

Annex 1.5: Impact of Active Labor Programs: Czech Republic

I. Introduction

Project Description. Many developing countries face the problem of retraining workers when state-owned enterprises are downsized. This is particularly complicated in transition economies that are also characterized by high unemployment and stagnant or declining wages. However, all retraining programs are not created equal. Some are simply disguised severance pay for displaced workers; others are disguised unemployment programs. This makes the case for evaluation of such programs particularly compelling.

Training programs are particularly difficult to evaluate, however, and the Czech evaluation is no exception. Typically, several different programs are instituted to serve different constituencies. There are also many ways of measuring outcomes, including employment, self-employment, monthly earnings, and hourly earnings. More than with other types of evaluations, the magnitude of the impact can be quite time-dependent: very different results can be obtained depending on whether the evaluation is one month, six months, one year, or five years after the intervention.

Highlights of Evaluation. This evaluation quantified the impact of four active labor market programs (ALP) in the Czech Republic using quasi-experimental design methods—matching ALP participants with a similar group of nonparticipants. Both administrative and follow-up survey data were used in an ex post evaluation of a variety of different outcomes: duration of unemployment, likelihood of employment, self-employment, and earnings. Regression analysis is used to estimate the impact of each of the five programs on these outcomes, controlling for baseline demographic characteristics.

Several important lessons were learned from this evaluation. One set of lessons is practical: how to design quite a complex evaluation, how to use administrative data, how to address the problems associated with administering the survey, and the mechanics of creating the matched sample. The second is how to structure an analysis to provide policy-relevant information—made possible by a detailed evaluation of the impact by subgroup. This led to a policy recommendation to target ALP programs to particular types of clients and concluded that one type of ALP is not at all effective in changing either employment or earnings.

II. Research Questions and Evaluation Design

This is part of a broader evaluation of four countries: the Czech Republic, Poland, Hungary, and Turkey. The common context is that each country had high unemployment, partially caused by the downsizing of state-owned enterprises, which had been addressed with passive income support programs, such as unemployment benefits and social assistance. This was combined with the ALPs that are the subject of this evaluation. The five ALPs are Socially Purposeful Jobs (new job creation), Publicly Useful Jobs (short-term public employment), Programs for School Leavers (subsidies for the hiring of recent graduates), Retraining (occupation-specific training lasting a few weeks to several months), and Programs for the Disabled and Disadvantaged. The last is rather small and not included in the evaluation.

There are two research questions. One is to examine whether participants in different ALPs are more successful at reentering the labor market than are nonparticipants and whether this varies across subgroups and with labor market conditions. The second is to determine the cost-effectiveness of each ALP and make suggestions for improvement.

The evaluation is an *ex post*, quasi-experimental design—essentially a matched cohort. The participant group is matched with a constructed nonparticipant group (with information drawn from administrative records) on people who registered with the state employment service but were not selected for the ALP. The fundamental notion is that an individual is selected at random from the ALP participant group. This individual's outcomes are then compared with those for individuals in the nonparticipant group (based on age, gender, education, number of months unemployed, town size, marital status, and last employment type). The evaluation is particularly strong in its detailed analysis of the comparison versus the participant group.

There are inevitably some problems with this approach, and they have been extensively addressed elsewhere (Burtless 1995, and Heckman and Smith 1995). One obvious concern that is endemic to any nonrandomized trial is that participants may have been “creamed” by the training program on the basis of characteristics unobservable to or unmeasured by the researchers. The second major concern is that nonparticipants may have substituted other types of training for public training in the case of the retraining program. The third concern is that subsidies to employ workers may have simply led to the substitution of one set of workers by another.

III. Data

One very interesting component of this evaluation was the use of government administrative data to create the sample frame for the survey.

The team thus visited the Ministry of Labor and Social Affairs (MOLSA) in Prague and three local labor market offices to develop an understanding of both the administration and implementation of ALPs and of the administrative data on ALP participants. From this, 20 districts were chosen for survey, based on criteria of geographic dispersion and variation in industrial characteristics. There was also a broad range of unemployment rates across districts. The survey contained both quantitative questions about the key program outcomes and qualitative questions about the participants' rating of the program.

