Impact of Active Labor Market Programs on Employment: Albania's Case

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High variation of unemployment level in Albania for more than a decade shows that unemployment still remains a problem to solve. Given the conditions, the focus of employment policies is on increasing employment opportunities, in order to make unemployed people active in the labor market. This is the reason of applying many employment programs and making expenses for their funding. Most evaluation studies of active labor market policies (ALMPs) focus on micro-econometric evaluation. Only a few studies of ALMPs focus on macro-econometric evaluation. Also, most of the facts of evaluation belong to developing countries. During the last years, data on the analysis of the progress of these policies in transitional countries, Albania included, are made available.

Our study focuses on the theoretical and empirical analysis of different types of active policies. Data used for the empirical analysis are those on employment policies in Albania during 1999 – 2010. Our study evaluates the impact of active labor-market programmers in Albania on the whole economy. The evaluation focuses on vocational training and on subsidized employment programmers in order to compare them. In analyzing the data, we drew the conclusion that a professional training program is a program with a positive impact on the level of employment (reducing

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unemployment), followed by a program of promoting employment through work education.

Introduction

A high employment level in the Albanian labor market during the socialist regime was due to full employment policies and the economic structure that was entirely based on agricultural products, food and heavy industry, thus providing employment for several population segments.

Transition to market economy led to expansion of the labor market leakages in terms of level and composition. The labor market fitted the new economic condition, thus decreasing employment and increasing the unemployment rate at a tremendous pace never seen in Albania before.

The high level of unemployment, as in many countries of Eastern Europe, was the result of a massive privatization of non-productive public enterprises administered by the government as part of macro-economic reforms and restructuring. The analysis of unemployment indicators shows that the unemployment rate as at end-1992 was 26%, which means tripled as compared to the previous year.[INSTAT,1993].

This high unemployment rate continued until 1995, when it began to slump. This happened because of the fact that a great number of registered unemployed people, mainly in rural areas, during 1993-1994, came out of this scheme after acquiring their land pursuant to the law on land and privatization. As at end-1995, the unemployment rate was estimated at 13% and it continued to decline to 12.4% in 1996. In 1997, because of the turbulence in the labor market, the unemployment rate picked up again, to 14.9%. Its upward tendency continued until end-1999, reaching 18.4%. Over the coming period (1999-2008), unemployment rates decreased, however, still remaining relatively high. According to statistics, the unemployment rate was 13.83% in 2010, evidencing a total number of 142.068 unemployed people. (See chart no. 1 of the Appendix).

Faced with an ongoing high unemployment rate for more than a decade, Albania's interest was shown in the longer-term policy as a means against unemployment. Employment policies are currently focused on increasing employment opportunities, in order to make the unemployed people active in labor market.

The aim of our study is to show the impact of the active labor market programs on the employment rate.

This paper proceeds as follows. Section 2 gives an overview of the active labor market policies in Albania. Section 3 describes the theoretical background. Section 4 presents theoretical issues on the evaluation of ALMP. Section 5 describes the methodology and presents the data that we use in our empirical study. Section 6 presents empirical results and main findings are summarized in the conclusion.

Active Labor Market Policies in Albania

Besides the general economic development framework, government efforts to reduce unemployment have been focused on active policies, aiming to remove people from unemployment addiction (passive policy) and help them adapt in a competitive market and independent work. First, the ALMP in Albania had to be one of the following types:

- Intermediation for work and profession;
- Work counseling;
- Professional education (labor market training)
- Programs of employment promotion (subsidized employment)

Out of active policies, employment promotions programs (subsidized employment) are among the major ones in terms of expenditure. These programs include wage subsidy to an employer for recruiting less competitive persons. The level of wage subsidy is 100% of the minimum wage during the first 6 months and 50% of the minimum wage during the next 6 months of his/her employment period.

In Albania, 7 employment promotions programs (subsidized employment programs) have been designed and implemented since 1999 onwards:

1. Employment promotion program for the unemployed job seekers. Year 1999

2. Employment promotion program through working education. Year 1999
3. Employment promotion program through institutional education. Year 1999
4. Employment promotion program for female unemployed job seekers. Year 2004
5. Employment promotion program for unemployed job seekers who have completed higher education. Year 2008.
6. Employment promotion program through occupational training (general training).Year 2008.
7. Employment promotion program for unemployed job seekers in difficulties. Year 2008.

