

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **LABOR SECTOR FRAMEWORK DOCUMENT**

**LABOR MARKETS DIVISION**

**OCTOBER 2016**

This document was prepared by the Labor Markets Division (SCL/LMK) of the Social Sector, under the coordination of Carmen Pagés, Division Chief. The authors are grateful for the valuable input from Santiago Levy (VPS/VPS), Marina Bassi (VPS/VPS), Hector Salazar (SCL/SCL), as well as that from KNL, CID, CSC, EVP, SPD, LEG, EXR, MIF, and IIC.

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## ABBREVIATIONS

ALMP	Active labor market policies
CAF	Andean Development Corporation
CEDEFOP	European Centre for the Development of Vocational Training
ECLAC	Economic Commission for Latin America and the Caribbean.
EU LAC Foundation	European Union - Latin America and the Caribbean Foundation
ILO	International Labour Organization
LIS	Labor intermediation services
MIF	Multilateral Investment Fund
NCP	Noncontributory pension
NEO	New Employment Opportunities
OAS	Organization of American States
OECD	Organisation for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PES	Public employment service(s)
PIAAC	Survey of Adult Skills - OECD
PISA	Program for International Student Assessment
PPP	Public-private partnership
SCL/LMK	Labor Markets Division
SFD	Sector Framework Document
SMEs	Small and medium-sized enterprises
STEP	Survey Skills Measurement – World Bank
WAPES	World Association of Public Employment Services

## **I. THE SECTOR FRAMEWORK DOCUMENT IN THE CONTEXT OF THE CURRENT REGULATIONS AND THE INSTITUTIONAL STRATEGY (2010-2020)**

### **A. The Labor Sector Framework Document as part of existing regulations**

- 1.1 This document replaces the Labor Sector Framework Document (document GN-2741-3) adopted by the Operations Policy Committee on 18 December 2013, in line with the provisions of paragraph 1.20 of “Strategies, Policies, Sector Frameworks, and Guidelines at the IDB” (document GN-2670-1), which establishes that Sector Framework Documents (SFDs) are to be updated every three years, on a rolling basis.
- 1.2 The Labor SFD is one of the 20 SFDs prepared under document GN-2670-1; together they provide a comprehensive vision of the region’s development challenges.

### **B. The Labor Sector Framework Document and the IDB’s Institutional Strategy**

- 1.3 The Labor SFD is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), which recognizes social exclusion and inequality, together with low levels of productivity and innovation, as emerging structural development challenges for the region the Bank needs to address.
- 1.4 This SFD complements the Social Protection and Poverty SFD (to address strategies facilitating exit strategies from social assistance programs by linking beneficiaries to employment services and programs for accessing formal work); the Health and Nutrition SFD (on the design and funding of social security in relation to health); the Education and Early Childhood Development SFD (on the school-to-work transition and development of labor market skills); the Gender and Diversity SFD (on access to work, improved labor productivity, and access to adequate pensions for women, indigenous and Afro-descendant people); the Citizen Security and Justice SFD (on access to formal work for young people at risk of violence, and labor market reintegration for inmates); the Support to SMEs and Financial Access/Supervision SFD (on support to SME productivity through training for business managers and workers); the Fiscal Policy and Management SFD (on sustainable financing of social security, and development of taxation conducive to formal employment); and the Integration and Trade SFD and Innovation, Science, and Technology SFD (on promotion of economic diversification and productivity). This SFD is also related to the Bank’s five sector strategies, in particular the Strategy on Social Policy for Equity and Productivity (document GN-2588-4).

## **II. INTERNATIONAL EVIDENCE ON THE EFFECTIVENESS OF LABOR POLICIES AND IMPLICATIONS FOR THE BANK’S WORK**

- 2.1 **Rapid economic and technological changes are profoundly changing labor supply and demand**, causing frequent switches between jobs, occupations, and labor sectors and status. These changes bring with them huge potential in terms of developing new goods and services, and new opportunities for employment and wealth creation. However, they can also lead to loss of income, periods of unemployment and informality, and social exclusion. Thus, for example, globalization of the production of goods and, more recently, services may yield significant gains in terms of productivity and growth (Pagés, 2010) but, at the same

time, the significant costs this may have for workers directly impacted by the relocation of jobs and competition from imports are becoming increasingly evident (Autor et al., 2014; Acemoglu et al., 2016 and for the region Haltiwanger et al., 2004 and Menezes-Filho and Muendler, 2011). Similarly, the technological revolution associated with the rapid development of artificial intelligence, robotics, genetics, 3D printing, and nanotechnology is an essential factor in achieving productivity gains supporting higher levels of development in the region. However, faster paced technological change associated with automating production may shrink demand for workers performing routine tasks that can increasingly be replaced by technology (Autor, Levy and Murnane, 2003; Autor et al., 2016; Brynjolfsson and McAfee, 2015; Benedict and Osborne, 2013). The emergence of new technologies also presents other challenges in the labor market associated with the development of the sharing economy, the spread of freelancing, and the potential weakening of working conditions associated with these trends. If these issues are not addressed, they may have significant costs for workers, their families, and the communities affected, while undermining countries' stability and growth potential.

2.2 Achieving societies that are both prosperous and inclusive means tackling these challenges and, at the same time, overcoming the region's structural gaps in terms of low productivity, inequity, and high informality. The region therefore needs effective interventions (policies, systems, and/or programs). The range of possible interventions includes macroeconomic policies (e.g., policies to stimulate aggregate demand), productive development policies (e.g., policies to promote innovation or the development of particular industries), and labor and social security policies promoting successful career paths for all workers over the course of their working lives, including retirement, thereby contributing to productivity and equity. This sector framework recognizes the importance of the first two groups of policies, and the need for close coordination between the different types of response, but focuses particularly on labor and social security policies directly supporting workers. Beyond providing a safety net, or bringing workers into the formal economy, they support and promote workers' success over the course of their working lives and through their various transitions (IDB-WAPES-OECD, 2016; Alaimo, Bosch, Kaplan, Pagés and Ripani, 2015).

2.3 **Workers have a better chance of a successful career path if they get off to a good start** in a formal job (i.e. protected by the social security system and employment law) and if their skills match job vacancies.<sup>1,2</sup> A positive outcome is also more likely if they have been trained in areas where there are job opportunities, have acquired learning valued by employers, and if mechanisms are available to allow them to join the labor market quickly and effectively. Also, policies should foster—or

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<sup>1</sup> This document follows the convention of defining workers as being in formal employment if they are in the social security system, i.e. workers are deemed to be in formal employment if they and their employers (where applicable) are registered with the social security system and make the relevant contributions. Informal workers may be legally informal, because they are not required by law to pay contributions, or illegally informal, because they are legally required to contribute but they and/or their employers (where applicable) do not. Who is legally obligated to contribute, based on occupational category, varies from country to country.

<sup>2</sup> Although it should also be borne in mind that many young people who are not sure of their preferences as to the type of work they are looking for tend to try out various types of work before finding their place in the labor market.

at least not inhibit—the creation of formal work, and once people are in work, they should continue to receive training and learn in the workplace.<sup>3</sup> Similarly, a successful career will be more likely if there are tools and protection to help workers return to work effectively if they want to or have to look for another job. Finally, workers will have more opportunities for successful careers if they have the benefits of social security throughout their working lives, regardless of their occupation or their occupational category, and if at the end of their working lives they are able to obtain a pension that adequately replaces their employment income (see Figure 1).

- 2.4 The analysis that follows is structured around three lines of action: (i) increasing workers' opportunities to access formal employment and ensuring equality of opportunities;<sup>4</sup> (ii) raising workers' productivity and, consequently, that of companies; and (iii) increasing coverage against the risk of poverty in old age and illness, in a sustainable way consistent with the creation of formal employment.
- 2.5 Interventions in these three areas complement and support each other. Interventions that expand access and provide equal access to formal work provide greater coverage against risks. Similarly, many of the interventions promoting access to formal employment also boost the productivity of both workers and the economy.<sup>5</sup> Additionally, better designed social security can reduce disincentives for the creation of formal employment and, therefore, improve access to it. Finally, labor productivity gains support the sustainability and coverage of social security systems and are necessary to deal with the aging of the population (Alaimo et al., 2015; Bosch, Melguizo and Pagés, 2013; IDB, 2016a).
- 2.6 What is known and not known about achieving successful career paths based on evaluations and rigorous measurements is set out below. Efforts to expand the stock of quality evaluations must be continued in order to achieve an impact.
- A. Ensuring workers have more, and more equitable, opportunities to access formal employment**
- 2.7 **For careers to get off to a good start, curricula need to be linked to the needs of the productive sector.** Generally speaking, evidence from developed countries shows that those with education systems linked to the labor market, where there is more emphasis on technical education and where a portion of education unfolds in the workplace, show better results in terms of youth employment (Ryan, 2001; Hanushek, Woessmann and Zhang, 2011; Eichhorst, Rodríguez-Planas, Schmid and Zimmermann, 2012; Eichhorst, 2015) than those countries where education is more general and/or disconnected from the labor market. Links with the labor market can exist in the context of education with a marked vocational emphasis, as well as in general education. The evaluation of the Career Academies program in the United States (Kemple 1996, 2000, 2008) highlights the positive effect on youth employment of combining vocational components with general secondary education, supplemented by providing career guidance and establishing strong links

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<sup>3</sup> As this boosts productivity of both workers and companies, as well as their capacity to confront technological change and international competition.

<sup>4</sup> In the sense of having access to social security, irrespective of whether the individual is a wage earner or not.

<sup>5</sup> For example, labor intermediation policies promote closer matching of workers to the requirements of a vacancy and a better allocation of resources, which in turn translates into higher productivity in the job and in the economy.

- between training institutions and the productive sector. These links are particularly important for technical education. The evidence shows that the effectiveness of technical education depends very directly on linking training to demand for labor, and the returns largely depend on graduates' capacity to find work in the occupation for which they trained (Neuman and Ziderman, 1999; Eichhorst et al., 2012).
- 2.8 **Bearing in mind the differences in students' skills and characteristics, the average return on technical education is similar to that from humanistic education, and job placement rates are higher.** However, returns do vary significantly by branch of study. In Latin America and the Caribbean several studies in Chile and Colombia found that, depending on the branch of study, returns on technical education may be higher or lower than those of humanistic education (Bucarey, Alonso and Urzúa, 2013; González-Velosa, Rucci, Sarzosa and Urzúa, 2015). Another study in Brazil found similar results (Almeida, Amaral and De Felicio, 2015).<sup>6</sup> The authors also report heterogeneous results depending on the level of educational attainment, with average wages being higher in secondary technical education than in general education, and wage parity at the tertiary level. There are also better results in terms of employment for secondary technical school graduates compared to graduates of general education.
- 2.9 **Dual technical education can be a good mechanism for building links.** Dual technical education programs (dual education apprenticeship programs) are structured learning programs in secondary education that aim to develop a series of general and specific skills for an occupation, based on a combination of classroom instruction and work experience, with skills being certified and recognized by industry. The evidence, which is available just for developed countries, suggests that countries with this kind of program (primarily Austria, Germany, and Switzerland) have lower rates and shorter durations of youth unemployment (Quintini and Manfredi, 2009; Quintini, Martin and Martin, 2007). Comparing dual education programs with other types of technical education finds they achieve better job placement results (Winkelmann, 1996). Positive impacts on innovation have also been found (Rupietta and Backes-Gellner, 2015).
- 2.10 **Apprenticeship programs may be a good passport to better jobs for young people outside the school system.** Some countries (such as Australia, Canada, New Zealand, the United Kingdom, or the United States) have developed apprenticeship programs as a way of promoting structured learning of an occupation for individuals who are already outside of the school system. These programs have been shown to facilitate access to more stable and better paid jobs compared to other programs with less exposure to on-the-job training (Reed, Yung-Hsu, Kleinman, Mastri, Reed, Sattar and Ziegler, 2012; Ryan, 2001), shortening the period of unemployment before obtaining their first job (Ryan, 1998; Bonnal, Mendel and Sofer, 2002) and improving earnings (Eichhorst, 2015). Apprenticeship programs not only improve occupation-specific skills but also soft or socio-emotional skills (Rose, 2004; Halpern, 2009). These programs' cost-benefit analyses are broadly positive, even in the most pessimistic scenarios (Lerman, 2013, 2014), for both workers and employers.

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<sup>6</sup> This study, however, does not take into account the potential differences in students' skills.



- 2.11 **Labor intermediation services (LIS) play a central role in providing young people, and job seekers in general, with the tools they need to find work effectively.** Labor intermediation services aim to help people find better jobs and companies to find the right talent. They therefore usually perform a combination of the following five basic functions: (i) labor intermediation; (ii) supplying labor market information; (iii) designing and implementing active labor market policies (ALMP); (iv) managing unemployment benefits; and (v) managing labor migration (IDB-WAPES-OECD, 2016). LIS need to be understood as a system that encompasses public employment services (PES), private intermediation services (such as private employment exchanges or temporary placement agencies), and civil society organizations that forge linkages (ILO, 2012b).
- 2.12 **The international literature indicates that for them to perform their role, LIS must be able to:** (i) provide a good labor market information system, generating timely and relevant information to facilitate decision-making by labor market agents (employers, job seekers, students, workers, private employment agencies, and government agencies); (ii) improve, diversify, and integrate the range of services offered to job seekers and employers (IDB-WAPES-OECD, 2016; Alaimo et al., 2015; OECD, 2015a), by developing profiling systems, which are an essential tool for providing services and making rational use of resources. They must also be able to establish and maintain links with employers, who provide the vacancies available for job seekers to fill; and (iii) strengthen the management system, seeking to ensure that service delivery is tailored to local conditions and needs without loss of quality or performance in the system (Andersen, Feiler and Schulz, 2015; OECD, 2015a; Martin, 2011; European Commission, 2015, 2014; Loxha and Morgandi, 2014; Hasluck, 2008; Rosholm, Staghøj, Svarer and Hammer, 2006; Fahr and Sunde, 2006; Lipp, 2005; Larsen and Vesan, 2012; Behncke, Frölich and Lechner, 2007; ECLAC/ILO, 2014). The literature also offers additional evidence about what works and what does not for the main ALMP implemented by LISs. This is summarized below.
- 2.13 **Labor intermediation is a cost-effective intervention linking workers to jobs.** A meta-analysis of training program impact assessments, primarily from developed countries (Card, Kluve and Weber, 2015, 2010), found labor intermediation programs to be very cost-effective. For the region, an evaluation in Mexico shows labor intermediation to help the unemployed find jobs with higher incomes than those using other search mechanisms, although this impact was only found in the case of men (Flores Lima, 2010). Another study found labor intermediation to have positive impacts on the probability of finding formal work in Colombia (Pignatti, 2016). The available evidence for developed countries also suggests that the gains for beneficiaries—relative to informal means of job search—could be greater for workers with weaker prospects in the job market (Van den Berg and Van der Klaauw, 2006; Dolton and O’Neill, 1996). Labor intermediation is more effective: (i) in periods and areas where more vacancies arise (Crépon Duflo, Gurgand, Rathelot and Zamora, 2012; Flores Lima, Zamora and Contreras, 2013); and (ii) when it has a strong company focus, designating specialized personnel to work with companies and identify vacancies (Behncke et al., 2007). Labor intermediation shortens the duration of unemployment and increases the rate of rehiring (Michaelides, 2013; Vikström, Rosholm and Svarer, 2011; Hågglund, 2011; Graversen and Van Ours, 2008; Black, Smith, Berger and Noel, 2003).

- 2.14 **In some cases labor intermediation is not sufficient for effective placement and additional policies and tools are needed to enable groups with higher barriers to labor market access to join the workforce.** Labor intermediation is part of a broader group of policies, termed active labor market policies, which aim to achieve effective job placement for the unemployed or hard-to-employ vulnerable persons. The latter include young people who are at a disadvantage because they dropped out of the educational system or left without having acquired the skills employers need, women who have spent a long time out of the labor market, the poor and, in some cases, beneficiaries of social protection programs, older adults, people with disabilities, ex convicts seeking to rejoin the labor market, people living in areas in which violence is rife, or who suffer job discrimination on account of their gender, race, ethnicity or other personal characteristics.
- 2.15 **For efficient job placement, interventions need to be adapted to beneficiaries' needs.** Different individuals face different obstacles to joining the workforce. These obstacles may derive from a lack of information about the labor market, such as information about labor market conditions, careers, vacancies or job-hunting strategies. Alternatively, they may derive from a lack of experience in formal work, or a lack of knowledge (mathematics or language), occupational, or soft skills. Other barriers may also arise in the case of reduced capacity for work due to health problems or disability, problems of addiction or mental illness, or difficulty reconciling work and/or training with caring for children or older adults, which is particularly significant among women (Todd, 2013), or discrimination by employers. Some population groups face certain types of obstacles to workforce integration more frequently. In this context, it is essential to correctly diagnose the obstacles people face, select interventions based on this diagnostic assessment, and/or refer people to appropriate labor intermediation services and/or other services within the social safety net or education system.
- 2.16 **Active labor market policies are more effective for women and the long-term unemployed and less effective for older adults and young people. However, there are signs that some types of ALMP are more effective at supporting job placement for certain beneficiary types.** Meta-analysis of ALMPs internationally has shown “work-first” programs, such as intensive job search help through counseling and personalized action plans, tend to be more successful for groups with bigger disadvantages when it comes to job placement and with a high risk of becoming long-term unemployed. “Train first” programs, such as training programs and employment subsidies in the private sector, tend to work better for the long-term unemployed (or people with repeated episodes of unemployment after short spells in work) and for women. The time profile of the impacts also varies according to the type of ALMP. “Work-first” programs have a bigger impact in the short term (less than one year after the end of the program), while “train-first” programs have less of an impact in the short term (and in some cases the impact is even negative) but a bigger impact in the medium (1-2 years) and long term (2+ years). In general, programs have a bigger impact in periods of slow economic growth and high levels of unemployment (Card et al., 2015, 2010).
- 2.17 **In Latin America and the Caribbean, training programs for job placement aimed at young people have had more positive results.** Impact evaluations in the region show more promising results for the job placement of young people, particularly in terms of access to formal work, and the effects are maintained in the long run