Another valuable component was the implementation of a pilot survey in four districts. This approach, which is always important, identified not only technical problems but also a legal problem that can often arise with the use of administrative records. This issue is the interpretation of privacy law: in this case, MOLSA did not permit a direct mailing but required that potential respondents give permission to the labor office to allow their addresses to be given out. This delayed the evaluation schedule, increased costs, and dramatically lowered the response rate.

The survey was conducted in early 1997 on a random sample of 24,973 labor office registrants who were contacted. Of these, 9,477 participated in ALP during 1994–95. The response rate for nonparticipants was 14 percent; for participants it was 24.7 percent, resulting in a total number of 4,537 respondents. The dismal response rate was directly attributable to the legal ruling: most people did not respond to the initial request, but among those who did allow their address to be given, the response rate was high. Worse, the resulting bias is unknown.

IV. Econometric Techniques

The difficulty of measuring both the temporal nature and the complexity of labor market outcomes is illustrated by the use of seven different outcome measures: percent currently employed, percent currently self-employed, percent ever employed, length of unemployment, length of receiving unemployment payments, total unemployment payments, and current monthly earnings

The evaluation approach, however, was fairly straightforward in its use of both simple differences across groups and ordinary least squares with group-specific dummies to gauge the impact of the interventions. The overall impact was calculated, followed by estimated impacts by each of the subgroup categories (age, sex, education, and, for earnings outcomes, size of firm). This last analysis was particularly useful because it identified subgroups of individuals for whom, in fact, the impact of the interventions was different, leading to quite different policy implications. Indeed, a major recommendation of the evaluation was that the ALPs be more tightly targeted.

V. Who Carried It Out

The evaluation was part of a four-country cross-country evaluation of active labor programs, with the express motivation of understanding the impact of ALPs under different economic conditions. The evaluation was supervised by a project steering committee, which had representatives from the World Bank, from each of the four countries, from the external financing agencies, and from the technical assistance contractors (Abt Associates and the Upjohn Institute).

The team contracted with a private survey firm to carry out the survey itself—for data quality reasons as well as to reduce the possibility of intimidation if the local labor office were to carry out the survey. It is worth making the point that the credibility of the study could be contaminated if the employment service were responsible for conducting the survey. Indeed, this moral hazard problem is generally an important one if the agency responsible for training is also responsible for collecting information on the outcomes of that training.

VI. Results

The results are typical of evaluations for training programs. Some interventions appear to have some (albeit relatively weak) impacts for some types of workers in some situations. A strong point of the evaluation is that it does identify one program that appears to have wasted money—no impact was shown either overall or for any subgroup. Another strong point is the presentation of the evaluation itself, which is particularly important if the evaluation is to be read by policymakers. Here, tables are provided for each program summarizing the combined benefits in terms of wages and employment, both in aggregate and for each subgroup.

A very negative point is that, despite the initial promise, no cost-benefit analysis was performed. It would have been extremely useful to have the summary benefit information contrasted with the combined explicit and implicit cost of the program. Thus, although, for example, the evaluators found that one program increased the probability of employment across the board, it should be noted that this came at a cost of a nine-month training program. A full calculation of the rate of return of investment would have combined the explicit cost of the program with the opportunity cost of participant time and compared this with the increase in earnings and employment.

VII. Lessons Learned

Several important lessons were learned from this study. First among these are the pragmatic components discussed in the introduction, par-

ticularly the importance of taking the political environment into consideration in designing an evaluation scheme. The inability to convince the employment service of the importance of the evaluation project meant that the survey instrument was severely compromised. Second, the study provides a useful demonstration of the construction of a matched sample. Finally, the evaluation provides a good illustration of the importance of conducting analysis not just in aggregate but also on subgroups, with the resultant possibility of fruitful targeted interventions.

VIII. Sources

Benus, Jacob, Grover Neelima, Jiri Berkovsky, and Jan Rehak. 1998. *Czech Republic: Impact of Active Labor Market Programs*. Cambridge, Mass., and Bethesda, Md.: Abt Associates, May.

Burtless, Gary. 1995. "The Case for Randomized Field Trials in Economic and Policy Research." *Journal of Economic Perspectives* 9 (2): 63–84.

Heckman, James J., and Jeffrey A. Smith. 1995. "Assessing the Case for Social Experiments." *Journal of Economic Perspectives* 9 (2) : 85–110.

Schematic Used for Designing the Czech Active Labor Programs Evaluation