Also, active labor market training policies are important both in terms of expenditures and participants. Employment training may take the form of:

1) vocational training;
2) more general training, aimed at providing information on the labor market situation and psychological preparation for competing in the labor market. Training is organized by the local labor offices.

According to analyses, public expenses on active labor market policies absorb a considerable percentage of national resources. Naturally, a question arises: How much should the Active Labor Market Policies (ALMP) weight against Passive Labor Market Policies (PLMP) or other regulating mechanisms in the labor market? The analysis of these policies in our country reveals that the ALMP/PLMP proportion has been upward, while the passive policies continue to account for a great share of GDP, as compared to active policies (see chart no.(2) of the Appendix).

Albania's labor market situation shows that the number of active programs has been upward. However, multiplying programs caused most of them to duplicate or exclude one another, making them costly to administer. They were also confusing for the Employment Offices to serve to unemployed people. What is working in the labor market does not come out clearly because of this program diversification. Evaluation is an important instrument in rationalizing these issues.

The 1994 OECD Jobs study recommends governments to "strengthen the emphasis on active labor market policies and reinforce their

effectiveness" [OECD, 1994].In the focus of our study is the empirical analyses of different types of active programs. Lack of evidence on the measurement of effectiveness of different active programs brought about the need for considering this issue. This paper has practical importance as it is in line with our previous study and is a serious effort to scientifically argue what needs to be done, in order to improve the actual labor market situation, thus identifying the active policies that have positively impacted our country and that need further elaboration. Using the macroeconomic evaluation, through a multiple regression method, we have studied the correlation between expenditures for different active programs and unemployment rate. Macroeconomic evaluations of ALMP are few.

Bone and Van our [2004, 7] used the multiple regression method to determine the relation between the unemployment and adjusted ALMP-expenditures, adding inflation as an independent variable. Also, R. Hujer, M. Caliendo and Ch. Zeiss [2004, 196] evaluates the impact of active labor-market programmers in Germany on the whole economy using the multiple regression method. The evaluation focuses on vocational training and additionally on subsidized employment programmers in order to compare them to vocational training. In this study we analyzed such a relation using the methodology applied by Boon and Van Ours.

Theoretical background

Boon and Van Ours [2004, 7] used the macro studies on ALMP to explain the cross-country variation in unemployment and ALMP expenditures

The conceptual regression model is presented from equation (1):

$$U\ it = \beta_0 + \beta_1 Yit + \beta_2\ \Delta_2\pi it + \mu it \qquad (1)$$

where : $U\ it$ is the unemployment rate in country i and calendar year (time period) t , Y refer to ALMP expenditures and $\Delta_2\pi$ is the change in inflation rate.

One of the problems associated with the evaluation of equation (1) is that if unemployment increases, costs of active policies are also likely to increase. To account for this, annual ALMP-expenditures are normalized as a percentage of spending ALMP / for unemployed workers to GDP/per capita according to the formula (1).

$$X \qquad \frac{\frac{ALMP}{U}}{\frac{GDP}{N}} \qquad \frac{\frac{ALMP}{GDP}}{\frac{U}{L}} \qquad \frac{almp\%}{u \times l} \tag{1}$$

Where: ALMP – Total annual expenditures on active labor market policies:

U	- Total annual number of unemployed
GDP	-Gross Domestic Product.
N	- Number of population.
L	- Number of labor force.
almp	- ALMP expenditures as % to GDP.
u	- Report of unemployed persons to the labor force (rate of unemployment).
l	- Rate of labor force participation to population.

Theoretical issues on the evaluation of ALMP

The majority of evaluating evidences of ALMP are mainly on microeconomic level using the experimental and non-experimental methods of evaluation. Sweden is the country estimated with the largest number of evaluating evidences.

In the first half of 1990, in order to counter the unemployment crisis, Sweden invested 2% of its GDP on labor market active policies. During this period, 5.5% of the working force took part in several training programs and employment by subsidy. The largest program of all was "the initiative on adult education" which was aimed to build the capacity level of low education of unemployed people. Calmfors, Forslund and Hemstrom [2002, 675(4)] conclude that the evidence on the effectiveness of Swedish APMPs is rather disappointing. Evaluation of these programs identified the following:

1) Activities on employment public services intermediation had negative effects.
2) The focus of active labor market policies should be put on long-term training and employment programs in active masses designed to improve the employment process by subsidy.
3) Active more cost-effective programs included: intensified counseling, more contacts among employment offices and

unemployed persons, a higher demand for job seeking activities, specified requirements for job acceptance, and more sanctions to beneficiaries when job is not accepted.

