

Social Sector PSIA Armenia – Comparative Analysis of active and passive labour market policies (and their interdependence with other social policies of the labour ministry)

What reform was chosen for PSIA by whom and why?

While the PRS entailed a precise set of policy reform proposals for the sector, the new minister of social and labour issues challenged this government decision on strategic change in specific policy areas: for example, the phasing out of unemployment insurance and the cancellation of the one-time family benefit. Both activities were supposed to free resources for other, more active labour market policies. So any decision would have major implications for the future of the Labour Agency, an independent unit under the social ministry and responsible for labour market policies. A bi-lateral renegotiation process was started between the coordinating ministry and the social sector ministry and implementation was put on hold until further knowledge about the possible impacts could be attained. Thus a group of international specialists started working together with a team of Armenian experts, both from inside the ministry and the labour agency, as well as independent specialists.

The Poverty Social Impact Analysis (PSIA) of the social ministry with support of GTZ was mandated by a PRS Working Group decision and started in spring 2004 to last for 12 months. It was to become an innovative mix of process-oriented policy advice, macro modelling and factual evidence generated by a case study on the situation in two small towns, where unemployment and poverty incidence was extremely high. So as not to duplicate on other reform analysis, a desk study of existing material on the sector was carried out and the active coordination with other donor agencies sought.

On the design of the Social Sector PSIA

Instead of having a small group of outside experts produce yet another study on the subject, the transmission mechanism was to be a central part of the undertaking, consisting of a string of presentations and discussions in interactive workshops. Armenian specialists carried out the bulk of the work, especially regarding the quantitative and qualitative studies. Armenian officials discussed the results.

The motivation behind the exercise could be described as an attempt to generate better knowledge for decision-making within the ministry concerned, using mainly Armenian expertise, and facilitating better process learning thru joint knowledge creation. Thru consultation, a phase of well-designed exchanges of knowledge and opinion of different actors involved the key innovation in the process of policy design and decision would be achieved. Different instruments were to be combined to help answer seemingly simple questions: which set of policies is more likely to have better effects with regard to poverty reduction in the Armenian context? Is the policy designed at the centre producing the expected results on the ground? Could there be a social sector strategy within PRS that optimises effects on unemployed and vulnerable thru the existing mix of policies, or should policies be radically changed, institutions altered, as was proposed in the PRS itself?

Given the scarcity of time and resources, and the very specific reform proposals, a working group was set up between two departments of the social ministry and the Labour Agency. In joint work with outside and independent Armenian social sector specialists, international experts were put at the disposal of both social sector working group and the official PRS working group. Although part of the PRS, the implementation discussion was delegated by the official working group to inside the ministry of social and labour issues. The Worldbank was asked in the beginning and even received the concept note in the country mission and Washington. In the further development the Bank, or better its local contractor consultant, did not come back to the offer to cooperate that was extended by the Vice Minister in charge. The Bank carried out analogue labour market analyses, but did not seem interested to integrate and share the burden of work – being more interested in unilaterally supporting its first social sector loan in the country.

The government in the form of the political level of the social ministry was very much engaged and interested. There was created a separate working group for the coordination of different donor programs in the sector – which was later disbanded, as real response from donors was not forthcoming. The PSIA working group mentioned above met many time to receive and discuss results. The case study and questionnaires were designed jointly for example. On the level of management the results were taken very seriously, even heatedly at times: while it was known that there was room for improvement, the Labour Agency for one, from the beginning had the very clear intention to defend itself from a radical and critical approach (which proved a successful strategy in the process). The more demanding and real-time requirements on the working group – e.g. the production of measurable indicators for the tool based comparative analysis – were not achieved in equal measure. The full and final buy-in of the government and the understanding that this PSIA work could be used to organize different well-financed donor efforts in the sector could not develop for different reasons.