(Ibarrarán, Kluve, Ripani and Rosas-Shady, 2015; Attanasio, Meguir and Otero, 2015; Kugler, Kugler, Saavedra and Herrera, 2015; Díaz and Rosas-Shady, 2016). One possible explanation is that most of the programs evaluated in the region have incorporated some of the elements the literature considers successful: participation of private suppliers, demand driven, a significant guidance and/or labor intermediation component, a strong emphasis on on-the-job training, and financial incentives for employers (subsidies during the on-the-job training phase) and beneficiaries (grants to facilitate participation) (Fares and Puerto, 2009; González-Velosa, Ripani and Rosas-Shady, 2012; Urzúa and Puentes, 2010; Hotz, Ahituv and Tienda, 2000; MIF, 2012; ILO, 2016b; Berniell and de la Mata, 2016). Other elements the international literature suggests are necessary to enhance the effectiveness of these programs include: (i) ensuring the quality of both classroom and on-the-job training, for example, through periodic accreditation processes for training institutions and on-the-job instructors, and/or monitoring graduates' performance in the labor market; (ii) incorporating modules for developing socio-emotional skills, such as self-esteem, perseverance, self-control, motivation, responsibility, and commitment (Heckman and Kautz, 2012; OECD, 2015b);<sup>7</sup> and (iii) integrating training programs for vulnerable groups into the wider lifelong training system (see Section II.B). Meta-analysis for the region also indicates that training programs tend to yield better results when they last for longer than four months and when they take place during periods of rapid economic growth and low levels of unemployment (Card et al., 2015).<sup>8</sup>

- 2.18 **Relatively little is yet known about how to improve job placement among the poorest adult population, with limited human and physical capital.** People with the lowest earning capacity tend to be self-employed.<sup>9</sup> The evidence shows that programs to stimulate self-employment can boost income generation for highly vulnerable workers who were unemployed or inactive before the intervention (de Mel, McKenzie and Woodruff, 2012; Martínez, Puentes and Ruiz-Tagle, 2013). One study found that in very poor countries, and for highly vulnerable persons, interventions based on facilitating access to capital may offer bigger returns than those providing training (Blattman and Ralston, 2015), although the study covers countries with a lower level of development than the Latin American and Caribbean region. It is therefore necessary to continue investing in evaluating the impact and cost-effectiveness of interventions in these areas. However, it is also worth bearing in mind that as countries develop, the rate of self-employment tends to drop. Therefore, although these programs may be desirable in the short term, over the

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<sup>7</sup> The importance of programs that aim to strengthen young people's socio-emotional skills is increasingly being recognized (González-Velosa et al., 2012; Heckman and Holz, 1986). Various studies have found the socio-emotional skills associated with self-esteem, perseverance, and self-control (Cunha, Heckman and Schennach, 2010; Carneiro and Heckman, 2003; Heckman, Stixrud and Urzúa, 2006), and those relating to motivation, responsibility, and commitment (Bassi et al., 2012, and World Bank, 2011) to have a significant impact on employment, educational, and social outcomes. Unlike cognitive skills, which are established at an early age, socio-emotional skills are still malleable at more advanced ages, which suggests a greater return on investments in noncognitive skills among young people (Carneiro and Heckman, 2003; Heckman, 2000). Despite their importance, relatively little is yet known about the best way of transmitting them.

<sup>8</sup> These latter results also refer to the population at large (Card et al., 2015).

<sup>9</sup> The percentages of workers who are self-employed from among those without primary education, having completed primary education, having completed secondary education, and with further education are: 35,5%, 25%, 21% and 15%, respectively.

long run development will mean that some of the self-employed will become wage earners.

- 2.19 **Active employment policies should also be complemented by income support policies for the unemployed to help smooth the loss of consumption and facilitate their return to the labor market.** An involuntary job loss is often a traumatic event leading to a loss of income in the short term, with other potential consequences over the long term. The evidence from developed countries suggests that effective income-support policies for the unemployed make it possible to smooth the loss of consumption (Gruber, 1997; Jacobson et al., 1993) and achieve a more effective job search, improving workforce integration (Tatsiramos, 2009).<sup>10</sup>
- 2.20 **All income protection mechanisms for the unemployed need to be considered together in a comprehensive way.** There are at least four mechanisms to protect workers' income during periods of unemployment: (i) severance pay; (ii) individual unemployment savings accounts; (iii) unemployment insurance; and (iv) temporary work programs. These mechanisms are often analyzed and revised separately, but well-designed unemployment protection needs to consider them together in an integrated manner (Blanchard and Tirole, 2008).
- 2.21 **Historically, severance pay is partly a response to the State's inability to administer unemployment insurance.** Severance pay is useful at protecting formal workers' income against the loss of their job (Maclsaac and Rama, 2001; Kugler, 2002). However, it has a number of design problems: (i) funding severance pay out of current cash flow is a challenge for small employers; (ii) many dismissals end up in court, leading to uncertainty over the size and timing of the payment; (iii) severance pay is paid as a lump sum, so individuals may use up their funds before they find work; and (iv) it often is difficult to collect compensation if the company goes bankrupt. Establishing an individual unemployment savings account where employers and employees make monthly deposits to cover unemployment, and simplifying the law to reduce the recourse to the courts, may help resolve some of these issues (Alaimo et al., 2015). As States improve their management and administration capabilities, countries can consider creating unemployment insurance while simultaneously revising legislation on severance pay.<sup>11</sup>

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<sup>10</sup> International experience suggests that the right combination of instruments to support lost income during unemployment and activation measures are of particular importance in the case of displaced workers, i.e. those who have been employed for one year or more and are dismissed for economic reasons, such as plant closures, business crises, or changes in technology. Recent evidence suggests that a factor in success is early activation, providing support to facilitate workers' return to work preferably as soon as they are given notice of their dismissal. It is therefore important that the design of income protection instruments, particularly severance pay and unemployment insurance, incorporate measures to encourage an immediate job search. In Germany, for example, workers have to register with the public employment service as soon as they are notified of dismissal. In Sweden, workers need to prove that they have been looking for work between the dismissal notice and the first interview with the public employment service in order to qualify for benefits. Workers in Canada can access part of their severance pay or unemployment insurance before their period of unemployment starts so they can invest in training activities (OECD 2015A, 2015B).

<sup>11</sup> In this context, Article 22 of the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) envisages revisions of severance pay when workers are covered by unemployment insurance, and vice versa. See: ILO (1988). Employment Promotion and Protection against Unemployment Convention. ILO, Geneva.

- 2.22 **Unemployment insurance should be designed to be properly linked to active employment policies to ensure it does not deter people from seeking work.** High replacement rates and, above all, long unemployment insurance benefit periods can reduce the intensity of job searches and thus lengthen unemployment (Lalive, Van Ours and Zweimüller, 2006; Caliendo, Tatsiramos and Uhlenhoff, 2009; Filges, Geerdsen, Knudsen, Jorgensen and Kowalski, 2013, among others, for developed countries; and Amarante, Manacorda, Vigorito and Zerpa, 2011; González-Rosada, Ronconi and Ruffo, 2011; Huneus, Leiva and Micco, 2012 for Latin America and the Caribbean). The literature for developed countries shows that unemployment insurance works better when it is linked to labor intermediation systems and incentives to lower barriers to employment, with more rigorous job-search demands after a certain period has expired, and when accompanied by institutional reforms to improve the execution capacity of active labor market policies (ILO, 2013b; OECD, 2013). Disincentives to looking for work may be curbed if a system of decreasing unemployment payments is implemented and payment duration is limited (Hopenhayn and Nicolini, 1997). Unemployment insurance has advantages and drawbacks relative to individual unemployment savings accounts that each country needs to weigh up, as neither system is inherently more efficient than the other (Robalino, 2014).<sup>12</sup>
- 2.23 **Temporary employment programs can also provide income support for the unemployed, particularly the most vulnerable.** They are usually aimed at informal workers who often find it quite difficult to provide (documentary) evidence that they are unemployed. These systems operate based on a self-selection mechanism, by paying rates below the minimum wage, and being contingent on the workers' contributing some work during the benefit payment period, which usually lasts from three to six months. The evidence, both for developed countries and in the region, suggests that these programs are effective at supporting income, but do not improve workers' employability at the end of the intervention. In some cases, negative impacts have been reported, associated with the stigma of being on the program, meaning that they work better as a consumption smoothing mechanism than as a job placement mechanism (Gasparini, Haimovich and Olivieri, 2007; Hernani, Villegas and Yáñez, 2011; Kluve, 2006; Ninno, Subbarao and Milazzo, 2009).<sup>13</sup>
- 2.24 **Recently there have been arrangements to compensate workers for the temporary loss of income resulting from a reduction in working hours due to the crisis.** Programs of this kind were used in Europe during the crisis, and more recently in Mexico and Brazil. They are attractive because they help maintain formal employment during recessions, but need to be designed carefully to avoid creating barriers to the reallocation of workers to more productive employment (Cahuc, 2014).
- 2.25 **Protecting unemployed workers' income is a huge challenge in economies with high levels of informality and turnover.** Adopting the protection measures established in developed countries, without tailoring them to the characteristics of

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<sup>12</sup> The advantage of individual unemployment savings accounts is that being the individual's own resources they do not cause disincentives to looking for work; the drawback is that they are based on the individual's own savings so do not allow risks to be spread between beneficiaries.

<sup>13</sup> For example, "Plan Trabajar" in Argentina or "Plan Nacional de Empleo de Emergencia" in Bolivia.

developing countries and the specific features of each country may leave a large portion of the population without coverage, only protecting workers in formal jobs with a certain degree of job stability.<sup>14</sup> Therefore, without discouraging efforts to implement unemployment insurance or improving the design of severance pay, the role of ALMP as an essential pillar deserves to be highlighted, but it is not enough by itself. In principle, ALMP allow universal coverage to be offered by supporting all job seekers regardless of prior job type or employment situation (Alaimo et al., 2015). Another option to consider are employment training programs, which also provide economic support.<sup>15</sup> Moreover, it is important to link workers facing a permanent decline in demand for employment (due to contracting or disappearing occupations and sectors) to training programs enabling them to develop new skills for which there is more market demand or, if they have significant cognitive deficits or are close to retirement, to link them to social protection programs providing income support.

2.26 **Lastly, ensuring wider and more equal access to formal employment also involves balancing employment regulations' goals of protection and job creation in the formal sector.** The objective of labor regulations is to protect workers against the risks of old age, illness, or unemployment, and to establish dignified working conditions (benefits and guarantees) that act as a counterweight to excessive power of employers. However, these objectives must be properly balanced with job creation, given that these imperatives, particularly when very demanding, can have an adverse impact on formal job creation (see Section II.C). Another argument for this balance is that the larger the segment of the population in the formal sector of the economy, the larger the share of workers who will enjoy the protection established by these regulations. The costs and benefits of these measures therefore need to be analyzed country by country and, if they are found to have contraindicated effects, other complementary measures need to be added to the toolkit to stimulate, or at least not discourage, the growth of formal employment.

## **B. Boosting the productivity of workers (and companies) by extending the workforce's access to life-long training**

2.27 **A qualified workforce and the mechanisms with which to continuously update its skills are essential drivers of productivity growth.**<sup>16</sup> The international literature shows that, along with innovation, the level of competition, and the incentives for companies, the workforce's stock of skills is one of the main determinants of productivity (OECD, 1994, 2011; Hanushek and Woessmann, 2008; Pagés, 2010; Bassi, Rucci and Urzúa, 2014). A more highly skilled workforce also stimulates productivity indirectly by encouraging innovation,

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<sup>14</sup> In most countries a minimum level of social security contributions in recent years is required in order to qualify for benefits. Severance pay is also proportional to length of employment. Moreover, the existence of a large informal sector may make it easier for workers receiving unemployment insurance to also work in the informal sector. This is minimized if people have to look for work to qualify for unemployment insurance. The design of unemployment insurance may factor this in by adjusting the amount according to the possibility of generating income in the informal sector, while at the same time ensuring that the worker has sufficient income to look for work effectively.

<sup>15</sup> Given that beneficiaries have to use some of their time participating in this program, these programs automatically focus on individuals who do not yet have a job or want to find a better one (Alaimo et al., 2015).

<sup>16</sup> Skills are defined as individuals' ability to successfully complete a series of tasks (Gambin, Green and Hogarth, 2009).

technology adoption, and better business management. There is a two-way relationship between skills, innovation, and management capacity, due to the fact that innovation and the development of managerial capabilities tend to stimulate demand for workers' skills (Bauernschuster, Falck and Heblich, 2009; Dostie, 2014b; Backes-Gellner, Kluike, Pull and Teuber, 2016).

- 2.28 **Rapid technological change continuously generates new demands for skills.** To achieve a good pool of knowledge and skills, not only is the education people receive before entering the labor market important, so too is a vocational training system important (secondary and higher technical education, university, and formal and informal training), as it allows people to update and enhance their skills throughout their working lives (Bassi et al., 2014; Ricart, Morán and Kappaz, 2014; ILO, 2010). A lifelong training strategy promotes people's employability over their working lives and ensures effective use and further development of new technologies. This is particularly important in light of rapid technological change and longer working lives resulting from increased life expectancy.
- 2.29 **Businesses' investments in their human resources have a direct effect on the productivity of workers and companies.** The literature for developed countries shows that investment in human capital by employers (whether directly in the workplace or in the classroom) boosts both workers' and companies' productivity (Bassanini, Booth, Brunello, de Paola and Leuven, 2005; Percival, Cozzarin and Formanek, 2013; Colombo and Stanca, 2014; Dostie, 2014a, 2014b; Konings and Vanormelingen, 2015).<sup>17</sup> The best study to date from a methodological standpoint found that participation in a training program raises workers' productivity by 10 percentage points and also has positive externalities on the productivity of other workers not directly participating (De Griep and Sauermann, 2012). For Latin America and the Caribbean there is also some evidence suggesting that companies' investments in human capital are associated with productivity gains, although the effects could be bigger in large corporations (Tan and López Acevedo, 2005, 2003; González-Velosa, Flores and Rosas-Shady, 2014).
- 2.30 **A series of market failures, a priori, justify interventions to increase the workforce's set of skills.** The lack of access to credit and/or resources, or to information on the returns on human capital for companies and/or workers, may limit investments in human capital. Another disincentive arises from the risk companies face of workers leaving after they have invested in their human capital.<sup>18</sup> A priori, these market failures justify the State's intervention to promote greater investment in human capital (Bassanini et al., 2005; Bassi et al., 2014). However, it is necessary to ensure that the State has the capacity to intervene in this area effectively (Crespi, Fernandez-Arias and Stein, 2014). Moreover, given the interrelationship between economic development and skills demand, skills development strategies need to be considered within a broader strategic framework for productive development.
- 2.31 **Training policies can also play an important role in addressing coordination failures in the development of strategic sectors or territorial development when**

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<sup>17</sup> There is little solid evidence on the existence of differential impacts of training by groups of workers and/or companies.

<sup>18</sup> The fact that employers cannot recoup the cost of their investment by paying lower salaries also compounds the problem, and this is a particular issue in the case of general training, which is recognized and valued by other employers.

- they are linked to development strategies.** Recent studies show the importance of know-how for countries' capacity to diversify and produce ever more complex goods, and demonstrate that this know-how is generated from experience with production processes (Hausmann and Hidalgo, 2011). In turn, more and more countries are recognizing the strategic role of policies to develop (certain) skills in facilitating the implementation of economic development policies (Almeida, Arbelaez, Honorati, Kuddo, Lohmann, Ovadiya, Pop, Sanchez Puerta and Weber, 2012; Bassi et al., 2014; OECD-United Nations-CAF, 2014). Experience such as that of South Korea, Singapore, and Ireland demonstrates that when an economic development strategy is associated with a skills strategy, and the alignment of training systems with these priorities is promoted, it is possible to build up a pool of qualified workers able to meet production-related demand, which in turn may attract more investment and facilitate diversification of the economy. The analyses reporting these cases agree that some of the key features of these success stories are: (i) a long-term view of how the country aims to differentiate itself on the global stage; (ii) very close collaboration with the productive sector to identify, understand, and meet its present and future requirements; (iii) coordinated actions between different public sector agencies in charge of skills development; and (iv) life-long skills development interventions (Campbell, 2012; Van Breugel, 2012).
- 2.32 **In the absence of State interventions, human capital investments in adults are concentrated on the most qualified workers.** There is abundant international evidence that companies' investments in human capital favor workers with higher levels of formal education (Bassanini et al., 2005; Huneelus, de Mendoza and Rucci, 2013; González-Velosa et al., 2014). Companies' human capital investments therefore widen rather than close the skills gap that exists when workers join the labor market.
- 2.33 **To alleviate market failures and problems of inequity, vocational training systems producing good results perform four functions successfully.** Research about what works in this area is still in the early stages, and impact evaluations remain scarce. However, analysis of vocational training systems in a series of developed countries<sup>19</sup> recognized for having good systems shows that, beyond promoting isolated programs, life-long training systems need to be established that can fulfill four basic functions: (i) identifying the productive sector's skills requirements and how well they are met by the training system; (ii) successfully translating employers' skills requirements (expressed in terms of competency standards) into curricula implemented based on these standards and enabling them to be achieved; (iii) ensuring the quality of the system on all levels; and (iv) managing financial resources effectively, focusing on alleviating market failures and inequities (Fieldsend, 2016, Van Breugel, 2012).
- 2.34 **Countries that successfully identify employers' skills requirements:** (i) collect and broadly disseminate various types of information about present and future skills demand based on a combination of data ranging from vacancy announcements, company surveys, or quantitative predictive models; (ii) develop mechanisms permitting a broad spectrum of employers to express their skills requirements and

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<sup>19</sup> The countries included in the study were: Australia, Germany, Korea, New Zealand, Switzerland, and the United Kingdom.