Different scholars in their research have attempted to explain the impact of active programs on the labor market. Heckman et. al. [1999, vol. 3] concluded that training and employment programs imposed by the government have different impacts on different demographic groups and affect mostly disabled people. Kluve and Schmidt [2002, 409-448] summarizing the European evaluation studies, supported the above conclusion holding the view that private sector subsidy programs are better than public sector subsidy programs and training programs can help improve labor market perspectives for the unemployed. Sustainable results remain the positive effects of assistance programs on looking for a job as they are less costly measures. Also, classroom and on-the-job training programs appear to be particularly likely to yield more favorable medium-term than short-term impact estimates [Card, Kluve, Weber, 2009, 25- 26]

Boone and Van Ours, [2004, 7] in their macro-economic assessments reached the conclusion, that there exists a relation between expenditures on ALMPs and unemployment. They find that labor market training is the most effective program to bring dawn unemployment. Public employment services have the same impact, while subsided job are not effective at all. In their results R. Hujer, M. Caliendo and Ch. Zeiss [2004, 196] show, different pictures from East and West Germany. Whereas in West Germany they find a positive result for vocational training, the results in East Germany do not look favorable. Comparing vocational training programmers in West Germany with job creation schemes, they find that vocational training is the most efficient measure in reducing unemployment.

From a summary of studies on labor market reforms in transitional countries, Boeri [1997, 126-140] showed that the employment subsidy schemes and public affairs programs have not been very successful. The results of the study of ALMPs in Romania [Roman, Sandru, 2007, 14-18] emphasize that in both years the active measures in terms of Completion of employees' income and Vocational training were more efficient. Also, the conclusions of the study of Boceon [Boceon, 2007, 10-20] are that the most

effectives ALMPs are direct employers' subsidization to job creation and temporary employment public works in community service. From the analysis of the active programs' groups in Bulgaria made by the MLSP in 2006 [WYG International, 2006] the net impact figures for the disabled group are positive and significant. Furthermore, in most cases the effects are higher for men than for women. Analysis of Evaluation of Active Labor Market Programs in Estonia, [Leetmaa and Võrk, 2003, 16-20] also shows that the effect of labor market programs is relatively homogenous within different socio-demographic groups and geographical regions.

Methodology and Data issue

The next step in our process was to define the types of active labor market programs and the type of evaluation method that we would consider for our study.

In carrying out this study, secondary data were used. The selection of statistical data on employment programs used in the study cover the period from 1999 to 2010. In carrying out the study, we analyzed the active employment programs that support training financially and professional education of unemployed people. The active programs that were chosen had a longer time in the labor market.

More specifically, we will study the impact of these programs:
a) Program of promoting employment through work education. (ALMP 1)
b) Program of promoting employment through institutional education (ALMP2)
c) Professional Training program of unemployed job seekers.

When we want to evaluate the implementation of active programs and their impact on labor market and economy in general, we should always be aware that the evaluation method must be comprehensive. In analyzing the effectiveness of expenditures on different active programs on employment level, a multiple regression model was designed. In designing this model, researches from literature were considered, adapting them with the domestic market opportunities. In selecting the model variables, we relied on macroeconomic evaluation of active programs.

As independent variables we chose the annual expenses incurred for implementing different active programs ALMP 1, ALMP 2, professional training expenses and inflation. Hence, the dependent variable of the model is the rate of unemployment each year. Firstly, the annual ALMP-expenditures are normalized as a percentage of spending ALMP / for unemployed workers to GDP/per capita according to the formula (1). Before we build the model a variable analysis is necessary. Table 1 presents the respective variables and representatives.

Table 1: Variables, representatives and data sources

Variables	Variable representatives	Data source
Unemployment	Unemployment rate during the year (%) = Y	SHKP, INSTAT
Expenditure Inflation	Expenditure adapted to the unemployment level and GDP/capita (%) = X_i Change of consumer prices (%) = π	SHKP, INSTAT Bank of Albania INSTAT

For determining the expected sign of indicators, we will examine how changing determining variables affects the level of unemployment. Hence, with regard to:

- Adjusted expenses for each program are considered that the greater the indicator, the lower the unemployment level from the relevant program. Thus, the expected sign of this indicator is likely to be negative.