The Armenian Social Sector PSIA consists of

1. A concise desk study on social sector analysis and reform evidence available in/on Armenia
2. A very brief institutional analysis, including financial and legal analysis
3. An interactive policy decision facilitation approach, using a high-end software moderation tool
4. A PAMS macro model
5. A case study on social and labour market relations in two different priority areas, consisting of two qualitative and one quantitative surveys

MAIN FINDINGS

The Macro Model

The international team constructed a Poverty Analysis Macro Simulator (PAMS), building on National Household Survey data. The influence of movements in the macro sphere was to be estimated for 240 groups of families/persons, meaning deciles of 24 groupings. As data available did not include sector composition and was only available

for 2003, the model was tested in estimating results for 2004 – which were considered fairly close to the actual situation. The main question behind the exercise concerns the Armenian paradox of high GDP growth and low impact on poverty: or better, the lack of labour demand creation and the narrow base and location specific quality of this growth. Three scenarios were then modelled with respect to their different poverty outcomes: what happens if economic growth continues to be located mainly in Yerevan? What could be the expected result of massive social transfers from the capital economy to outside Armenia, meaning rural and small town locations? What is the poverty outcome of a successful strategy to distribute growth and income creation more evenly in the country? More information on the model and the results can be found in the report, but some relevant indications should be presented here, and where a central part of the final presentation/discussion with the PSIA working group:

1. The social transfers motivated by the Armenian PRS did go a long way to reduce extreme poverty in the country. Although the alleged reduction from 15, 4% to 7,2% within only two years cannot be confirmed, the effect was real and visible.
2. On the other hand, even very radical increases in social transfers will not solve the original dilemma: without growth in labour income, poverty as such cannot be overcome. To put differently: given the composition of poverty and abject poverty, the amounts of social transfers spent to have a significant impact on the poverty headcount – as compared to that abject poverty headcount – would have to increase manifold.
3. Thus, the base of poverty around 40% would be very hard to be attacked by social policy alone, if growth continues to happen mainly in Yerevan and a few sectors.
4. The poverty situation of the country will only visibly be affected once growth is broad based and happens outside Yerevan as well.

The Case Study

The *qualitative* part strives to produce information in the contextual and story line areas. Focus group discussions with groups of unemployed, family benefit recipients or social assistance registered are coupled with in-depth interviews of officials from the labour agency offices administering benefits in the local areas. The qualitative part is hoped to get detailed, if not representative answers to questions like “do you feel the benefit rate contributes significantly to your family income” and “how to you intend to make up for the shortfall, if the insurance part is cancelled?” While recipients are giving relevant opinions on design flaws and delivery problems from their perspective, administration officials can give a better understanding on process issues – both relevant for decision-making and design of the policies in question.

The survey thus tries to establish whether correspondents feel any real impact thru social and labour market policies as designed in the capital for their lives, and which livelihood strategies they would follow or switch to, in case of the proposed reform is enacted. While the overall PSIA especially thru the application of PAMS is supposed to shed some light on the “jobless growth miracle” of the country as such, the case study wants to answer more concrete questions regarding the social and poverty impact of specific reform policy mixes at the receiving end. In combination, the discussion of the design

stage and success of policies, together with the “felt” consequences of the same, are hoped to contribute to better decision making and policy design at government level.

Jointly with officials, two Armenian ex-industrial small towns were selected, where the effectiveness of the policies in question was to be researched. The assumption being that if passive and active labour market policies and their interrelations with other social assistance systems could be observed with regard to their real impact, it would probably be in these hot spot areas.

The *quantitative* part was designed after the qualitative results were in and tested, so as to prove or disprove some of the findings. In a group of 525 contestants in the two small cities, several sub samples were created to more closely relate with the social assistance recipients. In general, it can be said the results of the qualitative survey have been strengthened by the quantitative study. With regard to measurable criteria there have been interesting and stressing points made for coverage, adequacy and administration problems:

- If unemployment benefit as such is too small a program to visibly affect poverty, those that receive it, feel it adds in visible measure to their income: it constitutes 16% of overall income for those that receive it; 10% of the income for the poorest respondents and 30% assess it as essential source of income. 41% of benefits go to poor, while 20% go to the richest group of people (!).
- If compared with Family Benefits, the most effective strictly passive alleviation program: they constitute 70% of the income of the poorest, while 57% go to the poorest and only 3% to the richest group of respondents. At the same time 51% of benefit recipients think the personal role of the assessor should be cancelled and eligibility should be strictly on objective criteria. This underlines the point made by the qualitative study respondents about the high corruption incidence with regard to assessment of eligibility.
- Out of recipients of unemployment programs, respondents said that 66% of those registered do not know which active programs are on offer, while 56% have no idea that Employment Centres offer any assistance at all! Nobody asked of the currently employed found a job thru the employment assistance.
- On benefit-for-work – the one passive employment program with active policy elements – 84% of registered thought it very useful. Active work is considered the single most important determinant of well-being.