- have these requirements reflected in competency standards; and (iii) evaluate employers' satisfaction with how their skills requirements are incorporated and with the results of this process (Fieldsend, 2016; CEDEFOP, 2009a, 2009b; González-Velosa and Rucci, 2016).
- 2.35 **Countries that lead in the development of curricula enabling people to attain the competencies the market requires** provide a variety of learning options (on-the-job, in the classroom, long courses, short modular courses) so people can attain the knowledge, attitudes, and conducts identified. They also bring all the training options together in a single qualifications framework, establishing clear paths for progression between levels of qualification, including academic and vocational routes, and with training both prior to joining the labor market and over the worker's lifetime. They also provide mechanisms for the recognition and certification of skills acquired informally in the workplace (Fieldsend, 2016).
- 2.36 As regards quality assurance, a comparative analysis of countries shows that vocational training systems work better when they incorporate the pursuit of quality on all levels: qualifications, institutions, instructors, instruction in the workplace (apprenticeship and training programs), evaluation, accreditation and certification, and when the results are measured in terms of learning and performance in the labor market (Fieldsend, 2016).
- 2.37 **Finally, many countries have put in place incentives to encourage training of active workers.** These incentives are aimed at workers and/or companies. In the case of incentives for workers, interventions center on making training more affordable by subsidizing all or part of the cost of the training offered, or by giving workers vouchers they can use to obtain a discount on the cost of training at the center of their choice. In the case of companies, the incentives are aimed at promoting investments in workers' training, via tax exemptions, competitive grants, or subsidies. Some countries outside the region have also implemented systems whereby companies have to demonstrate that they have spent a certain amount on training or pay this amount to the State ("train or pay"), or as in most Latin American and Caribbean countries, by charging a mandatory contribution on payroll to finance national training institutes. The analysis of the various countries shows that financing mechanisms yield better results when they respond to a broad strategy of skills development guided by a logic of market failures and/or equity promotion. This is also the case when at least some of the funding is given when predefined results are achieved, and employers and workers are given incentives to invest or co-invest in human capital (Fieldsend, 2016; Huneus et al., 2013).
- 2.38 **Training's impact on productivity may be further amplified if it is delivered in the framework of a strategy for organizational improvements.** Training managers may promote better decision-making (including how to make companies' processes more efficient, what areas need to be strengthened, what types of actions to support in order to foster innovation, and how to manage human resources better) (Dipietro, 2006; Gambin, Green and Hogarth, 2009; Bruhn, Karlan and Schoar, 2013). Training of managers can benefit SMEs in particular, although it occurs more frequently in large corporations (Bruhn, Karlan and Schoar, 2010; Sharma, 2014). Programs promoting technical assistance to perform a comprehensive diagnostic assessment of the companies' needs and training SME managers have shown significant effects on companies' productivity in Mexico (Tan and López Acevedo,

2005; Bruhn et al., 2013), India (Bloom, Eifert, Mahajan, McKenzie and Roberts, 2013) and Ghana (Mano, Iddrisu, Yutaka and Sonobe, 2011).

2.39 **Programs to improve productivity and income generation for highly vulnerable workers.** The people with the lowest earning capacity tend to be self-employed.<sup>20</sup> Very recent evidence for Peru suggests that there are opportunities to improve income generation for vulnerable individuals (particularly women) who are self-employed by offering intensive training and technical assistance to strengthen their business capacity (Valdivia, 2015). These results differ from those found by previous studies in various countries that, in general, did not find business training programs to have a positive effect on earnings (Berge, Bjorvatn and Tungodden, 2012; Gine and Mansuri, 2014; de Mel, McKenzie and Woodruff, 2014; Karlan and Valdivia, 2011). The differences may be explained by the greater intensity of the program and its higher quality, together with its providing technical assistance. However, the low level of participation and high drop-out rate suggest that intensive programs need to be accompanied by measures to support participation and reduce drop-out rates (such as providing child care).

**C. Expanding workers' access to adequate and sustainable social security systems**

2.40 **Social security systems aim to promote workers' welfare.** In the vast majority of countries these programs are part of a set of benefits financed from employer and employee contributions, although in some cases these services are at least partly paid for with general resources. The set of benefits may vary widely from country to country, in terms of both cost and composition. In the vast majority of countries, it includes health insurance and pension contributions. However, depending on the institutional structure, it may also include unemployment insurance, child-care services, or contributions to training institutes.

2.41 **Sustainably extending coverage requires promoting formal job creation and achieving higher registration rates among non-wage earners, but the reasons for the high rate of informality are multidimensional.** One of the main challenges the social security system faces in developing countries is the high percentage of workers who do not belong to the system (either because they are not required to—for example, in some countries the self-employed or people working for a family business are exempt—or because their employers do not register them with the social security system), who are generally classed as informal workers. Some authors emphasize an “exclusion” model for workers employed in the informal sector—also characterized by low productivity—due to a lack of opportunities or of job creation in high productivity formal sectors (ECLAC, 2010, 2012 and 2015). Others emphasize a “selection” model with employers and workers choosing their optimal level of adherence to government mandates, where the incentives align in such a way that companies and/or workers prefer informality. These two approaches complement one another rather than conflict, since the mechanisms giving rise to the informal sector and the solutions may vary significantly from country to country (Gómez Sabaini and

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<sup>20</sup> The percentages of workers who are self-employed from among those without primary education, having completed primary education, having completed secondary education, and with higher education are 35.5%, 25%, 21%, and 15%, respectively.

Moran, 2012; Perry, Arias, López, Maloney, Fajnzylber, Mason and Saavedra-Chanduvi, 2007).

- 2.42 **Among the factors affecting the choices made by individuals, those reducing benefits or increasing the perceived costs of formality stand out.** The literature has emphasized the following interdependent factors: (i) low value placed on the benefits delivered by social security relative to the cost of contributions; (ii) the high cost of compliance with labor laws and tax regulations; (iii) insufficient capacity of low-productivity firms and low-income individuals to absorb these costs; (iv) insufficient government enforcement capacity; and (v) a high proportion of nonwage employment where individuals have to make an active decision to contribute (unlike wage earners, whose employers make withholdings). Behavioral economics has highlighted this as one of the major obstacles to individuals in nonwage work making social security contributions (Bosch et al., 2013).
- 2.43 **Social security benefits should be aligned with contributions.** Economic theory suggests that an increase in labor costs translates into less formal employment (and vice versa). However, an increase in social security contributions does not necessarily mean higher labor costs. It depends on whether workers value the benefits in relation to the cost of the contributions. Thus, the difference between the value people place on the benefits obtained from these programs and the cost of contributions may have a bigger effect on informality than the size of contributions as such. If individuals perceive little value in the benefits in relation to their cost, economic theory predicts that individuals and/or companies will seek to evade the program, giving rise to informality. A study in Uruguay found that improving social security benefits for certain groups of workers led to an increase in formal employment among the beneficiary group, even when contribution rates increased (Bergolo and Cruces, 2012). Therefore, measures to raise the perceived value of the system by making it better known, improve individuals' pension saving habits, and raise the quality of the services provided can also, in principle, increase formality
- 2.44 **Reducing contributions deducted from payroll can increase formality but the size of the effect varies from country to country.** In developed countries, a large proportion of the studies available suggest that the response of employment to a reduction in labor costs is limited.<sup>21</sup> However, their labor markets are very different from those in developing countries, where the results are heterogeneous. Two studies in Chile and Argentina indicate that in these countries decreases in social security contributions are passed on to workers in full as higher wages, without any effect on formal employment (Gruber, 1997; and Cruces, Galiani and Kidyba, 2010). Two more studies in Turkey and Colombia found reductions in social security contributions caused an increase in formal employment (Betcherman, Daysal and Pagés, 2010; and Kugler and Kugler, 2003). Similarly, in the case of Colombia, approval and implementation of tax reforms in 2012, which reduced social security contributions and payroll taxes by 13.5 percentage points (from 53.3% to 44.8%) over a period of less than a year, was associated with an increase in formality (from 30% to 35% of employment, affecting between 190,000 and 870,000 workers, depending on the study methodology) and an increase in average wages of 2.7% (Antón, 2014; Bernal, Eslava and Melendez, 2015; Forero and Steiner, 2015; Kugler

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<sup>21</sup> Benmarker Mellander and Öckert, 2009; Egebark and Kaunitz, 2013; Gruber, 1994; Korkeamäki and Uusitalo, 2009; Saez Matsaganis and Tsakoglou, 2012; Skedinger, 2011; Stokke, 2015.

and Kugler, 2015). Analysis of the international literature suggests that reductions in social security contributions have a bigger effect on formal employment in countries with high minimum wages, where social security contributions cannot be passed on in the form of lower wages. By contrast, reductions in contributions will be of limited effect in increasing coverage if the informality problems are caused by skills gaps or there are other factors preventing access to formal work, or if workers do not perceive contributions as a tax, or if the set of benefits is considered to be of little value.

- 2.45 **The design of the social security system itself could lead to higher informality rates.** In many countries of the region the design of the social security system only obliges a subset of workers to contribute, namely wage earners (see Figure 2). This means that in a context where the benefits are not considered very valuable, there is an incentive to register employees as self-employed or commission agents who are not obliged to pay contributions (Levy, 2008). Thus, social security can encourage wage earners to be hired informally rather than formally to save on contributions, particularly in the case of small businesses, where enforcement is weak (Bosch and Campos-Vázquez, 2014). Finally, social security can generate incentives for firms to remain small in order to reduce their likelihood of having to pay (Busso, Fernández and Tamayo, 2016). Simplified tax and contribution systems can also create incentives not to grow, as the amounts payable rise when companies pass a certain size (Pagés, 2010; Antón, Hernández and Levy, 2012). These distortions can have adverse effects on aggregate productivity, by steering economic activity towards low-productivity companies (Guner, Ventura and Xu, 2008; Hsieh and Klenow, 2007; Busso, Fazio and Levy, 2012).
- 2.46 **The extent and features of regulations on dismissals can also affect informality.** The extent and features of regulations on dismissals must be weighed up carefully, country by country, to balance the objectives of protection, income distribution, and job creation in the formal sector. Differences in productive structure, enforcement capacity, the quality of the package of social security benefits, or the degree of open trade practices may cause the same legislation to have very different impacts from country to country in terms of income redistribution and job creation in the formal sector. A review of the international literature shows that labor legislation that is too permissive may lead to insecure employment or have no impact at all on wage levels or job quality; labor legislation that is too burdensome on firms may reduce job creation in the formal sector and concentrate the workforce in the informal

sector (OECD-World Bank-IDB, 2015; ILO, 2013a).<sup>22</sup> The adverse effects may be associated with the uncertainty deriving from legal proceedings for dismissal, and the fact that the lawsuits can take years to resolve and/or entail ruinous outlays for companies (Kaplan and Sadka, 2011). Other adverse effects may also stem from the fact that such legislation can hinder the reallocation of workers to more productive jobs (Scarpetta, 2014). The evidence indicates the need to strive for regulatory frameworks that provide the flexibility for adaptation, particularly in a context of rapid technological and social change. Otherwise, the positive effects of innovation and technology on growth can be delayed or may not materialize (Scarpetta 2014; Conti and Sulis, 2016).

- 2.47 **Informality is closely related to low productivity of companies and workers.** In the region, countries with higher productivity levels tend to have less informality for the same cost of formality (Alaimo et al., 2015). Therefore, productivity gains for both workers and companies and the reallocation of workers from low productivity to higher productivity activities (ECLAC, 2012) could raise levels of formality.
- 2.48 **The enforcement capacity of the State needs to be improved.** A lack of monitoring and oversight capacity allows workers and companies to operate in the informal economy. Studies for developing countries suggest that stepping up enforcement can be a more powerful way of increasing formality than making the process of formalization cheaper or easier or giving more information about its benefits (Andrade, Bruhn and McKenzie, 2012; Bruhn and McKenzie, 2014). However, in many cases there is ambivalence over the target role of the State in relation to the existence of informal work. On the one hand, the law stipulates large fines for companies failing to comply with the regulations and, on the other, oversight mainly targets large companies, ignoring small businesses and the self-employed, who are often not even obliged to pay contributions, partly because of these enforcement difficulties (Gómez Sabaini, Cetrángolo and Moran, 2012). Part of this ambivalence also derives from the State's recognizing the informal sector as a major source of job creation. A less permissive approach to informal work may result in more formal employment, but possibly also in higher unemployment (Andrade et al., 2012, Almeida and Carneiro, 2012; Coslovsky, 2014; Kanbur and Ronconi, 2016). To minimize this adverse effect, it is important to enhance oversight capacity while simultaneously implementing other pro-formalization measures. It is also worth bearing in mind that the results of enforcement by the State are not independent from the design of the social insurance system. For example, in a context where social security contributions are only

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<sup>22</sup> The effect of labor regulations on employment levels is still being debated in the literature, despite numerous studies, in part because of the econometric difficulties of estimating the effect of regulations that change very infrequently and in principle apply to the entire population, making it hard to find control groups. A series of studies seeking to estimate the impact of legislation using differences in the law from state to state within a single country, such as Besley and Burgess, 2004 (India), Ahsan and Pagés, 2009 (India), and Autor, Donohue and Schwab, 2006 (U.S.); or studies examining the impact of legislation on different industries (Micco and Pagés, 2006), found that legislation that is highly burdensome for firms has adverse impacts on the level of formal employment or on employment in the industries most affected by the legislation (more labor intensive or more volatile demand). Other studies, however, particularly those based on aggregate data for a sample of countries, did not find a significant impact on employment (see World Bank, 2013, for a recent analysis of the evidence). The studies relate job protection with adverse costs in terms of productivity (Cingano, Leonardi, Messina and Pica, 2015). Deregulating temporary contracts and maintaining strict constraints on dismissals, thus creating a segmented market, is not the solution, as the evidence has shown productivity growth to be slower in countries that have opted for this route (Bassanini, Nunziata and Venn, 2009).

- obligatory for a subset of workers, stricter enforcement could lead to a larger percentage of uninsured workers.
- 2.49 **Poverty-reduction interventions outside the scope of social security need to be designed carefully to avoid disincentives to formal work.** Studies for developing countries conducted to date suggest that poverty reduction policies, such as conditional cash transfers, have not had an effect on labor-force participation (Fiszbein and Schady, 2009). Similar studies in Brazil (Fogel and Paes de Barros, 2010), Colombia (Barrientos and Villa, 2015), and Mexico (Bosch, Stampini and Bedoya, 2012) found no effect on formal employment or on the labor participation rate, respectively, for beneficiaries of the “Bolsa Família,” “Más Familias en Acción” and “Oportunidades” (Prospera) conditional cash transfer programs, respectively. However, three recent studies suggest that, in some cases, such policies may reduce the incentives for beneficiaries to seek formal work (Brauw, Gilligan, Hoddinott and Roy, 2015 for Brazil; Amarante, et al., 2011 for Uruguay, and Bosch, Maldonado and Shady, 2013 for Ecuador). This type of behavior may be motivated by fear of losing the cash transfer after securing a formal job. The evidence from these studies should not be interpreted as an argument against such programs, but as an argument for fine-tuning them to prevent such effects where they are found, continue, or intensify over time. It also points to the great diversity of impacts that policies of this kind have from country to country and therefore highlights the importance of examining the impact of social protection policies on a country-by-country basis.
- 2.50 **Behavioral economics suggests a number of promising innovative strategies to increase coverage of self-employed workers and voluntary contributions.** A large proportion of workers (the self-employed, commission agents, unpaid workers in family businesses, domestic workers) do not have an employment relationship allowing them to pay social security contributions automatically. Behavioral economics suggests that the absence of automatic contribution mechanisms—like those in place for wage earners—may be one of the main causes of these groups’ low coverage and lack of pension savings (Choi, Laibson, Madrian and Metrick, 2004; Madrian and Shea, 2001). In developed countries, automatic mechanisms have been found to be much more effective at generating new voluntary pension savings than, for example, tax incentives, which barely generate any new savings (Chetty, Friedman, Leth-Petersen, Nielsen and Olsen, 2014). Innovations are needed to automate payments to the social security system (e.g., via direct debit, or with water or electricity bills) by these groups. When automated mechanisms of this kind are not feasible, other instruments can be used as simplified contribution methods or to send reminders. A recent intervention in Brazil to remind beneficiaries of their obligations in this area by sending them letters to their home address proved to be highly cost-effective (Bosch, Berstein, Castellani, Oliveri and Villa, 2015).
- 2.51 **Even when there is an effective effort to increase contribution coverage, noncontributory benefits will need to be expanded and strengthened to achieve adequate health and pensions coverage.** The noncontributory pillars play an important role in supporting improved coverage and better tailoring of benefits. In many cases the contributory capacity is insufficient, so there is a need for solidarity with a broad financial base (ECLAC-ILO, 2015). Granting benefits that are not tied to contributions is the only way, in the short term, to ensure income in

old age for generations that did not participate in the formal labor market or did so intermittently (Bosch et al., 2012).

- 2.52 **Economic theory indicates that financing part of social security from consumption taxes may be more efficient than financing it from payroll taxes.** Reducing the dependence of taxes on labor requires finding new funding sources.<sup>23</sup> Changing at least part of social security's funding from contributions deducted from wages to taxes on consumption would make it possible to raise the economy's level of productivity while at the same time increasing access to health and pension benefits, as consumption taxes are a more efficient mechanism than payroll taxes for financing social security benefits (Antón et al., 2012; Bird and Smart, 2014).
- 2.53 **Noncontributory programs need to be designed appropriately to avoid disincentives to formality.** Universal noncontributory programs—i.e., those that provide benefits to all workers regardless of their employment status and are financed out of general resources (such as Bolivia's universal pension)—should not alter workers' decisions to contribute. By contrast, programs that only give benefits to informal workers or people who do not qualify for a pension from the contributory system can create significant incentives for informality. The literature for the region shows evidence that these effects are large enough to merit special attention in the design of social security programs (Bosch and Campos-Vázquez, 2014; Bosch et al., 2015; Bosch et al., 2013; Frolich et al., 2014; Garganta and Gasparini, 2012; Kaplan and Levy, 2014; Levy, 2008; Mejia and Camacho, 2014). Therefore, unlinking health care from employment status and establishing a universal noncontributory pension that is the same for all, as Anton et al. (2012) propose for Mexico, or establishing a basic noncontributory pension with income that decreases gradually in old age (as in Chile and Bolivia), may achieve the dual goal of protecting people against illness and poverty in old age, while maintaining incentives to contribute. This basic pension should be complemented by a contributory pension that generates sufficient replacement income for middle class workers.
- 2.54 **Population aging is raising serious challenges for the sustainability and/or adequacy of pension systems.** Population aging implies an increase in the proportion of older adults (aged 65 and older) as a share of the population. Countries with pay-as-you-go defined benefit systems face sustainability problems. This is due to the fact that the pensions such a system paid for out of payroll taxes can offer (i.e., without incurring fiscal transfers) depends on population growth, an expanding workforce, and rising wages. Therefore, demography, changes in participation and employment, and productivity trends have a major impact on the ability to meet future commitments, and the parameters of the system need to be revised periodically to maintain sustainability (Berstein and Bosch, 2016).
- 2.55 **In individually funded systems, population aging translates into problems of adequacy as a given amount accumulated during the individual's working life has to be spread over more years of retirement.** Therefore, individually funded systems need parametric adjustments in response to changes in life expectancy in

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<sup>23</sup> Health insurance, life insurance or some components of the pension system—such as anti-poverty pensions—are potentially good candidates for this kind of financing. Other components, such as unemployment insurance, accident insurance, or the consumption smoothing part of the pension system should preferably be financed from payroll taxes.

order to be able to guarantee an appropriate level of benefits (Berstein and Bosch, 2016).

