

# How Do Active Labor Market Programs Work in Romania?

The programs offer tangible benefits to specific sub-groups and should be targeted accordingly

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After initial economic contraction in the early 1990s, Romania experienced a second period of economic decline in 1996, which was mainly caused by a lack of enterprise restructuring. The recovery was slow and did not produce significant results until 2000. Since then, the economy has grown at an average of 4-5% per year. Growth was accompanied by the fall in registered unemployment from 11.5% in 1999 to 9% in 2001.

To help the unemployed during the transition period, as early as 1991, the Romanian government adopted passive labor programs, such as unemployment benefits. In addition, in 1997 it launched active labor market programs (ALMPs). Two programs offered on a relatively large national scale were:

- *Public Employment Services* (PES), which offered counseling, job search and placement assistance, and
- *Small-Business Assistance* (SBA), which provided counseling in developing and implementing a business and often included financial assistance.

Since the primary objective of both programs was to get the unemployed workers back into jobs that were, at least implicitly, as good as previous ones, I examine the direct effects of the two programs, that is, workers' reemployment probabilities (in paid or self-employed jobs), and their earnings at the new job. I also determine which population groups these programs work best for, and relate these differences to different institutional set-ups and theoretical explanations.

The evaluation is conducted using rich survey data and matching methods. The analysis is based on a 2002 survey of 2,610 persons who registered at the Employment Bureau during 1999. About two-fifths of the sample was ALMP participants, and the rest were unemployed non-participants who were registered as unemployed around the same time and in the same county as participants. The data allowed us to observe earnings and employment status at least 24 months after the programs had started.

## ALMPs are Superior to Non-Participation

Consistent with recent empirical evidence in developed, transition, and developing countries (see references in Bibliography), the analysis shows that participation in either program was successful in getting the unemployed back to work. Compared to non-participation,

- PES improved participants' economic outcomes in all dimensions. It increased the probability of being employed at the time of the survey by 8.45 percentage points (or 20%) and improved the likelihood of being employed for at least six months during the two-year period 2000-2001 by 6.22 percentage points (or 9%). It also reduced the accumulated number of months participants were unemployed by almost two months (or 17%); and it increased average current monthly earnings by 57,000 lei (or 22%) and average monthly earnings during 2000-2001 by 87,000 lei (or 28%).

• SBA was also quite successful, although not in all dimensions. It increased by 8.38 percentage points (or 12%) the likelihood of being employed for at least six months during the two-year period 2000-2001; and it reduced the accumulated number of months participants were unemployed and receiving unemployment benefit payments by almost 15%. However, SBA did not seem to increase the average monthly earnings of its participants relative to non-participants — perhaps because entrepreneurs are more likely to under-report their earnings than wage and salary workers.

When comparing the relative effectiveness of the two programs, I find that in terms of the accumulated employment effects, PES was superior to SBA. Moreover, SBA participants would have been better off had they participated in PES instead, as PES would have increased their likelihood of being employed for at least 12 months in the period 2000-2001 by 17.02 percentage points (or 25%).

## Targeting Different Groups

The analysis of the suitability of these programs for different population sub-groups (age, region of residence, education, unemployment duration, and gender), as well as the channels through which the programs worked shows that:

- In economies with large informal job-search channels, PES are relatively more effective for workers with little access to those channels — such as young workers, and those living in rural areas.
- In economies with segmented labor markets, SBA programs work better for workers with less access to the primary labor market sector, such as less-qualified workers and those living in rural areas.
- However, if the policy decision is whether to offer PES or SBA to unemployed workers in transition countries, PES are better suited for workers without a high-school degree and SBA programs are more effective for workers with a high-school degree.

## Cost-Effectiveness

A comparison of the costs per client with the economic benefits reveals that the cost per client served was 123,740 lei for PES and 179,150 lei for SBA, while the predicted earnings over the 2000-2001 amounted to an annual sum of 1,047,840 lei for PES, and 4,783,200 lei for SBA. Thus, in both cases, benefits cover by far the cost per client served, indicating that both programs were cost-effective.

Given the small cost differences between the two programs, and benefits of each program for certain sub-groups of the unemployed, the policy recommendation is to target each program to those sub-populations most likely to benefit from participation.

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