While there is a lot more to be said about the results of both qualitative and quantitative surveys, a couple of things stand out that seem relevant a) for policy design and b) service delivery or execution of the policy decision:

- The joint administration thru the harmonisation (or overlapping) of requirements for the two systems (unemployment insurance and family benefit), which on first

sight seems to economize on transaction costs, really has the adverse side effect of blurring distinction (producing errors of inclusion as much as errors of exclusion) and severely increasing the possibilities for corruption.

- The delivery thru the postal system and the system of verification (social assessors) at times collude to produce extortionate behaviour: the group of experts in the qualitative study found instances where within the same postal office a grocery store would deliver goods to the clients of the family benefit system at much higher prices on credit – the rates of which were to be collected upon benefit pay out. In other instances recipients were expected to pay a certain share of the benefit so as to “qualify”. This was found to amount to on average 30% of the benefit in the one-time family benefit during the quantitative assessment!
- The matchmaking (job placement) or retraining efforts of the labour agency clearly are much more effective in a vibrant and dynamic area, where jobs are already being created – while private service providers still seem to be the choice of the client, if there are any such alternative offers. At the other end of the extreme, the effort of the labour agency seems to be fruitless, or put differently: where there are no jobs, the labour agency will find no vacancies for the unemployed. This emphasizes the probable relative effectiveness of demand vs. supply influences in the labour market that the agency could possibly have.

If these results of the qualitative and quantitative studies are to be believed – and there is no obvious reason why they should be dismissed out of hand – what possible implication would this have for central decision-making?

- First, no one single policy design regarding the regulation of active and passive labour market policies will be equally effective in the very different situations in Armenia (even in only two ex-industrial small towns with at first sight similar conditions) or better, a similar industrial and labour policy will result in very different outcomes in the country.
- Second, even if delivery of benefit thru the postal system seems a cost effective way, and the verification thru the assessor seems a necessary condition for targeting, ineffective or negligent management and control of both might still lead to collusion and extortion.
- Third, the state labour agency is better in administering some things (passive labour market policies) than it is in others (active labour market policy). There seems to be almost no effect on the labour demand side, with the possible exception of benefit-for- work programs, which at least create positive social value. Active policies, however, are an important tool in the hands of the agency, if efficiently designed and carried out. Purely passive policies can be administered more easily outside the agency.

Conclusions and some lessons learned

During implementation of PRS reform activities in key areas of social protection, the coordinating and implementing ministries entered into a more learned discussion process on the benefits, adequacy and impacts of specific reform measures. The PRS Working Group is the body that initiated and mandated the work with the social sector ministry and outside experts. While the PSIA in itself is mostly designed to produce decision-supporting evidence in the short run, the transformation onto a more technical and less politically biased comparison mode should result in a better understanding and handling of performance observations as such. The elaboration of valuations/indicators could thus lead to a better understanding within the ministry on how to measure performance of reform projects and build an indicator system for PRS from the inside out.

During various presentations, workshop discussions and bilateral meeting, the implications of the above mentioned studies and models were discussed. From different tools a line of reasoning was developed to better base the decision in question and eventually change policy decisions (see post script below). While even in the process the officials decided to introduce new instruments, like wage subsidies, other important decisions are still pending. An interim decision seems to have been to keep and reinforce the Labour Agency, while changing the financing (actually increasing finance for active programs from the budget). The process-oriented approach of the PSIA in a way emphasizes and implies an open end: for example, the university experts involved will still work on the data of the quantitative survey to answer future related questions from the working group, and the PAMS macro model should be used in the Ministry of Finance and Economy to elaborate projections and develop scenarios for the PRS update later this year

Maybe most important of all, the discussions on active vs. passive labour market policies and the dynamic interdependence with other social policies could continue to inform the new social sector policy for the PRS update.

What does the official side so far make of the results?