- 2.56 **Finally, to ensure the sustainability of noncontributory pensions it is also essential to factor population aging into their design.** Therefore, strategies such as indexing pensions to inflation, incorporating the fiscal cost of pensions in fiscal rules, setting up independent fiscal boards, or tying pension payments to specific funding sources, are some of the mechanisms that could help ensure their sustainability (Bosch et al., 2013).

### III. THE REGION'S EMPLOYMENT CHALLENGES

- 3.1 The region enjoyed a boom in the first decade of the 21st century. This was reflected in economic growth that exceeded the average of previous decades, in poverty reduction of almost 20 percentage points, in a drop in inequality as measured by the Gini coefficient of 7% (World Bank, 2015), and in growth of the middle class (accounting for 68% of the population) (Ferreira, Messina, Rigolini, López-Calva, Lugo and Vakis, 2013). The positive economic cycle also brought undeniable gains for the region's labor markets. The employment rate rose from 64% of the working age population in 2004 to 66% in 2014, while formal employment rose from 25% of the working age population to 31% over the same decade. This meant employment growth figures well above the Organisation for Economic Cooperation and Development (OECD) average during the period (3% compared with 1%), partly driven by the significant growth in female employment, which grew faster than that of men, particularly in the formal sector, and in waged employment.<sup>24</sup>
- 3.2 With respect to employment trends by sector, the region saw a slight structural re-composition in the employment of workers by branch of activity. The percentage of workers in manufacturing fell from 13.4% in 2004 to 11.2% in 2014, a pattern that was found across all the countries. There was also a slight decrease in the percentage of workers in the agriculture sector, dipping from 20.3% to 19.2% in 2014. The countries that saw a drop in the percentage of workers in agriculture were: Paraguay (-10.5%), Peru (-8.1%), and Ecuador (-7.6%). Lastly, the services sector, which encompasses the vast majority of workers in the region, edged up 1.4 percentage points to 62.4% in 2014.
- 3.3 The region's unemployment rate also dropped from 9% to 6.1% and there was a significant increase in wages (Alaimo et al., 2015).<sup>25</sup> However, the emerging scenario of negative growth for the region in 2016, with low medium-term growth (IDB, 2016b), puts these gains at risk and increases the urgency of finding solutions to the main labor problems that already exist (ILO, 2014a, 2015). Major challenges persist in the labor sector in Latin America and the Caribbean: informality rates remain high, and there is a serious lack of job security, which limits access and stability in formal work; the workforce suffers from skills shortages; and the population is gradually aging. On top of this come the challenges of capitalizing on the gains and minimizing the adverse effects of the fourth industrial revolution, and

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<sup>24</sup> Over the last decade female employment in the formal sector grew by 7.8% compared with 0.2% for men. Formal employment also grew by 17% for men and 31% for women, while waged employment rose by 4.6% and 14%, respectively.

<sup>25</sup> These figures refer to the period 2003-2013.



the State's still limited capacity to implement labor market and social security interventions able to systematically meet these challenges.<sup>26</sup>

**A. Low and uneven access to formal employment and limited job security<sup>27</sup>**

**3.4 High youth unemployment is a global phenomenon to which the region is not immune.** There are 7.1 million unemployed young people in the region, accounting for 13.6% of the workforce (compared with a rate of 4.4% for adults ages 25 to 64). Four Caribbean countries (Jamaica, Barbados, The Bahamas, and Belize) face the region's highest youth unemployment rates (34.8%, 28.9%, 28.3%, and 21.7%, respectively) (see Graph 2), unemployment being one of the Caribbean's most complex economic problems (Downes, 2007). In the region, 15.1 million young people are neither working, studying, nor looking for employment. Together with the unemployed, they make up 22% of the population in this age bracket. This problem is most severe in El Salvador, Guatemala, Honduras, Jamaica, Belize, and Guyana (see Graph 3) and is significantly more acute in the region among young women than young men (ECLAC, 2012). This situation is worse the more precarious the socioeconomic situation of the households young people belong to (see Graph 4), increasing the risk of social problems linked to risk behaviors (such as drug addiction or violence).<sup>28</sup> Moreover, of the 45 million young people who are working, 29 million have jobs in the informal sector. The lack of access to jobs has a lasting impact; people suffering from unemployment and informality in their youth tend to have poorer job performance as adults (Cruces, Lanjouw, Lucchetti, Perova, Vakis and Viollaz, 2011). The current demographic stage in which young cohorts are particularly large and will continue to be so over the next 35 years makes the need to offer job opportunities to the young particularly pressing (see Graph 5).

**3.5 Female participation has grown but remains substantially lower than men's. Rates of unemployment and underemployment are also higher among women.** Although there have been improvements in the first decade of the 21st century, female participation remains low in the region (57.7% compared to 63% for women in OECD countries, and 83.4% for men in Latin America and the Caribbean) and has stagnated in recent years (Gasparini and Marchionni, 2015). The gap is particularly wide in Guatemala, Dominican Republic, El Salvador, Honduras, and Mexico, where men's participation rates are 60% to 100% higher than women's (see Graph 6). Female unemployment is 1.4 times higher than male unemployment. Only in Mexico and El Salvador is male unemployment higher. Underemployment also tends to affect women more: 9% of women in the region work fewer than 30 hours a week, but want to work longer (compared with 5.6% of employed men). The rate of informality is similar for men (53.5%) and women (52.8%), however.

**3.6 Individuals with lower levels of education have lower rates of participation and access to formal employment.** The region's labor-force participation rates rise with

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<sup>26</sup> The term "fourth industrial revolution" refers to the technological changes associated with the convergence of information and communication technologies, robotics, artificial intelligence, 3D printing, materials engineering, and others that are rapidly changing consumption and production patterns and the world of work (Schwab, 2016).

<sup>27</sup> Unless stated otherwise, all the data in this section come from the IDB's Labor Market and Social Security Information System (SIMS) based on household surveys in the region. Washington, D.C., IDB.

<sup>28</sup> According to a quasi-experimental study based on surveys in various countries of the region, dropping out of school was identified as a risk factor for criminal behavior (Rubio, 2008).

educational level: 71%, 79% and 86% for workers ages 25-65 with low (0-8 years of education), medium (9-13 years) and high (14 years or more) levels of education, respectively. The countries with the lowest participation rates among least-educated adults are The Bahamas, Guyana, Belize, Chile, and Trinidad and Tobago (see Graph 7). In the case of unemployment, unlike what happens in OECD countries where unemployment is highest among the least educated, in Latin America and the Caribbean, unemployment is highest among adult workers with secondary education (5.2% versus 3.8% and 4.3% for workers with low and high levels of education), although countries like The Bahamas and Barbados have substantially higher unemployment rates among the less educated (see Graph 8). The pattern whereby access to formal work rises with educational level is observed in all the countries of the region. On average, 32%, 54%, and 73% of adult workers in the region with low, medium, and high levels of education hold formal jobs (see Graph 9). However, there are big differences between countries: in Bolivia and Peru, 5% of less educated workers have formal jobs, while in The Bahamas, Uruguay, and Costa Rica the percentage for this same group is 67.8%, 62.9%, and 62.3%, respectively.

- 3.7 **Rural and indigenous workers also face difficulties accessing formal jobs.** Although participation and unemployment rates do not show rural workers to be at a disadvantage, they have more difficulty obtaining formal (21% compared with 53% in urban areas) and/or paid work (18% of rural workers are unpaid compared with 3% in urban areas). In countries for which information is available, a similar situation is observed for indigenous and Afro-descendant populations when compared to the general population (ILO, 2007, IDB calculations for 2010 in Uruguay, Paraguay, and Mexico). For this group there are differences in types of occupation, with a preponderance of work in the agricultural sector, which is linked to wage differences. Yamada, Lizarzaburu and Samanamud (2011) and Bedoya (2012) estimate a salary gap of 53% and 58% for indigenous people in Peru and Colombia with respect to non-indigenous people. This is due to the educational level achieved and, in Peru, also to the degree of rural isolation.
- 3.8 **The region is highly vulnerable to job losses, and informal employment is the predominant route back into the labor market.** Jobs in the region are insecure and of short duration. At least one in four workers in the middle of their working life (24-54 years) has been with their current employer for less than a year, and one in three workers will not be in their current job one year later (Alaimo et al., 2015). Moreover, this turnover does not seem to be conducive to better job opportunities or increased productivity (Alaimo et al., 2015). Therefore, even when the region's unemployment rate is low, the risk of becoming unemployed is quite high and is higher among informal workers than formal ones. On average, for the seven countries for which panel data are available, the likelihood of becoming unemployed is twice as high for self-employed informal workers as for formal workers (Alaimo et al., 2015).
- 3.9 **In terms of interventions, there have been various initiatives aiming to coordinate secondary education, particularly technical education, with the specific needs of businesses.** These have included implementing dual education through apprenticeship programs in order to make young people more employable. However, these initiatives face significant challenges. A number of factors are essential for these programs, and vocational training in general (see Section II.B),

to operate successfully, and their presence in the region is still limited. In Latin America and the Caribbean, The Bahamas, Brazil, Chile, Colombia, Costa Rica, Mexico and Trinidad and Tobago,<sup>29</sup> among others, have made inroads in designing and implementing apprenticeship programs aimed at students both in and outside the formal technical education system. For example, in Brazil, the Apprenticeship Act requires companies to hire 5%-15% of their employees as apprentices and establishes a dual education model for them. An impact assessment finds that after completing the program, apprentices are more likely to find permanent formal work and earn better wages in the short and medium term than comparable individuals not benefiting from the program. For these and other initiatives in the region, however, it is still necessary to strengthen: (i) quality assurance mechanisms for training in and outside the company; (ii) involvement of employers in defining occupational standards and curricula; (iii) evaluation and certification processes; and (iv) systems to support small and medium-sized companies, which face significant barriers to implementing this type of program.

- 3.10 **Additionally, interventions that should foster wider and more equitable access to formal work for inactive, unemployed, underemployed or informally employed persons are still in the very early stages.** Most Latin American and Caribbean countries now have public labor intermediation services (generally called public employment services, or PES). Their institutional capacity varies, but in general they are somewhat underdeveloped and have limited coverage (IDB-WAPES-OECD, 2016). This situation is reflected by the following indicators: (i) the average number of unemployed people served by each office is 38,872, compared with 3,965 in Europe and 3,417 in Asia-Pacific; (ii) the average workload of each PES staff member is 5,180 unemployed people, compared to 170 in Europe and 282 in Asia-Pacific (IDB-WAPES-OECD, 2016); and (iii) the average funding of these services is 0.04% of GDP compared with 0.17% of GDP in developed countries (Alaimo et al., 2015; IDB-WAPES-OECD, 2016). Moreover, while the region has experimented with innovative active labor market policies, their scope remains limited and, in many countries of the region, the most effective modalities have yet to be implemented. Additionally, there is still room to make these initiatives more effective and to better focus programs according to beneficiaries' needs and characteristics. As a result of PES's low level of development, 70% of the region's workers use informal methods to find employment, drawing on their networks of family and friends, and less than 10% of formal companies in the region list their vacancies with the PES. This contributes to perpetuating initial inequalities (Mazza, 2011) and reducing PES's capacity to promote placement in formal jobs (IDB-WAPES-OECD, 2016).
- 3.11 **Another significant challenge is offering effective protection to a larger proportion of the unemployed and linking this to ALMP.** The main mechanism protecting the unemployed in the region is severance pay. On average, a worker with five years of service is legally entitled to severance pay of 66.7% of annual salary. This is much higher than in OECD countries. This severance pay suffers from the problems described in Section II. Moreover, just eight of the region's countries have unemployment insurance and coverage, in relation to the number of people

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<sup>29</sup> In the energy sector.

losing their jobs, is very low.<sup>30</sup> To date, studies have indicated that in Latin America and the Caribbean unemployment insurance fulfills the objective of smoothing consumption of workers who lose their jobs but, unfortunately, it does not yet translate into a search for better work, perhaps due to the short duration of the benefit and it not being linked to policies supporting job hunting (Amarante et al., 2011; Gerard and Gonzaga, 2013; González-Rozada et al., 2011; Medina, Núñez and Camacho, 2012; Huneus et al., 2012). In conjunction with the low coverage of both severance pay and unemployment insurance, due to informality and lack of job security, the unemployed rapidly turn to informal employment or self-employment. Therefore, after a spell of unemployment, the likelihood of finding informal work is twice that of finding formal work (Alaimo et al., 2015). Reforms are needed that improve the design and expand the coverage of unemployment protection systems, while strengthening the links with ALMPs.

- 3.12 From the foregoing it may be concluded that, in addition to establishing macroeconomic policies fostering employment or development policies to support productive activity, the region's countries can achieve more and more equitable access to formal work through increased coverage and effectiveness of PES. This in turn requires: increased investment in PES, better quality and integration of the services offered, a better relationship with employers, and developing or improving monitoring and management systems. Training programs must also be made more effective to: (i) make vulnerable young people and unemployed workers more employable; (ii) better protect unemployed people's income; and (iii) improve incentives for formal hiring through better regulation and oversight.

## **B. Limited labor force readiness and somewhat ineffective labor force training systems**

- 3.13 **Insufficient human capital in the labor force and unmet skills demand among the region's companies.** According to the results of the 2012 Programme for International Student Assessment (PISA), evaluating 15-year-old students in 65 countries, the eight participating Latin American and Caribbean countries rank in the bottom third on all subjects (Bos, Ganimian and Vegas, 2014). More than half of the region's students do not achieve basic competency levels and less than 2% achieve a high level of competency.<sup>31</sup> If we compare these results with countries that have similar income levels, the results for the region continue to be unfavorable, and although there are relatively few measures of the stock of skills of the region's workforce, those that do exist suggest that decades of low quality education have left their mark on the quality of the region's workforce.<sup>32</sup>

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<sup>30</sup> Argentina, The Bahamas, Barbados, Brazil, Chile, Colombia, Uruguay, and Venezuela.

<sup>31</sup> The 2012 PISA scale classifies students' knowledge on six levels, where one is the lowest and six the highest. A level of competency of two in mathematics is the threshold of basic competency necessary for full integration in social and working life. Students obtaining a level of less than two end up suffering serious disadvantages in their transition to higher education and the labor market (OECD, 2012).

<sup>32</sup> There are at present few measures of the workforce's stock of skills in the region. One major exception is Chile, which is currently the only country in the region that took part in the OECD's Program for the International Assessment of Adult Competencies on this question. The results show that although Chile has the highest PISA scores in the region, it has serious deficiencies in its workforce skills. Over half of all adults (53%) only attain the most basic level of performance in language and 62% in arithmetic (compared with OECD averages of 19% and 23%).

- 3.14 **The workforce's lack of skills could be a bottleneck to growth.** The percentage of employers reporting difficulties hiring workers with the skills they need exceeds the world average (Manpower, 2015). Around 90% of employers in Argentina, Brazil, and Chile report that they cannot find the skills they need to produce competitively (Bassi et al., 2012). Additionally, a series of surveys of companies in The Bahamas, Honduras, Panama, Paraguay and Uruguay conducted by the IDB indicates that between 40% and 70% of employers report difficulties with workers socio-emotional skills (behavior and conduct in the workplace) as the main reason for dismissal and 15% to 30% report problems of absenteeism as the cause (also related to these skills).<sup>33</sup> Another important reason for dismissal was workers' low productivity (between 27% and 70%, depending on the country) (González-Velosa et al., 2014). Nevertheless, returns on education in the region have dropped (Gasparini, Galiani, Cruces and Acosta, 2011). The reasons have not yet been well documented, but may reflect that: (i) the skills gap is not as big as the previous data suggest; or (ii) although there is unmet demand for (certain) skills, secondary or higher education no longer guarantees that the person possesses these skills, and therefore demand for individuals with these qualifications has dropped.
- 3.15 **Companies provide their workers with very little training.** The training the region's workers receive during their adult life is limited in relation to that received by workers in developed countries: less than 15% of workers receive some form of training in Latin America and the Caribbean, compared with an average of 56% in OECD countries. Training in the informal sector is virtually nonexistent (Alaimo et al., 2015). Moreover, the evidence shows that training is geared towards people with higher initial educational levels (Alaimo et al., 2015; González-Velosa et al., 2014; Huneus et al., 2013), which perpetuates and amplifies the inequities in initial skills and generates a vicious cycle of low investment in training, inadequate workforce skills, and low productivity.
- 3.16 **Most of the small number of companies that train their workers focus on specific rather than general skills.** The data from surveys in The Bahamas, Honduras, Panama, and Uruguay concur that between 60% and 70% give priority to job-specific skills, with much less investment in crosscutting soft or cognitive (mathematics or language) skills (González-Velosa et al., 2014).<sup>34</sup> These results are consistent with further surveys carried out in Chile, Argentina, and Brazil (Bassi et al., 2012). The evidence also indicates that companies perceive the transferability of active workers' cognitive and socio-emotional skills as a factor reducing their return on investment in training. This factor, and the fact that it is precisely these skills that play a decisive role in the hiring and dismissal of workers, reveals the need to encourage training to develop these skills with public resources.
- 3.17 **Most countries lack a structured training system able to perform key functions the vocational training system needs in order to operate** (identification of skills requirements, design of curricula responding to skills standards identified by the productive sector, quality assurance, and efficient resource management, with

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<sup>33</sup> For more details, see the case of The Bahamas reported in Pinder and Fazio, 2014; that of Honduras and Panama in Baptista and Flores, 2014a, 2014b; and that of Uruguay in De Mendoza, Di Capua, and Rucci, 2013.