- Inflation the greater is the indicator (the increase of prices, wages) the lower the unemployment level in the country, so the expected sign of this indicator *negative*. All the variables have already been described. As hinted earlier, the parameter β_1, β_2, β_3, β_4 are expected to be negative. Table 2 presents the model of determinants of dependent variable.
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Table 2: Variables Description

Variables	Priori hypothesis	Definition	Units
ALMP 1	*Negative sign*	*Expenditures on employment program through work education*	%
ALMP 2	*Negative sign*	*Expenditure on employment program through institutional education*	%
Professional Training	*Negative sign*	*Expenditures on professional training of unemployed job seekers.*	%
Inflation	*Negative sign*	*Change of consumer prices*	%

Unemployment = f (ALMP 1, ALMP 2, Professional Training, Inflation). Conceptual regression model is given from Equation (2).

$$Y = \beta_0 + \beta_1 \text{ALMP 1} + \beta_2 \text{ALMP 2} + \beta_3 \text{ Training} + \beta_4 \pi + \mu_i \qquad (2)$$

$H_0 : \beta_1 = 0, \beta_2 = 0, \beta_3 = 0, \beta_4 = 0 \qquad H_a :$ at least one out of $\beta \neq 0 \quad \alpha = 0.05$

Empirical Results

The statistical analysis was carried out using the regression procedure. The results of the evaluation revealed that all the variables entered were statistically significant at the 95% level.

The R-square value obtained is 94.9% (Table 3) showing thus a good linear relation between the variables selected in the sample.

Table 3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974[a]	.949	.915	.485777

a. Predictors: (Constant), ALMP 1, ALMP 2, Training, Inflation

The results of the analysis are shown in the Table 4 and Table 5

By the analysis of variance in the testing table F as sig. = 0.000 < 0.05 the independent variables in the model explain better the dependent variable (as indicated by the adjusted R^2 and the results of the F-test).

Table 4: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.284	4	6.571	27.846	.001[a]
	Residual	1.416	6	.236		
	Total	27.700	10			

a. Predictors: (Constant), ALMP 1, ALMP 2, Training, Inflation
b. Dependent Variable: unemployment rate

Some variables have the expected sign. Among all the variables, the ones with negative signs of coefficient were ALMP 2, Training and Inflation.

Table 5: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	17.465	1.012		17.263	.000
ALMP 1	-3.687	1.068	-.434	3.452	.014
ALMP 2	-1.393	5.234	-.034	-.266	.799
Training	-16.203	3.530	-.570	-4.590	.004
Inflation	-.226	.147	-.188	-1.541	.174

a. *Dependent Variable: Unemployment rate*

The ALMP 2 variable has the expected sign, but this coefficient is not statistically significant anyway. From the coefficient analysis β (beta) it results that some of the coefficients are highly significant. The active programs ALMP 1 and training are the most effective programs on the employment level. As we see, the inflation variable has the expected sign, but this coefficient is not statistically significant.

Conclusions

This paper proposes a methodology for measuring empirically the impact of ALMP-s on employment. The labor market training and subsidized employment programmers were considered. The study shows positive and statistically significant impact of the active labor market programs on employment probability. Professional training program is

a program with a greater positive impact on the level of employment (reducing unemployment), followed by the program of promoting employment through work education. " In particular, as compared to training taking place only at school premises, the trainings that interwove the work done at school with the on-job training increase the probability of positive work effects by about 30%, while when combined with other employment services, the probability of the positive effect is increased by about 53" [1]

In spite of modest achievements, the study had a series of constraints. Concerning the secondary data served as a basis for the analysis, there were some problems related with their missing and accuracy. Information provided from different institutions in the country was incomplete and non-standardized, showing that still problems will persist in Albania related with the statistical and information accuracy. The relatively short period of applying the Active Policies and the lack of detailed information for the post-application period are other problems. We have studied this issue for about 12 years, and it is a relatively small period compared to the years of study of other authors. Another constraint is relates to the inability of estimating the effectiveness of employment policies on microeconomic level. This happens because of the high cost and the lack of a database containing the complete and detailed data on unemployed job seekers in the Employment Offices. This estimation is the basis on which the work begins.

It should be stressed that this paper is a starting part in estimating the effectiveness of ALMPs. Considering that this study tried to analyze the effectiveness of only 3 programs, other researchers could extend their evaluation even for other active programs by improving the evaluating practices or affecting variables. Improving the monitoring of ALMPs in our country in the future and extending them in a higher scale, will provide the opportunities of evaluation by using experimental evaluation techniques on microeconomic level, which is the best fit. This means that there is room for

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[1] J. Fares, O. S. Puerto, *Towards comprehensive training*, World Bank, Mimeo, Washington D. C. 2008.

other detailed studies in the area, which would complete better the framework of evaluation evidences of ALMPs in Albania.