The answer to be expected would be that the evidence is still too limited to base a radical change in policy. For example, what if substantially more resources could be expended in these areas: Could the Labour Agency be upgraded to deliver better results? Does the evidence show that all state subsidies will fail to create active pro poor solutions in the labour market - and should thus be discontinued? How and when do beneficiaries of the unemployment system get included in the social assistance scheme, the family benefit – and could this scheme be enhanced to take care of the unemployed or even set incentives to reintroduce them to the official labour market? Is labour income a guarantee against poverty, and is the Armenian “growth miracle” visible in the labour market – or better, why is it not?

Factually, however, during the process of negotiations supported by the PSIA studies and discussions, some new elements were immediately incorporated in the design: following one of the first presentations of the international team, the officials decided to earmark funds (75 Million ADM) for a wage subsidy program. The point made by the Polish

experts had been that in one Polish program according to some criteria wage subsidies were comparatively more likely to have a lasting impact on lasting job placements (68% as compared to 40% for training programs, as compared to only 13% for benefit-for-work programs, did not reregister with the employment office six months after completion). The cautioner that such a scheme is highly demanding in terms of management and monitoring, was obviously not taken serious enough.

The final decision to change policy designs was postponed thru the agreement between two ministries during PRS implementation still in 2004. During the process of elaboration, however, political opportunities were created from one side to foster the status quo. By this interpretation the Labour Agency should even increase its responsibilities and receive higher funding from the budget. Without a good strategy to effectively change the way that services are delivered, this seems an at least questionable result of the discussion, not supported by the evidence produced at all. It should therefore be part of the social sector policy elaborations for the PRS Update to finally discuss and decide on the issue.

Interestingly, during much of the discussion, but unrelated to the work of the specially created working group, a new draft law on the issue was being developed in the ministry. For the first time ever, the law tries to take complex strategic policy implications into account. As a result it became a highly complex construction, with the unwanted side effect of delegating much more regulating capacity to the government in turn. The government again for the first time, presented the law to civil society and independent experts in a public hearing. Comments and changes were later introduced into the new draft law in a month long elaboration process. Before the hearing in parliament, the results of the PRS PSIA will be presented by the PRS Open Forum to the respective committees as well.

Winners and Losers

The reform intentions in the PRS are clearly stated: poor unemployed should be given a better chance to re-enter the labour market thru the effective intervention of the state in the area of active labour market policies. The main determinant – real and felt – of well-being is without doubt fulltime and productive employment. The studies and discussions showed that the services offered by the Labour Agency, the main institution responsible for labour market policies, leave plenty of room for improvement, to say the least. While some may read the PRS text as a blueprint for abolishing the agency altogether, there was found no substantial justification to radically change the approach and fully privatise its service production in the sphere. The institutional requirements to fully engage market production in active labour market service delivery are certainly not yet met in Armenia – so the risk of increasing incentives for corrupt and extortionate behaviour might increase, if one decided to abolish the role of the ministry and/or the Labour Agency. On the other hand, it becomes clear that active services delivered by the Agency have to be much better administered, designed and effective: to have any influence in terms of poverty reduction, they have to significantly reduce the re-registration rate of recipients partaking in active programs.

In this respect a well-designed reform that increased the chances of poor unemployed would certainly benefit recipients and the agency alike! An aborted or misguided reform will have no effects, or worse, increase the wrong incentives. The large group of unemployed in the Armenian countryside (including small towns) thus stands either to win or to lose, depending on how the reform will in the end be carried out. Most underemployed countryside dwellers are unfortunately not even targeted: they are made self-employed by state fiat, as they are counted as small landholders. The indications elaborated thru the joint effort clearly point in the above-mentioned directions, while political opportunities so far did speak a different language. A phased approach and compromise would leave the agency under a clear obligation to significantly increase its efficiency before further spending increases would be agreed upon. At some point, phasing in some form of public private partnership might prove beneficial: many aspects of the active part of labour market policies could be tendered out to NGOs or other private providers once an adequate legal framework is installed and monitored.