<sup>34</sup> Idem the previous footnote.

emphasis on results).<sup>35</sup> Although almost all countries have vocational training mechanisms for both young people and active workers, the systems face serious challenges in terms of relevance, coordination, quality, and funding. Most Latin American and Caribbean countries have public institutions for vocational training that are mainly paid for by a specific tax levied on company payrolls.<sup>36</sup> Although the resources dedicated to training are in some cases substantial, there is little evidence regarding the effectiveness of these investments and/or the results achieved in terms of learning, better career paths in the labor market, or productivity gains (Huneus et al., 2012; Bassi et al., 2014; Alaimo et al., 2015).

- 3.18 **Low capacity of systems to identify the productive sector's present or future skills requirements.** No country in the region has a regular established system identifying the productive sector's skills requirements (through company questionnaires, skills forecasting models, or other forward-looking tools) and disseminating them,<sup>37</sup> although some progress is being made along these lines, for example with dissemination of the forecasting model of Brazil's National Industrial Learning Service (SENAI) to other countries in the region. Nor does any country have a system in place to aggregate and express employers' skills requirements such as would allow these standards to be translated into competency standards that could be used by training institutions to develop curricula. However, there has been relevant progress on this issue, for example the first steps towards creating sectoral boards to identify the skills required in some sectors in Chile and Peru, or the sector roundtables by Colombia's National Learning Service (SENA).<sup>38</sup>
- 3.19 **In relation to the ability to develop curricula based on the competencies required by the productive sector,** a significant gap exists between the curricula designed and the needs of the productive sector, partly due to the lack of capacities to identify these needs. The productive sector has strong demand for persons who have not only a strong command of language and mathematics, but also social skills (Bassi et al., 2012) and current technical competencies. However, a supply side approach is taken—i.e. the curricula and content are prepared based on the capacity of training centers to offer or contract them—rather than driven by demand. Therefore, many training centers offer curricula with little emphasis on general (cognitive and social) skills or that are largely out-of-date, geared towards technologies of the past and not the technical competencies required today, or which will be required in the future. For example, there are barely any systems in the region, such as national qualifications frameworks, allowing life-long learning paths to be established and facilitating lateral transfers between academic and vocational paths;<sup>39</sup> between different levels; or between the paths established by education ministries (mainly aimed at young people) and those under labor ministries (for

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<sup>35</sup> See the series of IDB publications on this issue, analyzing vocational training systems. For Chile, Arias Ortiz et al., 2015; for Colombia, González-Velosa and Rosas-Shady, 2016; for Mexico, Ricart et al., 2014; for Peru, Chacaltana, Díaz and Rosas-Shady, 2015.

<sup>36</sup> Two exceptions are Colombia, where the system is funded from general resources, and Chile, where it is mainly funded from tax credits.

<sup>37</sup> One exception is the "S" System in Brazil, which has a sophisticated mechanism for forecasting future skills needs.

<sup>38</sup> The National Learning Service sector roundtables in Colombia are also a step in this direction.

<sup>39</sup> One exception is the Caribbean vocational qualifications framework (Blom and Hobbs, 2008).

active workers).<sup>40</sup> Nor do many countries have mechanisms to recognize skills acquired informally in the workplace. Finally, there are few mechanisms in the region for establishing structured, certifiable learning paths in the workplace (apprenticeship systems).

- 3.20 **The region also lacks established quality assurance systems for vocational training.** One of the main problems of vocational training systems is the lack of quality assurance mechanisms. The most consolidated system is that for the accreditation of training establishments (which in many countries is only applied to a select set of institutions, such as universities or technical centers), and it is not always obligatory. Certification of institutions is a necessary, but not sufficient, condition as comparing the results in relation to career paths, graduates from certified institutions do not necessarily obtain better results than those from institutions that are not certified (González-Velosa et al., 2015).<sup>41</sup> However, there are very few mechanisms for determining whether the desired results in terms of learning, career paths, or business productivity are obtained.
- 3.21 **Funding systems not tied to results.** Most countries publicly fund their vocational training systems from general resources or payroll taxes paid by companies, although some have also experimented with giving training vouchers directly to active workers or by granting tax exemptions. Those resources tend to be allocated more or less automatically, not based on targets or predetermined results. In addition, monitoring and evaluation systems are underdeveloped and there is little tracking of graduates to know whether and how the training affected their career path or companies' productivity. In general, there have been few evaluations of whether incentives given for training are able to alleviate market failures or equity problems. And those evaluations that exist report the importance of any financing mechanism being accompanied by actions to improve relevance, the development of competency-based curricula, and system quality, in order to make the investments more effective (Kaplan, Novella, Rucci, and Vázquez, 2015; Rodríguez and Urzúa, 2013). Moreover, given budgetary constraints and training needs, more resources from companies and potentially from individuals would need to be leveraged in the form of cofinancing.
- 3.22 **A roadmap needs to be drawn up tailored to each country's needs.** The evidence suggests that the region needs to advance towards having vocational training systems that are able to develop the functions of identifying and responding better to employers' skills requirements, producing curricula that are able to transmit the competencies identified, achieving good quality standards, and developing effective financing mechanisms designed to address market failures and/or promote equity. However, there is no model of how to adapt the lessons learned from international experience to the region. Many of the successful experiences have been in countries with stronger institutional development, and therefore there are no

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<sup>40</sup> Mexico is the only country in which there has been progress towards competency-based curricula, but it still faces the challenges of quality assurance and transferability between training alternatives. Moreover, although there has been progress in terms of student mobility, given the portability of their skills (Szekely, 2014), this progress has been limited to the formal educational system, and does not provide routes towards other learning options.

<sup>41</sup> In Mexico, Szekely (2014) finds graduates of accredited institutions to have a higher probability of finding formal employment. However, the results are not statistically significant, which could be due to the small percentage of institutions that have received accreditation.

models already tailored to the region's level of institutional development. However, various attempts have been made to develop or strengthen the key functions mentioned here, in order to respond to the emergence of certain strategic sectors requiring highly qualified workers. Recent cases such as the Montevideo software cluster, the Querétaro aerospace cluster, or large Chilean mining operations are examples of successful experiences in which the public and private sector have managed to coordinate their efforts to close skills gaps and foster the development of certain specific sectors (Crespi et al., 2014). Nevertheless, these initiatives have been carried out more or less in isolation, as needs arise, and have not been accompanied by structural reforms aiming for medium or long-term impact and supporting the establishment of a consistent training system at the national level. To continue advancing, it will be worth building on each country's existing strengths to make systems progressively more robust. International experience, and successful experiences in the region, suggest that it is necessary to advance towards greater integration and coordination of skills development policies and productive development policies.

### **C. The challenges of low coverage, poor sustainability, and inefficiency of social security systems**

- 3.23 The limited social security coverage and its scant enforcement pose significant design and operational challenges.** One of the biggest challenges the countries of the region face is the large percentage of workers who do not belong to the social security system. On average, almost 5 out of 10 workers in the region are not contributing to social security. This means that around 133 million workers are not saving towards a pension and have no access to contributory health insurance.<sup>42</sup> This situation is of particular concern in many Andean and Central American countries, where this lack of protection affects more than 7 workers out of 10, while in the Southern Cone and Caribbean countries the ratio is below 5 out of every 10 (see Graph 10).<sup>43</sup> This low coverage can be explained by problems of design and operation. The design problems relate to the fact that in many countries in the region social security exempts non-wage earners from enrolling and contributing. These workers represent an average of 34% of employment in the region (with levels of over 50% in Bolivia, Nicaragua, and Colombia). The operational problems concern the low level of enforcement, as a large number of workers employed in micro, small, and medium-sized enterprises are not members of the system although by law they ought to be. Just 17% of self-employed workers and 17% of workers at companies with fewer than five employees pay social security contributions, whereas this percentage rises to 89% at large companies (with over 50 employees).
- 3.24 Lack of coverage is particularly serious among the poorest, but the middle classes also often lack coverage.** Using Easterly's approach (2001) identifying the middle class as the population between deciles III and VIII, it is observed that 87% of the poorest and half of middle class workers do not pay contributions (compared

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<sup>42</sup> In some countries, however, many of the people not covered by social security nevertheless do have access to health services through noncontributory health programs, financed from general resources. Nevertheless, these are often of lower quality and offer more limited services than the social security system.

<sup>43</sup> Moreover, coverage increases significantly with the level of cash income and the size of the company in which the worker is employed (see Graph 11).



- with 27% of those with higher incomes). Only 18% of self-employed people in the middle class pay contributions (compared with 65% of wage earners; see Graph 11). The region's poor and middle class is therefore highly vulnerable to risks related to health, loss of employment, and old age (Bosch, et al., 2013; OECD, 2010).
- 3.25 **The frequent rotation between formal and informal work leads to low pensions and erratic health coverage, even for people who pay social security contributions.** The high level of rotation between the formal and informal sectors in the region leads to erratic health coverage and low contribution densities (defined as the percentage of a person's total time working during which they have paid social security contributions), which translates into low pensions, in both public pay-as-you-go systems and individually funded private systems. For example, in Chile, which has one of the soundest pension systems in the region, 38% of men registered with the social security system contribute less than 50% of the time. In Peru and Mexico, around half of all men of working age have never paid social security contributions, and of men registered with the social security system, 45% in Mexico and 49% in Peru pay contributions less than six months a year.
- 3.26 **On average, only 4 out of 10 older adults receive a contributory pension. This rises to 6 out of 10 when noncontributory pensions are counted. However, the pension situation varies widely between countries.** In countries such as El Salvador, Honduras, or the Dominican Republic less than 15% of older adults receive a pension. In another group of countries (Colombia, Ecuador, Nicaragua, Peru, and Venezuela) between 20% and 40% of the elderly population receives a pension. Only in countries such as Brazil, Argentina, Chile and Uruguay does more than 60% of the elderly population receive a pension (Bosch et al., 2013; OECD, 2010).
- 3.27 **The lack of pension coverage has a strong gender dimension. Women face lower levels of coverage resulting from their looser connection to the labor market during their working lives.** Although working women pay contributions at similar rates to men, women have labor-force participation rates between 10 and 50 percentage points lower than those of men and have larger gaps in their contribution histories. As a result, the percentage of men receiving a pension is an average of 7 percentage points higher than that of women (59.5% vs. 53%).
- 3.28 **Economic growth is insufficient to increase coverage.** The evidence indicates that the response to economic growth in terms of the number of contributors to the system is limited. The ratio of contributors to employees grows between just 10 and 20 percentage points per capita when income doubles (Bosch, et al., 2013).
- 3.29 **The expansion in noncontributory benefits has increased pension and health coverage considerably, while reducing poverty and inequality.** Two of every 10 older adults receive noncontributory pensions (Bosch et al., 2013) and this figure has been rising, enabling poverty and inequality to be reduced (Attanasio et al., 2015; Ferreira de Souza, 2011; Galiani and Gertler, 2009; Gasparini et al., 2007; Galiani, Gertler and Bando, 2016; Lustig, Pessino and Scott, 2013; Levy and Schady, 2013; Rofman, Apella and Vezza, 2014). Noncontributory coverage in medium-high income and medium-low income countries has increased significantly in Latin America and the Caribbean in relation to other regions of the world (ILO, 2016a). This expansion of coverage is good news. However, an expansion of coverage based solely on the noncontributory pillars cannot guarantee acceptable

- pension levels for the middle classes. Moreover, depending on the design, expansion of noncontributory pensions and health coverage could create incentives for informality and, consequently, reduce the coverage of contributory schemes yet further.
- 3.30 **Despite the low level of enrollment, many pension systems face sustainability problems** that need to be addressed even before promoting the expansion of coverage. Future population aging will pose a major challenge for pay-as-you-go and defined-benefit pensions systems and it is therefore essential to take early measures that consider their future effect. Sustainability is also a challenge for countries that have made structural changes as they move towards individual funding and private management, due to the cost of the transition (ILO, 2014b).
- 3.31 **Unless reforms are carried out, the region's pay-as-you-go pension systems will require fiscal transfers, which tend to be regressive.** Many such systems in the region promise pensions that are higher than can be financed solely from company and worker contributions (Berstein and Bosch, 2016), and this problem is being exacerbated by population aging. This means that, unless parametric changes are made, the State will need to contribute funds out of its general resources to keep these promises. However, in many of the region's pay-as-you-go systems, implicit subsidies benefit only those people who ultimately receive a pension, who tend to be higher-income workers, due to the short contribution periods of workers with average and/or low incomes. Therefore, in many cases, government transfers that finance systems operating with a deficit are concentrated in higher income population segments (Bosch et al., 2015; IDB, 2016a). This exacerbates the region's problems of inequality, while limiting the fiscal space for financing non-contributory pensions and other social expenditure targeted at those needing it most.
- 3.32 **Need for parametric adjustments.** As is happening in other countries around the world, the region's pay-as-you-go pensions systems will need to gradually revise their parameters as the population ages (Berstein and Bosch, 2016).
- 3.33 **On top of the sustainability problems of the pay-as-you-go contributory pillars, there is the present and future cost of noncontributory pension (NCP) pillars.** Average spending on NCPs in Latin America and the Caribbean is around 0.4% of GDP annually, rising to close to 1% in Brazil, Bolivia, and Chile. Public spending could as much as triple as a share of output over the coming years due to the progressive aging of the population, depending on changes to coverage and how pensions are updated (Bosch et al., 2013).
- 3.34 **Population aging also poses a challenge for individually funded systems.** In individually funded systems longer life expectancy has a direct impact on pension values if the contribution rate and retirement age parameters are not adjusted. For example, in Colombia, Costa Rica, El Salvador, Mexico and Peru, where there are individual savings pillars, life expectancy at 65 rose by more than five years from 1950 to 2000 and is expected to increase by two to three years more by 2050 (Demographic Bulletin 1950-2050, ECLAC). Financing seven additional years without reforms means pension values would be cut by up to 40%, depending on the expected returns of the system and the contribution history (Berstein and Bosch, 2016). Therefore, these systems also need gradual parametric adjustments to enable adequate pensions to be sustained.

- 3.35 **Another challenge facing individually funded systems is the still limited development of annuity markets.** A significant proportion of members of the system fail to set aside sufficient savings to obtain a minimum pension and so receive their funds as a lump sum on retiring without obtaining coverage for longevity. Even for contributors who have saved enough, lump-sum retirement products (repaying the balance) or programmed savings do not provide adequate protection, as they are inefficient and older adults may outlive their savings.<sup>44</sup> Even so, in many cases, although people can opt for longevity insurance, they prefer programmed withdrawals (40% in Peru, 49% in Chile and 89% in Colombia). It will therefore be necessary to develop annuity markets and explore other longevity insurance arrangements to support retirement effectively (Berstein and Bosch, 2016).
- 3.36 **In addition to the above challenges, the administration costs are relatively high, yields on investments are not forecast to be very favorable, there are competition issues among pension fund administrators, and levels of financial literacy are low.** Pension funds' returns on investment have been declining while administration costs have remained relatively high (IDBa, 2016). In some countries, pension funds have been exposed to increased financial volatility as they have sought higher returns. Given the complex international scenario, high volatility generates uncertainty and mistrust, even in the case of long-term investments that recover from drops. Even so, in most countries investments are concentrated in government bonds, which also generates a significant risk. It is therefore essential to move towards greater diversification of the instruments in which pension funds invest (Berstein and Chumacero, 2006). Investing financial resources appropriately and raising productivity will be critical factors in achieving favorable yields. Additionally, the market structure of the industry in some countries greatly limits competition between private pension funds, which can have a negative impact on the funds' returns. The population's relatively limited understanding of the implications of their decisions for their future pensions can often also lead to their pensions being low. The public needs to be given more information and the default investment strategies people can opt in to need to be well designed (Berstein, Fuentes and Villatoro, 2013).
- 3.37 **The region needs social security reform.** The region needs to embark on a path of change to achieve universal coverage and sustainability and/or tailoring of systems, while raising efficiency and extending coverage against the longevity risk that currently exists in individually funded systems. To increase coverage against a backdrop of fiscal constraints, differentiated strategies need to be analyzed, country by country, taking into account their specific conditions, including their fiscal situation. In some countries reforms will need to be made to enforcement of contributions, while others will require improvements to labor regulations or reductions in payroll taxes offset by other taxes. Almost every country could benefit from experimenting with new mechanisms inspired by behavioral economics that seek to have contributions made by default and encourage voluntary saving. Expanding the noncontributory portion would also depend on the fiscal position of

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<sup>44</sup> They are inefficient because these forms of retirement do not utilize mortality credits from other pensioners as a source of finance. In other words, individuals have to finance their retirement from their own savings rather than utilize the insurance element that arises from the fact that some individuals will live longer than others.

the actual design of the contributory part or on whether funds subsidizing contributory systems—transfers that are generally quite regressive—could be redirected to finance the noncontributory pillar. At the same time, it will be necessary to invest in strengthening the institutional framework so it is able to design and implement appropriate policies and build broad reform agreements.

#### **IV. LESSONS LEARNED FROM EXPERIENCE WITH THE IDB'S OPERATIONS**

##### **A. Results of project completion reports (PCRs) and disbursement parameters**

4.1 The IDB's operational experience in program and policy support for the labor sector has mainly focused on supporting coverage and effectiveness of labor intermediation services (LIS) including improving labor intermediation and training programs, with a strong focus on women and young people, and on strengthening linkages to the productive sector. The Bank has also supported projects to improve links between technical training and the market's skills requirements, as well as projects to develop better ongoing training systems (better coordinated, more relevant, and higher quality). In the social security area, operational experience has focused on supporting reform processes aiming to help consolidate macroeconomic and fiscal stability, and strengthen the institutional framework of countries' pensions systems. This accumulated operational experience has yielded a set of lessons learned that help guide the Bank's portfolio of new loan and technical cooperation operations in the sector.

4.2 This section does not include information from sector reports of the Office of Evaluation and Oversight (OVE) on labor and social security matters, as they have not yet been completed. The only analysis available from OVE is a thematic analysis covering a review of the Bank's work in relation to training programs for young people (Ibarrarán and Rosas-Shady, 2009). The report finds that the programs examined managed to increase access to formal employment among beneficiaries, relative to the control group, and were cost-effective, although their effects varied by gender, age, and region.