Conclusions arising from these findings are important, if we compare them with the impact of active policies in other countries. In transitional countries, the large informal labor market and scarce capacities in implementing these programs can limit what programs can achieve in establishing the formal employment.

On the other hand, some of these programs applied in developing countries have more positive effects than in industrialized countries. It may be that ALMPs applied to labor markets countries with lower incomes have more efficient because the supply of workers with sufficient skills in these countries is low. Despite the unclear picture of ALMPs evaluation, the governments which face economic and social problems associated with the large number of unemployed people and the resulting poverty, it is necessary the use of active programs as an instrument for solving the complicated problems of long term unemployment and structural discrepancies. However, these governments should be realistic about what the active policies of labor market can achieve and determine the sources based on cost effectiveness. Active policies of the labor market should be policies with economic value and for these reason it is important for the government to show attention in determining the intervention programs based on what is the best for their countries.

Considering the conclusions of the study and the research based on literature, in order to increase the effectiveness of active employment programs we recommend:

- Programs should be supported increasingly in a detailed counseling, and assistance programs in looking for a job;
- Training public programs should be designed for the specific needs of job seekers and employers;
- Training of employed persons should be revised in the context of learning through life for all the citizens. [Tuijnman, Schoman, 2002, 465-467];
- Use subside forms in business establishment for a small number of unemployed persons who evidence entrepreneurship abilities and motivation for survival in a competitive setting. [Martin, J, 2000, 22];

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Appendix
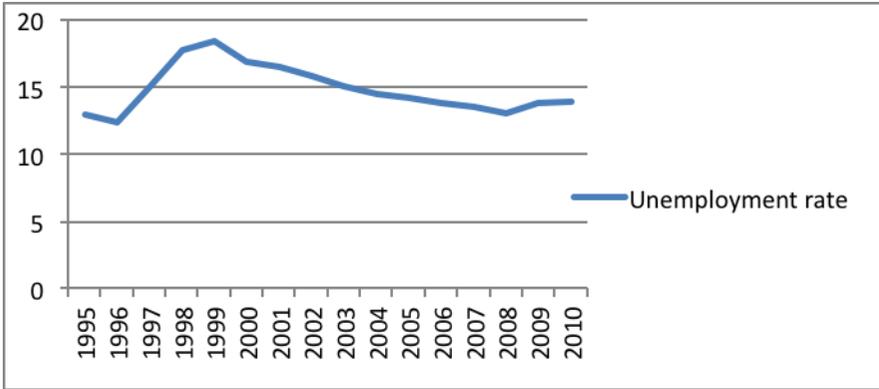
Figure 1: Unemployment rate in Albania   (1995-2010)

Source: Albanian Statistic Institute
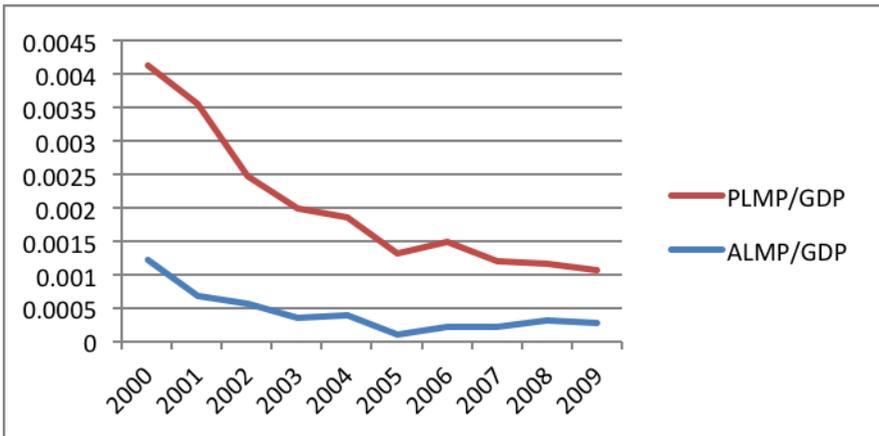
Figure 2: Expenditures on active and passive policies in the labor market in Albania as GDP %

Source: *National Employment Service*