Implications for policy comparisons

Social transfers, e.g. unemployment benefits and family benefits along with the very important pension payments, can be used to successfully fight abject poverty – as has been achieved effectively in Armenia over the last two years. At the same time, social transfers will probably never be big enough to decrease poverty as such. Here, much more labour demand stimulating policies might have an influence. For the policy comparisons between more active and more passive labour market policy this has very clear implications: for certain groups of poor and unemployed passive policies reduce poverty, but produce no further incentives and dynamics. People will still be and stay poor, and even as the mass of poor people will benefit somehow from social transfers, they will not get out of poverty. Put together, this calls for a much more effective and stimulation of labour demand – and thus for a shift to much more effective active labour market policies combined with active industrial policy (e.g. in the agro-processing and SME sectors). In other words, passive policies only go so far. As ameliorating monetary assistance could be administered more easily as a part of the family benefit system, the Labour Agency will only add value if it delivers effective active labour market services, or at least regulates them efficiently.

The more active approach that might have an important influence on the employability of the mass of poor unemployed thru active stimulation of labour demand would need a much stronger, focussed and effectively implemented policy by a reformed Labour Agency. As it stands, the active programs are not visibly affecting poverty among unemployed, as they do not significantly increase employability or mobility in the labour force. To partially reform implementation by introducing wage subsidies, but not changing the way that active policies, might result in a situation where those subsidies will be as poorly administered, seen as part of passive ameliorative policies – and thus fail to deliver the demand stimulus on the labour market.

The Lesson Learned?

Even a solidly mandated and a sufficiently specific reform initiative under PRS implementation are of no help in depoliticising the discussions. The PSIA practitioner therefore must be prepared to find him/herself taking sides – even if that was not part of the mandate in the first place. Even a well-focussed comparative approach will take a lot of time and will be very communication intensive (transaction specificity), and eventually leads to an intricate, long-lasting discussion of institutional capacities vs. political choices – so the PSIA probably needs a clear and communicated exit strategy. In either case, the supported reform should be able to count on continuing assistance to implement whatever came out as valuable advice within the further PRS strategy development.

Post Script, A brief policy letter to the officials would contain:

1. The unemployment assistance program targets only a small fraction of poor unemployed in Armenia. It is designed so as to keep the overwhelming majority – considered self-employed in agriculture, as they own land – out and thus by sheer size and logic can only have very limited poverty reducing effects. At the same time it is a visible source of income for those that receive it. The administration of only passive, mostly pecuniary programs for alleviation of poverty among unemployed hardly justifies a big state agency with 51 offices all over the country.
2. The active (retraining, job placement, counselling) part of labour market policies again is too small and mostly not efficiently operated to have real significance. To have real significance the programs would have to be upgraded to make job placement and retraining an attractive service offered by the same agency.
3. The system with the highest effect on poverty among unemployed is the well targeted and financed Family Benefit System. The FBS is a budget-funded social assistance system that includes unemployment as one scoring factor for eligibility. It has to be mentioned that delivery channels and administration systems are leaving room for misuse, errors of inclusion or exclusion, and even induce corruption. Majority of respondents felt the social assessor should not play a major or even no role in establishing eligibility – criteria should be judged on purely objective grounds.
4. The benefit-for-work program is the best known and most effective labour market program with regard to poverty alleviation (although it must be considered a mixture of passive and active labour market policy: more passive in logic, but still with positive externalities, or better, creating positive social value). It is the one program available to the Labour Agency that could transport labour demand inducing elements:

5. In well-managed and monitored active labour market institutions wage subsidies could play an important role in inducing additional labour demand. Wage subsidies cover part of the labour cost on the side of the employer. It means they increase employability of unemployed, but because they are entail money transfers from the public purse to the private sector, they might create corruption incentives - especially in not developed administrative environments.
6. Even a significant increase in the funding for social policies will not solve the main problem in small ex-industrial towns in Armenia: without growth in income generating employment, all active and passive labour market policies will probably fail to solve the poverty problem. *Labour market policies by definition can only have a limited impact on labour supply, but almost none on labour demand. To address this problem one would have to couple it with industrial policies (e.g. SME development).*
7. So combining the above reasoning with the existence and capacities of the current labour market infrastructure would probably mean: use the family benefit system for administration of pecuniary poverty alleviation programs – as it is well targeted and effective – while at the same time introduce incentives to re-activate those beneficiaries that can work. Thus the scoring and verification systems would be amended as to induce part of the household to *reregister with the Labour Agency for retraining and job placement. The vehicle to implement this could be the benefit-for-work program.*

Christopher T. Mallmann, GTZ Armenia
Yerevan in May 2005

Annexes
List of Contributors