##### **B. Results of the Development Effectiveness Matrix**

4.3 Since 2010, the Development Effectiveness Matrix (DEM) for labor market and social security projects has shown significant improvements in program logic and in the economic analysis of the intervention. In the section on monitoring and evaluation, the Labor Markets Division decided, in 2014, to no longer include impact evaluations in new operations, since the division already had a large number of impact evaluations in progress, completion of which was given priority. In the period 2013-2016 six impact evaluations were completed, yielding very valuable lessons for the future design of operations in the sector that have been incorporated throughout this document, primarily in Sections II and IV.

##### **C. Lessons learned from the experience of the Bank's work in the sector**

4.4 The Bank contributes to the development of labor markets and social security in the region through knowledge products, financing, and technical assistance. Recent activities and operations have yielded multiple lessons and good practices making a valuable contribution to empirical knowledge. However, they need to be put in context, and the conditions in which the activities giving rise to them were performed

also need to be considered. The lessons learned are classed as strategic, technical, or operational and are set out below.

## 1. Strategic lessons

- 4.5 **Intersectoral crosscutting coordination.** The Bank's international and operational experience shows that the success of many projects in the labor field requires interagency coordination within governments. It also requires labor ministries to go beyond their traditional role of enforcing labor standards, to take on new functions promoting employment, developing skills, fostering labor productivity, and supporting a sustainable social security system with broad coverage. Having good vocational training systems requires the close involvement and alignment of the ministries of education, economy, and labor. Achieving adequate and sustainable pension systems requires the involvement of finance ministries and pensions superintendencies, along with ministries of labor. In this regard, the Bank's capacity to mobilize a variety of actors should be highlighted, as this represents a comparative advantage in the development of projects that require linking and coordinating various institutions and sector bodies. It is also important to strengthen this dialogue through actions such as the signing of memoranda of understanding between ministries or areas setting out the responsibilities each party is taking on.
- 4.6 **Joint work with other areas of the Bank strengthens this interagency work,** generates economies of scale, and promotes better results. Key areas of collaboration include those with the fiscal policy area on tax and pensions matters, and with the Education Division to more closely link curricula for technical secondary education to productive sector requirements, and to achieve better coordination of life-long learning systems.
- 4.7 **Importance of knowledge generation for sector dialogue and technical support.** In recent years, the Bank has established itself as one of the main generators of knowledge and a provider of technical assistance for the sector in the region. Five books, nine monographs, nine technical notes, and nine working papers have been published since 2013, constituting a combination of thematic knowledge at the regional level and a deepening of various topics at the country level (see [Table 1](#)). The Bank has also generated synergies with other institutions (EU-LAC Foundation, British Council, and the Governments of Korea and Australia) to gather and disseminate successful experiences in vocational training.<sup>45</sup> This knowledge, in combination with the effort to conduct rigorous impact evaluations, allows feedback into the design of new policies and programs, with technical dialogue and involvement that reaches well beyond the countries with which it has loan programs. For example, a survey by the world association of PES found the IDB to be the second most frequently mentioned institution by PES as their main source of technical assistance, after the European Union.
- 4.8 **Promoting South-South cooperation.** The Bank was a pioneer in promoting the exchange of successful experiences between employment services in the region. Thanks to the SEALC network of employment services' technical support, it was possible to connect the region's employment services and promote cooperation

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<sup>45</sup> For more information see: <http://habilidadesyproductividad.org/es/>.

between them and with services in OECD countries.<sup>46</sup> The active participation of countries in providing technical assistance not only allowed high-level technical support to be provided but also enabled costs to be reduced, as in most cases it was not necessary to cover fees. The SEALC network's operating structure has turned out to be an example of good practice not only for the Bank, but also for other institutions. This experience is being replicated in the social security area—through the PLAC network of pension systems in Latin America and the Caribbean, which was set up in early 2016—and in the construction of the regional social security observatory project, which provides technical support for implementation in six countries of the Longitudinal Social Protection Survey, promotes South-South cooperation between the countries conducting the survey, and presents comparative public information obtained from it.<sup>47</sup> The Regional Policy Dialogue (carried out on five occasions to date) has also established itself as a mechanism for the exchange of experience and promotion of horizontal cooperation, with the signing of bilateral agreements, and through an exchange between countries of know-how from experiences. This dialogue has allowed, for example, the region's labor authorities to find out about Korea's experience developing a next generation labor policy system, or Mexico's experience building partnerships between various government agencies and the private sector to develop the aerospace industry in Querétaro.

- 4.9 **Complementarity in the use of Bank instruments.** The evolution of labor ministries towards new roles calls for new capabilities and gives rise to financial requirements. Technical cooperation and knowledge products are effective tools in promoting sector dialogue and identifying options for action, while originating demand for projects from countries. It is worth noting the case of The Bahamas, for example, where a series of knowledge products developed with knowledge product (economic sector work or ESW) and technical cooperation funds financed the design of a questionnaire on companies' skills demand and training practices, and the running of a survey of a representative sample of companies in the country. This sparked a technical dialogue on youth unemployment and the skills gap, which culminated in a request to the Bank for financing to support an apprenticeship program and strengthen labor policies. Also, having technical cooperation instruments makes it possible, on the one hand, to run pilots producing demonstration effects and, on the other, to support loan operations, once loans are in preparation. This bolsters the work of designing and strengthening executing agencies, serving as a way of supporting the project implementation process.

## 2. Technical lessons

- 4.10 **Reforms must be focused and tailored to each country's needs.** It is difficult and not very advisable to export a particular type of reform that has worked in a given context to other countries with different structures and political and economic institutions. Each country's strengths should therefore be identified so as to support reforms based on those pillars. It is also essential to understand the characteristics of the context (e.g. high rates of informality versus high rates of youth unemployment or, in the case of the Caribbean countries, significant migratory flows) and modify

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<sup>46</sup> See: <http://www.iadb.org/es/temas/trabajo-y-pensiones/redsealc/red-sealc-red-de-apoyo-tecnico-de-los-servicios-de-empleo-de-america-latina-y-el-caribe,18644.html>.

<sup>47</sup> See: <http://www.observatorioregional.net/es/principal/>.

the emphasis and approach to address each country's specific problems. The use of intraregional dialogues and exchanges with OECD countries has been effective in promoting discussion of how to adapt labor interventions from one country to another, depending on the individual context in each case.

- 4.11 **Detecting barriers to participation.** For many people, the same factors that prevent them from participating in the labor market also prevent them from participating in job placement programs. These factors need to be identified (for example, childcare, caring for other members of the household) and built into intervention design. In some cases it will be necessary to complement job placement programs with policies that promote job creation and reduce the cost of hiring young people and other vulnerable groups in the labor market.
- 4.12 **Profiling.** To ensure that people receive an appropriate level of service to access employment (and the appropriate channel is available through which to do so), their degree of vulnerability needs to be determined. This makes it possible to point beneficiaries towards relevant services that are most cost-effective.
- 4.13 **Building the capacities of employment counselors and training instructors.** Having qualified personnel and internal training schemes in employment services and training systems enables job placement rates for vulnerable persons to be improved and better learning outcomes achieved. It is also crucial to have personnel specialized in catering to the most vulnerable groups who require closer follow-up. Adequate incentives must also be included for public officials in operation design.
- 4.14 **Establishing appropriate performance targets.** Targets need to be carefully set in order to achieve the expected outcomes. For example, if overall job placement targets are set, but separate targets are not specified for more vulnerable groups requiring greater effort, such as people with disabilities, for example, employment counselors may prefer to devote more time to other groups requiring less time, so as to meet the overall target more easily.
- 4.15 **Investing in IT management systems.** Having an integrated management information system makes it possible to implement interventions in a more integrated way, at the level of both the services individuals may receive and the institutions providing them. Planning, support, monitoring and performance evaluation activities also need databases to be set up containing information on services received and employment history, linking data from various different sources (administrative, statistical, etc.). The availability of such information considerably reduces the cost of monitoring and evaluating whether projects achieve appropriate outcomes and, therefore, promotes better outcomes. Parallel support for these systems through the available funds is crucial.
- 4.16 **Building public-private partnerships (PPPs) for access to formal employment and employability.** Building PPPs is essential in order to make interventions supporting access to employment and ongoing training more effective. In this regard it is worth highlighting the lessons learned from the New Employment Opportunities (NEO) project, a joint MIF-SCL/LMK initiative to place a million vulnerable young people in jobs by building PPPs to transfer good practices and build capabilities among training providers and PES. This experience showed that differences of context (legal and institutional framework, the actors' prior experience of working together, incentive systems, and cultural norms) are the main factors promoting or

- hindering the development of partnerships. Time is a fundamental factor: it takes at least a year to build a multi-sector partnership and from six to eight years to build trust between the members and achieve sustainability. Executing agencies are also key and require leadership, negotiating capacity, connections with the public and private sectors, drawing power, recognition as subject experts, transparent processes, and neutrality to inspire security and trust among the members of the partnership. They need to be involved from the outset and cannot be merely an administrative body. The partnership must formally designate the executing agency. Finally, it is important to take a strategic approach to selecting the members of the partnership. This requires mapping and analyzing the actors, identifying champions, and striking a balance between public and private sector members.
- 4.17 **Quality assurance.** At the project level, the participation of private training providers and competition between them is insufficient to ensure quality training; quality assurance mechanisms need to be established. Along these lines it has been possible to show the importance of separating functions to avoid the same institution being responsible for the provision and quality assurance functions, and to tie financing to specific learning, employability, or productivity outcomes.
- 4.18 **Investing in conditions for success.** When workforce training interventions are established in countries lacking the institutions and processes to ensure the relevance and quality of training, it is essential to simultaneously invest in developing these processes and institutions. Although this may reduce the number of beneficiaries that can be served and may raise the cost of the intervention per beneficiary, ensuring the conditions for success are in place (see Section II.B) boosts effectiveness, enhances the final outcome of the intervention, and lays the groundwork for the more lasting development of these conditions, with impacts reaching beyond the specific intervention to the vocational training system as a whole.
- 4.19 **Social contract and political economy.** Social insurance and labor legislation are part of countries' social contract. Therefore, when designing and implementing reforms, historical, cultural, and political factors shaping decision-making need to be taken into account, in addition to technical considerations. In recent years the Bank and the region have learned that reforms tend to be more successful when consensus is reached, and that the Bank and countries can promote consensus by collecting information, performing rigorous diagnostic assessments, promoting platforms for relaying the results of diagnostic assessments to the public, running communication campaigns, and setting up forums for consultation on reforms, such as reform commissions (Chile) or public consultations (Barbados).
- 4.20 **Prior diagnostic assessments.** The prior analyses a country has available when reforming its social insurance system or labor market institutions are extremely useful as they are carried out without the pressure of an impending reform and with a view to balancing the interests of the various different stakeholders as well as possible. Gathering information enabling a better understanding of the specific country context and the institutional, cultural, financial, and macroeconomic situation is crucial to promoting effective reforms. The Bank has therefore given priority to promoting the generation of information through regional projects, such as the Longitudinal Survey of Social Welfare, and by producing information and studies for individual countries.



### 3. Operational lessons

- 4.21 To achieve their outcomes, projects need to be implemented on time and within budget. Reports by the Bank (Álvarez, Bueso and Stucchi, 2012) offer operational lessons that cut across projects, such as the importance of taking the “country effect” into account more than the “sector effect,” and that countries’ capacity to design projects has to be considered in order to adequately dimension expectations regarding the outcome. The operational lessons learned are as follows:
- 4.22 **Institutional capacity of the executing agency or unit.** The capacity of executing agencies or units has been affected in several cases by: absence of technical personnel, staff not being assigned full time to the project, high turnover, changes of administration or priorities, and lack of experience with loans and international cooperation projects. This has led to execution delays and even hampered implementation of the original design of the operation. Experience shows that having a comprehensive, up-to-date institutional diagnostic assessment allows: (i) the scope of the operation to be matched to the country’s institutional context; (ii) responsibilities and roles to be identified and assigned to staff to build strengths and bolster the executing agency in a comprehensive way; and (iii) build active counterparts who support program implementation. Some operations have also opted to set up steering committees. These committees have served to provide strategic guidance and technical supervision to programs involving a plurality of interlocutors. In other cases, incorporating the institution’s highest bodies in decision-making has often been found to raise the institution’s level of commitment and level and speed of execution.
- 4.23 **Fiduciary risk management.** Delays and problems associated with tendering and procurement processes are one of the main causes of project delays and cost overruns. The options identified for managing risks of this kind include realistic planning, carried out with the areas in charge of each process, and considering national averages for disbursements and purchasing and procurement process times. This joint planning also encourages the responsible areas to have a greater level of commitment to the established deadlines. At the level of beneficiary payments, it has been shown that delays can affect the perception of the program. In many cases, centralized payment processes can lead to delays in beneficiary attention or payment. In such cases, institutional capacity should be taken into account when proposing possible gradual decentralization schemes, with services implemented first at the pilot level and then procedures fine-tuned and times determined.
- 4.24 **Design of projects with clear outcomes and flexible operating structures.** The institutional changes at the level of governments and authorities require that projects establish clear targets and expected outcomes. However, to achieve these results sufficient flexibility is needed to make the necessary adjustments in order to achieve their outcomes in a changing context. For example, in Bolivia the use of a parameter like the minimum wage to determine economic support led to operational problems when the minimum wage was raised. The economic support was not the core part of the project; instead it was the training this support facilitates. Therefore, the flexible option of regionalizing and matching support to a changing context would have been a key factor in ensuring outcomes were achieved.

- 4.25 **Transfer of NEO good practices to the region.** Programs like NEO require the decisive involvement of institutions' executives to institutionalize new processes, manuals, and sometimes new positions. The technical capacity of some institutions creates a need for more personalized guided and in-person training, accompanied with longer support to ensure that best practices do not end when the external advisor is no longer present.
- 4.26 **Cooperation between the public sector and the MIF.** The experience with NEO reveals the opportunities and challenges of intersectoral work. Incorporating IDB staff in the design of the MIF's NEO operations has allowed actions complementary to the Bank's loans and technical cooperation operations to be designed. The fact that they are independent, with private sector ones in the case of the MIF and public sector executing agencies in the case of the IDB, has meant that if an operation is delayed, the complementary operation can continue to be executed and make progress in areas relevant to the project as a whole. This complementarity and interdependence bolsters common objectives, builds capacities in different actors in the youth employability system—both public and private actors and those from civil society/nongovernmental organizations—and promotes public-private dialogue, thereby enhancing operations' impact and sustainability. However, to increase the impact and scalability of initiatives like NEO, closer collaboration should be encouraged, drawing on both teams' budgetary allocations and time, aligning the objectives of the MIF and the Bank on high-level sectoral issues, and designing an explicit transfer plan to ensure and foster scale-up of the knowledge acquired and developed by this initiative in IDB operations.
- 4.27 **Need to strengthen the institutional framework.** Although there has been progress on developing the institutional framework of the labor market, there is still a long way to go. The use of technical cooperation to analyze and promote institutional capacity, in combination with the establishment of continuous training processes, systems and structures in projects or through reforms to entities, has proven to be a valuable tool in promoting institutional change. Building on these efforts, the Bank's operations in the sector have outperformed the Bank's average (73% of loans led by SCL/LMK have retained a satisfactory classification, and just 8% were classified as problem operations), despite the fact that, in most cases, operations were performed with entities that were new to borrowing from the Bank.

**D. The Bank's comparative advantages in the sector**

- 4.28 **The Bank has been involved in the labor area since 1994.** Innovative pilot schemes in labor retraining, intermediation services and vocational training programs have been trialed through the Multilateral Investment Fund (MIF) since 1994, focusing particularly on young people, with private sector participation, promoting the development of the Bank's loan portfolio in these areas.<sup>48</sup> The Bank has also led high impact studies in the sector and numerous impact evaluations, in

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<sup>48</sup> See: Mazza et al. (2005).

some cases constituting the bulk of the evidence existing in the sector for Latin America and the Caribbean.<sup>49</sup>

- 4.29 **In 2009 the Bank set out to strengthen its strategic positioning in the sector by creating a unit devoted exclusively to these topics** so as to allow more countries to be served and a systemic approach taken to labor and social security issues. In 2016 the Bank's Board of Executive Directors decided to turn this unit into a division, thus helping consolidate the sector in the Bank. The Bank thus differentiates itself from other multilateral agencies, giving a clear signal of the importance it attaches to these topics and its intention to scale up its investments in technical and financial terms. Its cultural proximity and its investment in setting up a team that is highly skilled in the analysis, design, execution and evaluation of labor and social security interventions in the region, position it as a strategic partner when countries are looking for financial and technical support on these topics. Another area in which the IDB has a comparative advantage in this sphere is its capacity to promote exchanges of successful experience and its being a benchmark for knowledge on region-specific labor and pensions matters (Section IV.C).
- 4.30 **This is all reflected in the fact that the IDB's portfolio in the sector has grown significantly since 2013**, from total approvals of US\$611.5 million between 2010 and 2012 to US\$1,144,464,000 between 2013 and 2015, including the labor components in code-share loans led by other divisions.<sup>50</sup> Links have also been forged with new member countries, particularly expanding collaboration with the Caribbean region, with operations in Barbados and The Bahamas. From 2012 to 2015, four operations headed by SCL/LMK were approved and four additional operations are in preparation. Additionally, 12 code-share operations have been approved with other IDB divisions promoting issues relating to labor policy and pensions, and nine operations under the NEO project, promoted jointly by the MIF and the IDB. Since 2009, a further 74 technical cooperation operations in labor and security covering 19 countries of the region have been approved (15 were regional operations) for US\$31.73 million.
- 4.31 Given these advantages, the Bank will place priority on efforts to: (i) ensure wider and more equal opportunities to access formal work; (ii) boost the productivity of workers in the workplace by extending access to vocational training systems that are relevant, high quality, and cost-effective; and (iii) increase coverage to hedge against the risk of poverty in old age and illness in a sustainable way that is consistent with the creation of formal jobs. The Bank already has a qualified team with considerable expertise and experience in these areas and has been progressively decentralizing more staff to Country Offices to improve country dialogue capacity.<sup>51</sup> To achieve these priorities the Bank will seek coordination inside the institution and with other institutions, such as the Organisation for Economic

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<sup>49</sup> See for example Economic and Social Progress Report in Latin America 2004 "Good Jobs Wanted"; the 2010 Development in the Americas report, "The Age of Productivity;" the 2008 book "Good Intentions, Bad Outcomes" by S. Levy; the 2004 book "Law and Employment: Evidence from Latin America and the Caribbean" (co-authored by Nobel laureate J. Heckman and C. Pagés).

