
- Establish survey skills
- Foundation for evaluation

#### Problems:

- Response rates
- Data tampering
- Creaming (Response--adjustment)

#### Examples from Hungary

## Examples from Hungary—Performance Indicators

**Table 1. An example of performance measurement in Hungary.  
Percent employed at follow-up after various ALMPs, 1994-1998.**

ALMP	1994	1995	1996	1997	1998
Group Retraining (A12)	44.9	36.1	44.5	46.3	46.8
Individual Retraining (A22)	58.5	42.2	51.9	51.1	51.5
Retraining Employed (A32)	82.2	93.6	92.8	90.4	94.7
Self-employment (B2)	91.9	90.6	90.2	88.1	91.7
Wage Subsidy (C2)	71.1	71.4	70.1	66.3	59.1
PSE (D2)	3.5	1.3	1.3	1.9	1.9

#### 4. Net impact estimation

- Classically designed experiments

##### Process:

- Random assignment
- Repeating experimental conditions
- Large sample sizes

##### Appeal:

- Simplicity of interpreting results
- Model free impact estimates

##### Problems:

###### Internal Validity

- Errors in random assignment
- Inconsistent experimental conditions

###### External Validity

- Time horizon
- Learning effects
- Displacement effects

#### 4. Net impact estimation–continued

--Quasi-experimental Econometric Studies

Process (Statistically mimic an experiment):

- Administrative Data
- Demonstration
- "Natural Experiment"
- Surveys
- Simulation

Appeal:

- Inexpensive
- Timely

Problems:

- Selection Bias
- Statistical Complexity
- "A Snapshot" at a point in time

Examples from Hungary



## Examples from Hungary–Net Impact Estimates

**Table 2. Net impact of ALMPs on employment, earnings, and unemployment compensation in Hungary**

	EMPLOYED <sup>1</sup>	EMPLNOW <sup>2</sup>	EARNNOW <sup>3</sup>	UCMONTHS <sup>4</sup>	UCPAY <sup>5</sup>
Hungary					
Individual retraining	0.11**	0.09**	7	-0.68**	-43**
Group retraining	0.09**	0.07**	5**	-0.50**	-27**
Public service employment	-0.26**	-0.21**	9**	-0.19	-9**
Wage subsidy	-0.11**	-0.06**	-6	0.04**	7
Self-employment	0.14	0.16	-26	-1.64**	-120

\*\* Statistically significant at the 95 per cent level in a two-tailed test

<sup>1</sup> Ever re-employed in an unsubsidized job or in self-employment

<sup>2</sup> Employed in an unsubsidized job or in self-employment on the survey date

<sup>3</sup> Average monthly earnings from the current job on the survey date (US\$)

<sup>4</sup> Months of unemployment compensation collected since January 1996

<sup>5</sup> Amount of unemployment compensation collected since January 1996, in US\$ at exchange rate of US\$1.00 = 175.75 Hungarian forints on 1 April 1997, approximately the survey date

Source: O’Leary, Kolodziejczyk, and Lazar (1998).

**Table 3. Summary of Subgroup Net Impact Analysis**

Characteristic	Retraining	Public Service Employment	Wage Subsidies	Self-employment
Gender		Worse for males		
Age				Best for older persons
Education		Worse for the less educated		
Occupation				
Unemployment Duration				
Unemployment Rate			Best where unemployment is moderate	Best where unemployment is high

**Table 4. Summary of Program Feature Net Impact Analysis**

Feature	Retraining	Public Service Employment	Wage Subsidies	Self-employment
Share in costs	Better with contribution (but not signif.)			
Duration of ALMP	3 to 12 months			
Organized by	Not district retraining center 20+ hrs/w			
Level of skill		Manual unskilled is worst	Outside of construction and services	Outside of services
Industry				
Sole proprietor vs. partnership				

## 5. Conclusion

### Uses of Evaluation Results

- Performance monitoring

  - Program management

  - Annual planning

- Net impact estimation

  - Program design

  - Strategic planning

  - Policy formulation

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## 5. Conclusion–continued

### A Sequence for Evaluation

- Management information system
- Performance indicators monitoring
- A culture of cost effectiveness
- Professionalism in the employment service
- Net impact evaluation
- Policy development

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**Christopher J. O’Leary** is a senior economist at the W.E. Upjohn Institute for Employment Research, and a member of the National Academy of Social Insurance. His research on unemployment insurance (UI) has evaluated the potential response to reemployment bonuses, the effects of profiling UI beneficiaries, UI benefit adequacy, and experience rating of UI taxes. He has evaluated training, wage subsidies, public works, self-employment, and employment service programs for labor ministries in the transition countries of Hungary, Poland, and China. For the U.S. Department of Labor he is currently working on a frontline decision support system for one-stop career centers under the Workforce Investment Act. His research has also been sponsored by the World Bank, the International Labor Office, and Human Resources Development Canada. O’Leary completed undergraduate studies at the University of Massachusetts at Amherst and earned a doctorate in economics from the University of Arizona. His research papers have appeared in *Journal of Human Resources*, *Journal of Policy Analysis and Management*, *International Labour Review*, *New England Economic Review*, *Economics of Transition*, and *Applied Economics*. He is co-author with Alena Nesporova and Alexandre Samorodov of *Manual on Evaluation of Labour Market Policies in Transition Economies* (International Labour Office, 2001), and co-editor with Stephen Wandner of *Unemployment Insurance in the United States: Analysis of Policy Issues* (W.E. Upjohn Institute for Employment Research, 1997).

## **About the W.E. Upjohn Institute for Employment Research**

The W. E. Upjohn Unemployment Trustee Corporation was established by Dr. W. E. Upjohn, founder of the Upjohn Company, in 1932 as a novel experiment to help protect workers against the loss of income due to unemployment during the Great Depression. In its early years, the Trustee Corporation made grants to local and national institutions seeking solutions to the problems of unemployment. In order to better coordinate the work covered by the charter and to provide a permanent focus to its efforts, the Board of Trustees established the W. E. Upjohn Institute for Community Research on July 1, 1945. After initially concentrating its efforts on local issues, it soon turned its attention to wider venues. To reflect the shift, the name of the Institute was changed to the W. E. Upjohn Institute for Employment Research in 1959.

In conformity with its charter, the Institute operates as a non-profit organization devoting its resources exclusively to addressing employment-related issues. The broad objectives of the Institute's research and grant programs are to: (1) link scholarship and experimentation with issues of public and private employment and unemployment policy; (2) bring new knowledge to the attention of policy makers; and (3) make knowledge and scholarship relevant and useful in their applications to the solutions of employment and unemployment problems.

The Institute currently is involved in research in the areas of employment program evaluation, labor market dynamics, labor-management relations, employment and training programs, income replacement policy, worker adjustment, education's role in the labor market, international comparison of labor adjustment policies, and state, regional, and local economic analysis.

Each area of research is approached in an integrated manner, with a combination of internal research, grants to outside researchers, and publication of monographs. The research program is financed mostly by income from a trust fund, supplemented with income from grants, contracts, and sales of publications. The program is carried out by a combination of resident staff and grants to outside researchers.

In addition to conducting employment policy research, the W.E. Upjohn Institute also manages government funded programs for local job seekers. Since 1973, the Institute's Employment Management and Services Division (EMSD) has been the administrative agent for local, federal, and state employment and training programs. Currently operating under the policy directive of the Kalamazoo/St. Joseph Workforce Development Board, the Institute's EMSD manages activities under the Workforce Investment Act (WIA) and other programs. For the 2000-2001 program year, services were provided to over 5,500 participants under six programs with a budget of more than \$5,000,000.