<sup>50</sup> Code-share loans are calculated using the sum of the value of the labor components in the investment loans and imputing a value to the labor components of policy-based loans (PBLs), dividing the total amount by the number of components, without counting the macroeconomic stability component.

<sup>51</sup> The details of how to achieve these objectives will be presented during budget discussions.

Co-operation and Development (OECD), the International Labour Organization (ILO), the Inter-American Conference on Social Security (CISS), and the Organization of American States (OAS).

- 4.32 **Implementing these priorities means giving less priority to interventions in other important areas**, such as job security and prevention of job-related injury, ratification of labor standards, eradication of child labor and forced labor, strengthening of unions, wage negotiations, or promotion of social dialogue, in which organizations such as the ILO and the OAS have comparative advantages. These priorities may change in the future, depending on how the region's challenges and knowledge of labor and pensions issues develop.

## **V. GOALS, PRINCIPLES, DIMENSIONS OF SUCCESS AND LINES OF ACTION TO GUIDE THE BANK'S OPERATIONAL AND RESEARCH ACTIVITIES**

- 5.1 The Bank's main goal in the labor market and social security sector is to promote successful career paths while simultaneously enhancing productivity and social inclusion.
- 5.2 To meet this goal, the Bank's work will be governed by the following principles:
- a. **Consistency, comprehensiveness, and coordination.** Comprehensive and systemic interventions will be promoted, striving to coordinate new and existing policies and programs, and between different ministries and agencies of the State, and within the Bank, to ensure all interventions are consistent and in line with fundamental labor standards.<sup>52</sup>
  - b. **Active participation of employers and workers' representatives.** Active participation of employers and workers' representatives and creation of policy innovations will be fostered, together with public-private partnerships on the design and implementation of access to employment policies, vocational training, and social security.
  - c. **Interventions based on knowledge and evaluation.** The design of interventions will be evidence-based and draw on existing knowledge. Where no prior knowledge is available, the groundwork will be laid for knowledge generation to inform future operations.
  - d. **Gender perspective and special attention to vulnerable groups.**<sup>53</sup> Particular attention will be paid to the specific barriers faced by various groups that, on account of their gender, age, race, ethnicity, special capabilities, sexual orientation or gender identity, face particular difficulties in the labor market and in accessing social-security benefits, seeking to have close coordination with the Gender and Diversity Division (SCL/GDI) and between different government entities. For example, in the case of career guidance and information, information will be given on training in nontraditional occupations, which often offer higher wages. The needs of vulnerable groups will be analyzed, based on which interventions will be

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<sup>52</sup> Namely: freedom of association, the right to collective bargaining, prohibiting all forms of forced labor, prohibiting the worst forms of child labor, and not discriminating in employment and occupation (ILO, 1998).

<sup>53</sup> Although women constitute the group of priority interest, men also face problems in the labor market that require attention, particularly young people, and especially in the Caribbean and Central America.

adapted to address the barriers different groups face, such as awareness campaigns, child-care services, physical improvements to infrastructure, or services adapted to beneficiaries' culture or language. To support women's labor participation the following services will be promoted: childcare, vocational guidance that does not conform to gender stereotypes, and professional refresher training programs for women rejoining the labor market after a period devoted to caring for children or other family members. To improve employment for the disabled, incentives will be supported for employers to hire disabled workers, including support for physically adapting infrastructure and promoting training programs in occupations in which disabled persons have comparative advantages.<sup>54</sup> To support the job prospects of racial or ethnic groups, including indigenous communities, services in the beneficiaries' language or tailored to their culture will be promoted, together with traineeship programs in the public sector or the allocation of resources for labor or economic development of geographic areas that are home to predominantly minorities.

- e. **Focus on youth.** The high number of students who are neither studying, working, nor seeking employment, together with high youth unemployment rates, warrants a special focus on young people, particularly in some countries in the region. Work will be done in a crosscutting manner, coordinating actions with the Education Division (SCL/EDU) and between the Ministries of Education and Labor and, if required, other social services and involving the private sector, for successful transitions from school to the formal workplace.
  - f. **Adoption of new technologies and innovation.** Efforts will be made to mainstream new technologies to make gains in terms of the efficiency, scope, and cost-effectiveness of labor policies. The use of big data will be promoted to generate labor market information and identify skills requirements. The incorporation of more effective technology platforms to link job-seekers to vacancies will be facilitated, for example, by incorporating search algorithms based on neural networks and the development of online training programs. In the case of social security, the development of innovative mechanisms for education on pensions saving and the enforcement and collection of social-security contributions will be pursued.
- 5.3 To achieve the proposed goal, the Bank's work in the sector will focus on the following three dimensions of success:
- A. **Dimension of success 1: The region's citizens have more, and more equitable, opportunities to access formal jobs with better wage expectations**
- 5.4 **Lines of action.** The following lines of action are proposed in relation to this dimension of success:
- a. Complementing the work proposed in the Education and Early Childhood Development SFD to coordinate technical secondary education curricula with the requirements of the productive sector and improve the career guidance and information young people receive (also linked to Dimension of success 2).

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<sup>54</sup> For example, training the visually impaired to work as clinical assistants for breast exams in hospitals or clinics, taking advantage of their heightened sensory sensitivity compared to persons who are not visually impaired.

- b. Increasing the scope and effectiveness of labor intermediation services in the region.
  - c. Supporting reforms to income protection systems for the unemployed and labor regulation to improve protection and create more formal work.
- 5.5 To implement these lines of action the following operational and knowledge activities are proposed:

**1. Operational activities:**

- a. **Strengthening school-work coordination, and information and guidance mechanisms, for young people:** Creation or strengthening of skills demand forecasting mechanisms and other ways to link the content of technical education to the needs of the productive sector, with its close participation and incorporating new technologies, such as using big data; development of competency-based technical education curricula in line with employers' present and future requirements, addressing demands and opportunities created by new technologies; strengthening programs and mechanisms for linkages with employers, such as internships and apprenticeship programs enabling structured on-the-job training according to pre-established, regulated content; and setting up career guidance and information mechanisms.
- b. **Promotion of integrated labor market information systems** that generate timely, relevant information (in terms of topics, frequency, and level of geographic disaggregation) for individuals, businesses, government, and other agents, such as private employment agencies.
- c. **Developing integrated schemes offering services to job-seekers and companies in the PES,** including coordination of all services provided via single-window schemes and coordination and structuring of private intermediation services. Promoting profiling systems to assign services and resources, targeting and personalization of attention to those users facing more serious barriers to labor market access by means of case management, and guidance taking a life-cycle approach.
- d. **Establishing and maintaining a strong strategy of PES partnering with employers.** Promote a supply of high quality services focused on the needs of the productive sector, increased use of information technology, and a better strategy for communication with employers.
- e. **Strengthening of job placement programs.** The aim is to improve the capacity to: identify barriers to job placement; support beneficiaries through mentoring and by connecting them with social services; diagnose cognitive and socioemotional skill gaps; appropriately target services and designating or referring beneficiaries; develop appropriate educational content; conducting direct interventions with firms or associations representing them that promote the employability and workforce integration of vulnerable groups; monitor results in the labor market; and conduct impact evaluations.
- f. **Strengthening programs to support inclusion of the unemployed and their linkage to active policies.** Designing and implementing interventions to increase the coverage of income support systems for the unemployed in a

sustainable way. Improving unemployment insurance payments management by PES and other institutions, and their linkage to employment services and other ALMP.

- g. **Strengthening the management of PES.** Raising PES' cost-effectiveness and efficiency by running performance management schemes; and developing human resource management structures and multichannel strategies (enabling a strategic approach to be taken to using multiple service channels).
  - h. **Reform programs in the labor market regulatory area.** Supporting reform programs in the regulatory area permitting a balance between the objectives of protection and creation of formal work.
  - i. **Collaboration in multisectoral teams** to develop interventions led by other sectors that have consequences in terms of the employability of vulnerable groups and their workforce integration.
2. **Knowledge activities:** (i) analysis of employment trends in the region and how technological change and the globalization of goods and services affects the region's labor market; (ii) evaluations of the impact of school-to-work linkage programs, such as internship and apprenticeship programs; (iii) analysis of obstacles young people and other vulnerable groups face to accessing the formal labor market; (iv) impact evaluations on various services provided by PES, distinguishing, where possible, impacts by gender, degree of vulnerability, age, race, and ethnicity; (v) evaluation of the impact of socioemotional skills on job placement; (vi) evaluation of impact of programs to improve employability, analyzing cost-effectiveness of training in technical skills; (vii) impact evaluations on various aspects of functioning of PES; (viii) analysis of new digital technologies to support intermediation and training, and how they affect the role and action of PES; and (ix) diagnostic assessments of the state of labor intermediation services in the region.

**B. Dimension of success 2: Workers are more productive and, consequently, obtain higher wages and more stable employment**

5.6 **Line of action.** The proposed line of action is to develop higher quality vocational training systems that are relevant and effective, so as to raise workers' productivity (and that of companies) in the region and, thereby promote better career paths.

5.7 To pursue this line of action the following operational and knowledge activities are proposed:

**1. Operational activities:**

- a. **Supporting the relevance of vocational training systems based on development of mechanisms to identify the productive sector's present and future skills requirements to guide the development of curricula and qualifications.** Promoting the development of mechanisms that can identify skills requirements and update them over time at the national, sectoral, or territorial level.
- b. **Improving the development of competency-based curricula.** Supporting the development of national qualifications frameworks,

diversified training options for active workers—whether in the classroom or the workplace—evaluation mechanisms, and recognition and certification of skills acquired informally in the workplace.

- c. **Better quality assurance** (of policies, training institutions, on-the-job training, including apprenticeship and instruction programs and instructors) and the capacity to monitor and evaluate results.
- d. **Improving financing mechanisms and incentives for businesses and workers.** Incentives to promote investments in human capital by workers, employers and/or the State enabling underinvestment problems to be overcome, including competitively awarded funds for companies, vouchers for workers, and programs to encourage investment in training of SME managers or workers, as part of a comprehensive strategy to boost productivity, together with actions to increase relevance, develop curricula, and enhance quality to ensure the investments are effective.
- e. **Development of institutional coordination mechanisms.** Supporting the development of mechanisms enabling the coordination of all the agencies and authorities associated with vocational training systems (education, labor, economy, etc.) and representatives of the business and labor sectors. Support for national skills development strategies and the overall linking of skills development policies with productive development policies.
- f. **Working with multisectoral teams** to implement loan operations aimed at raising productivity.

- 2. **Knowledge activities:** (i) Development of mechanisms to identify skills gaps; (ii) evaluations of mechanisms to foster investment in training; (iii) evaluations of on-the-job training programs emphasizing the differential impacts on each group of workers and/or companies; (iv) evaluations of skills certification mechanisms; (v) diagnostic assessments of vocational training systems; and (vi) analysis of surveys of cognitive and socioemotional skills (STEP, PIAAC).

**C. Dimension of success 3: Workers are better covered against the risk of ill health and poverty in old age. The priority is to expand system coverage and tailor social security system benefits in a sustainable, equitable, and efficient way.**

5.8 **Lines of action.** The following lines of action are proposed in relation to this dimension of success:

- a. Improving coverage, sustainability, equity, and efficiency of pension systems.
- b. Complementing the activities proposed in the Health and Nutrition SFD with a view to reforming the financing of social security systems to promote universal coverage.

5.9 To pursue these lines of action, the following operational and knowledge activities will be implemented:



## 1. Operational activities:

- a. **Promoting increased coverage and tailoring of benefits.** Comprehensive programs to promote formalization of work, including incentives to join social security systems, reforms in financing social security, information and awareness campaigns about the benefits of formality and financial education, development of automatic contribution mechanisms, and improved enforcement. Developing noncontributory pillars in a way that is integrated with the contributory systems, increasing the general resources component in social security system financing.
- b. **Promoting greater sustainability of contributory and noncontributory systems.** Supporting the creation of mechanisms and instruments that ensure the sustainability of social security systems, such as pensions superintendencies, developing the capacity to conduct actuarial studies, introduction of automatic adjustment mechanisms, or designing fiscal rules that incorporate obligations contracted by the State in relation to pensions systems. Setting up of commissions or other mechanisms to generate consensus on pension reform. Supporting parametric reforms.
- c. **Promoting efficiency gains in individually funded pension systems.** Supporting reforms to reduce the fees charged by pension fund administrators, improve coverage of longevity risk and, in general, improve the overall functioning of individually funded systems.
- d. **Information and management systems.** Supporting information systems on the state of social security and evidence-based policy design. Development of social security management systems. Running a Longitudinal Survey of Social Welfare in at least six countries in the region.
- e. **Participation in multisectoral operations** to enhance pensions and health aspects of social security systems in a comprehensive way.

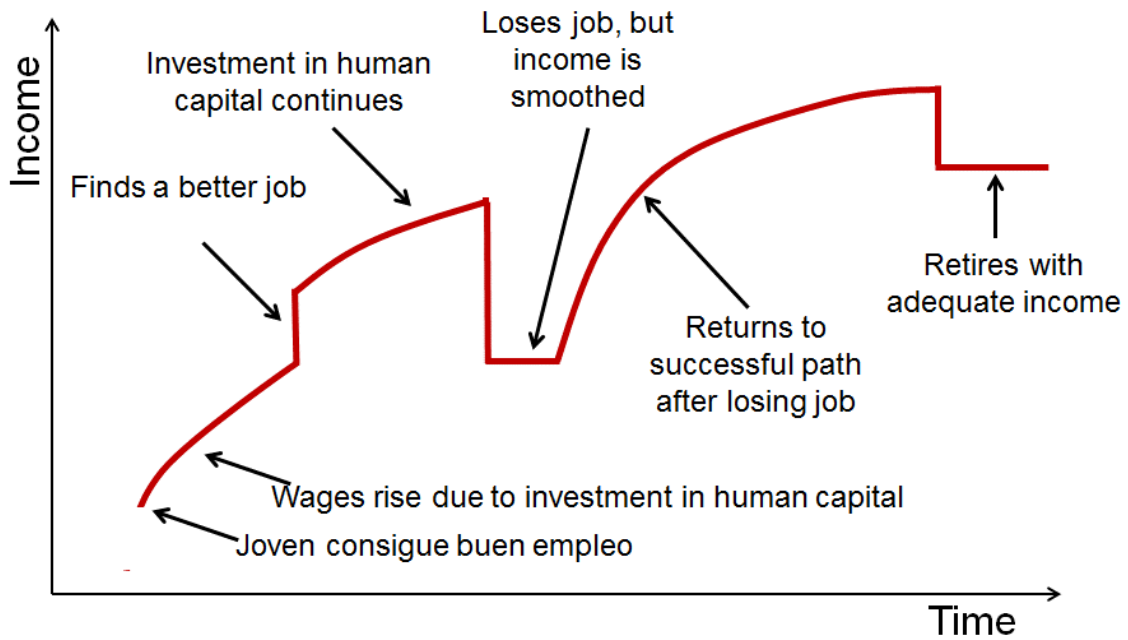
## 2. Knowledge activities: (i) evaluations of mechanisms and interventions promoting formalization and pension savings; (ii) analysis of the impact of social security design and social protection on informality; (iii) diagnostic assessments of pensions systems in countries, including an analysis of coverage, equity, and sustainability; (iv) development of instruments to cover longevity risk in individually funded systems; (v) analysis of the efficiency of social security investments; and (vi) analysis of international experience to address the impact of aging on pension systems.

5.10 These three dimensions of success contribute to the Sustainable Development Goals on reducing poverty (Goal 1), promoting gender equality (Goal 5), reducing inequality (Goal 10), promoting life-long learning opportunities (Goal 4), and promoting economic growth, employment, and decent work for all (Goal 8).



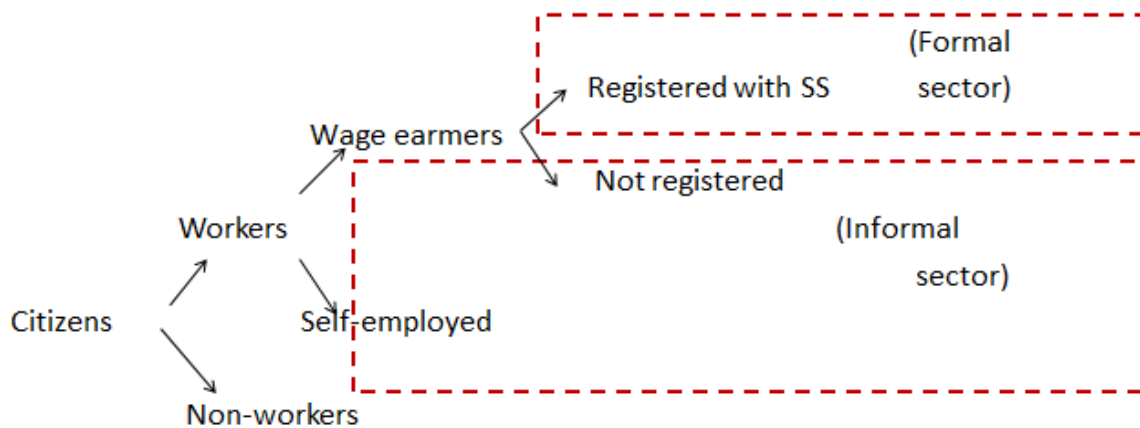
## FIGURES, GRAPHS, AND TABLES

Figure 1. Successful careers



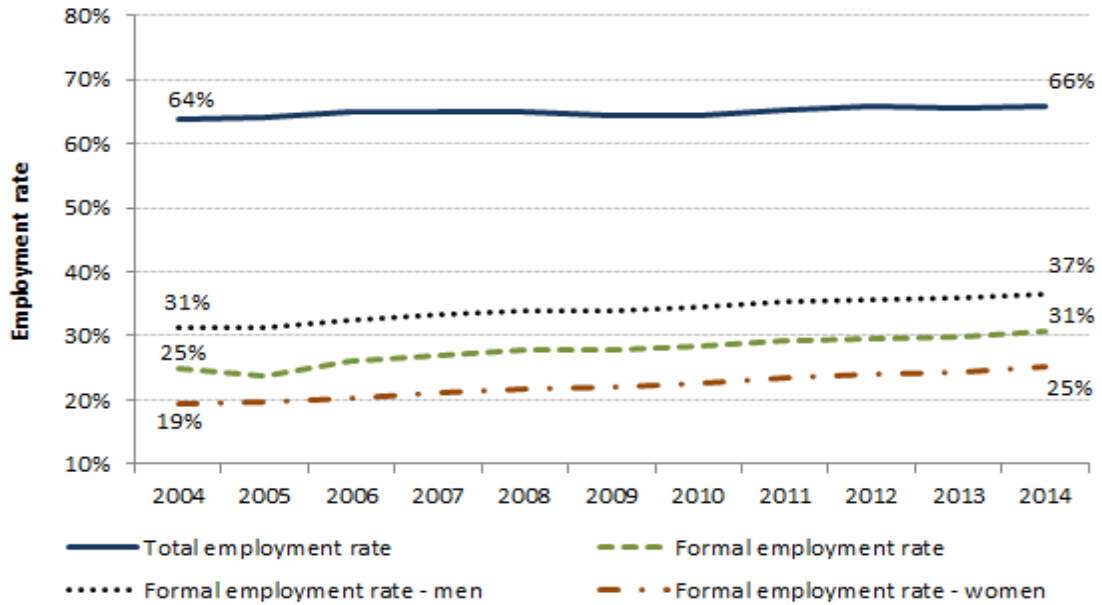
Source: IDB.

Figure 2. Design of social security



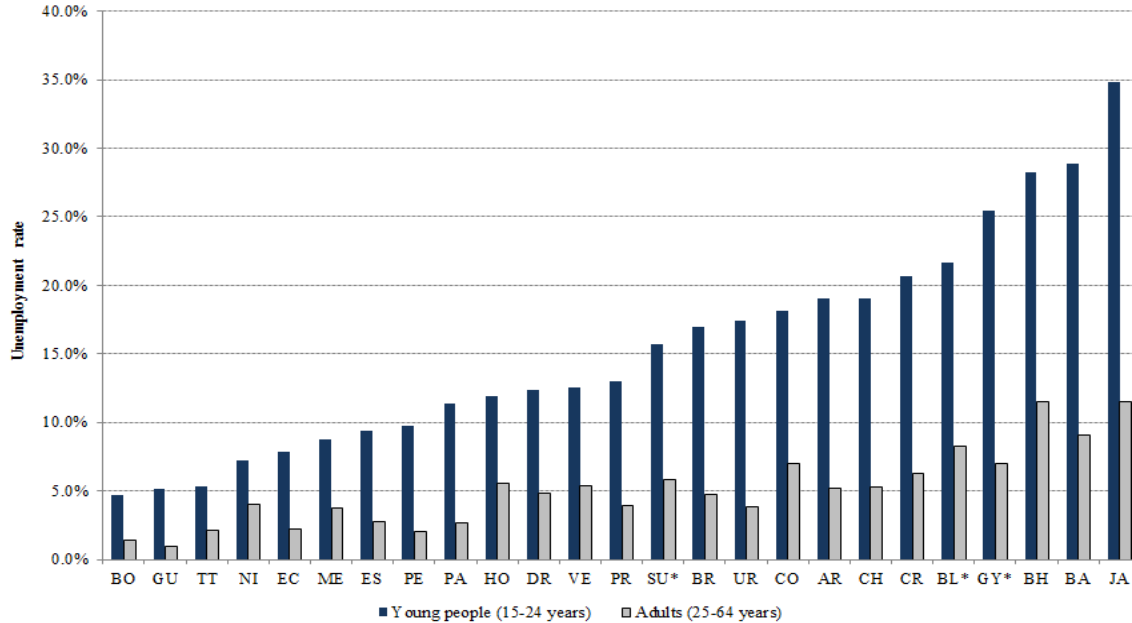
Source: IDB.

**Graph 1. Employment growth in the region**



Source: Labor Market and Social Security Information System IDB, 2016.

**Graph 2. Unemployment rates: young people vs. adults**

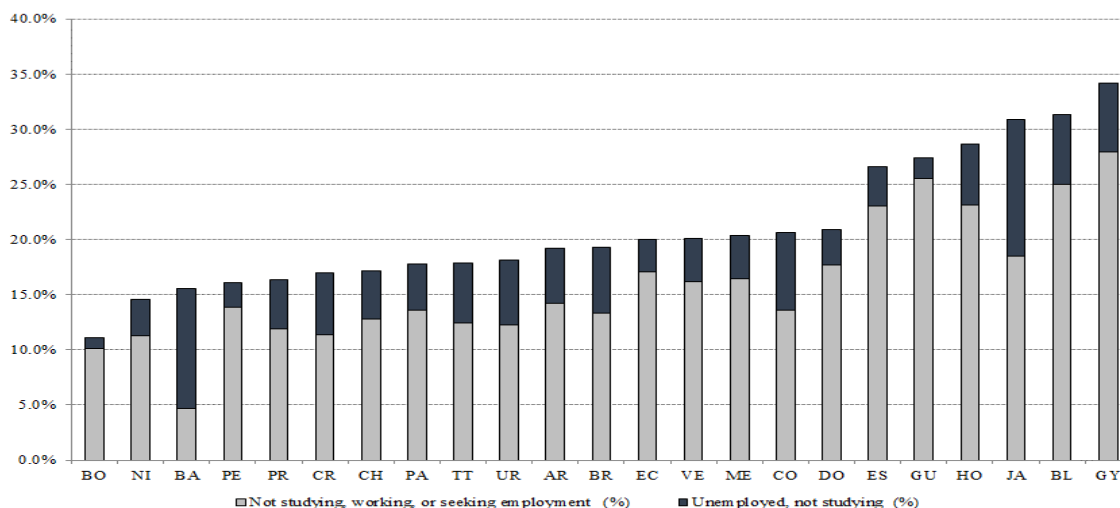


Notes: (1) Estimated using harmonized methodology. Countries marked with an asterisk (\*) were obtained from ILO statistics (ILOSTAT) and figures may not be directly comparable. (2) For Guyana and Trinidad and Tobago, the 2012 and 2011 population censuses were used, respectively.

Source: Labor Market and Social Security Information System.

**Graph 3. Percentage of young people not studying, working, or seeking employment, or unemployed**

Young people (15-24 years)

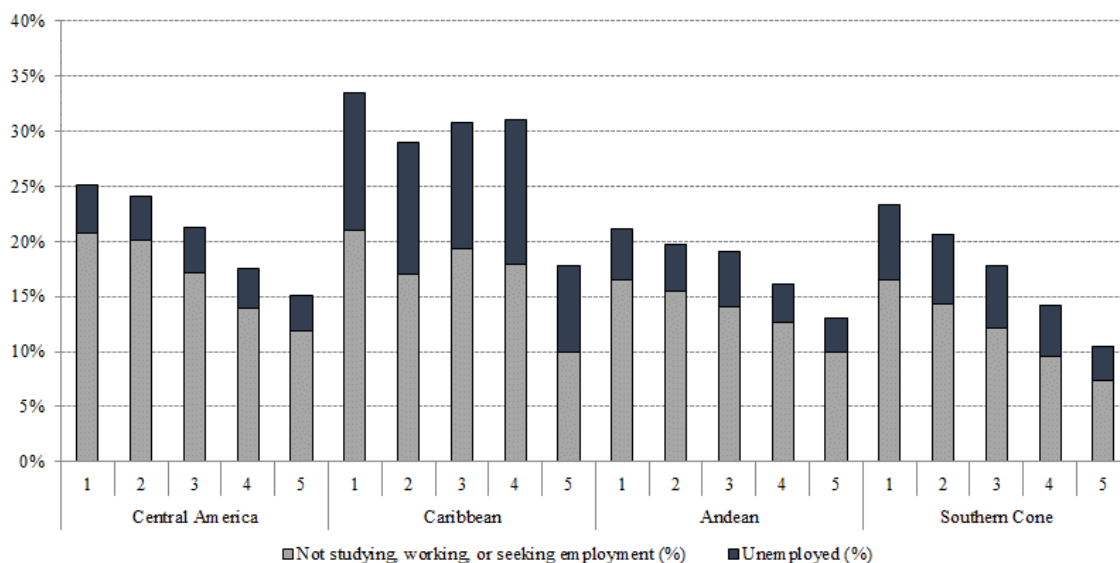


Notes: (1) The number of young people neither studying nor working corresponds to the sum of those neither studying, working, or seeking employment, and the unemployed (who are not studying). (2) No data available for The Bahamas and Suriname. (2) For Barbados, Guyana, and Trinidad and Tobago, the population censuses for 2010, 2012, and 2011 were used, respectively.

Source: Labor Market and Social Security Information System.

**Graph 4. Percentage of young people not studying, working, or seeking employment, or unemployed by household socioeconomic level (excluding young people's income)**

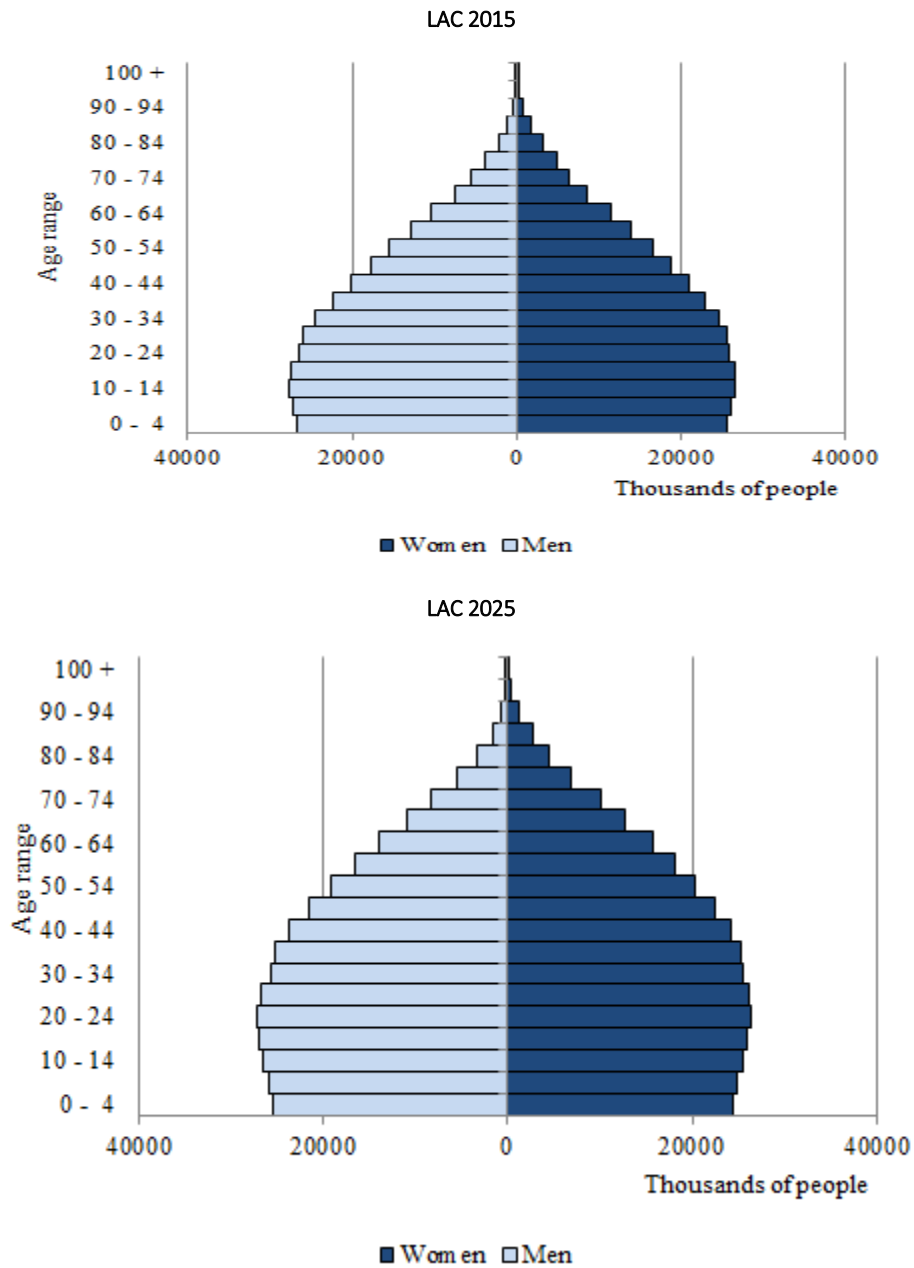
Young people (15-24 years)



Note: The number of young people neither studying nor working corresponds to the sum of those neither studying, working, or seeking employment, and the unemployed.

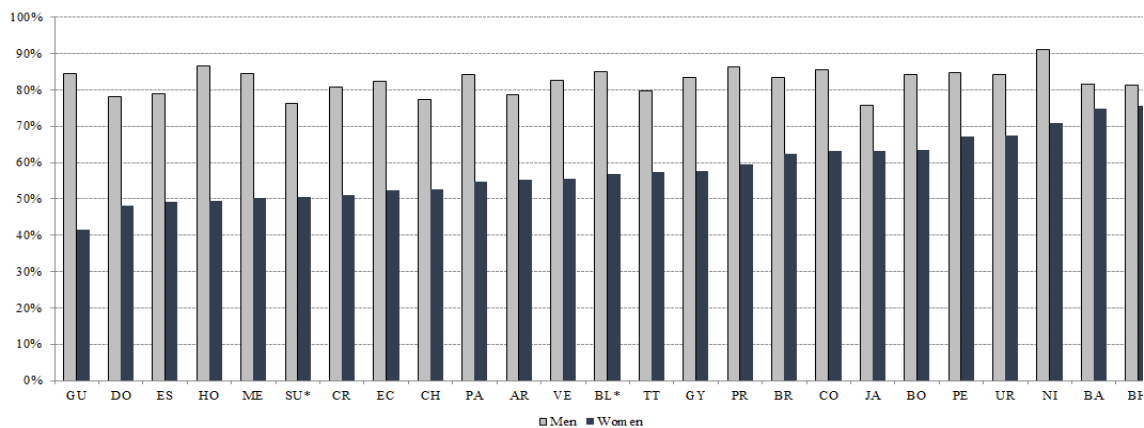
Source: IDB based on household surveys in each country circa 2014.

**Graph 5. Population age distribution in Latin America and the Caribbean**



Source: ECLAC Population Division 2015 revision.

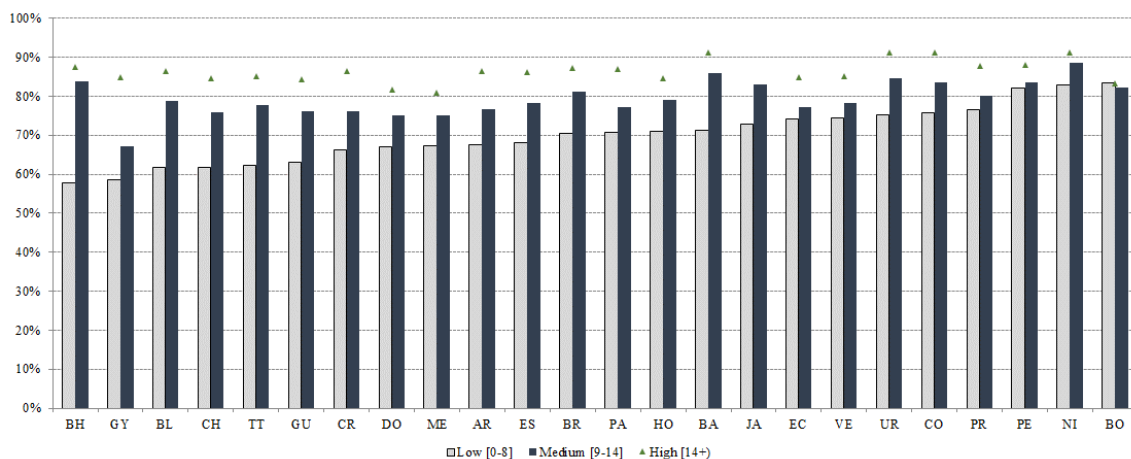
**Graph 6. Labor-force participation rate, by gender**



Note: Estimated using harmonized methodology. Countries marked with an asterisk (\*) were obtained from ILO statistics (ILOSTAT) and figures may not be directly comparable. For Guyana and Trinidad and Tobago, the 2012 and 2011 population censuses were used, respectively.

Source: Labor Market and Social Security Information System.

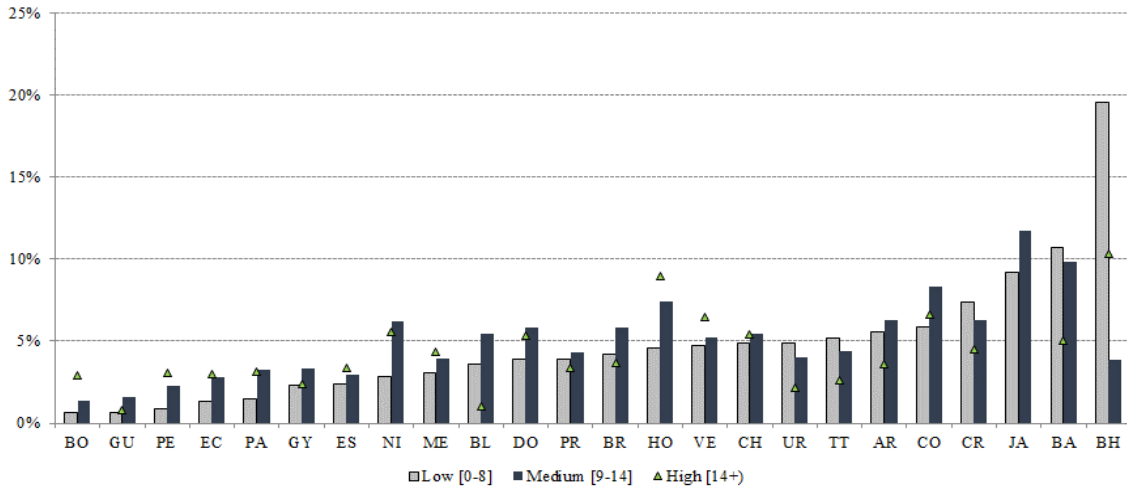
**Graph 7. Adult labor-force participation rate, by level of educational attainment**



Note: Data for Jamaica do not allow identification of people with higher education. For Guyana and Trinidad and Tobago, the 2012 and 2011 population censuses were used, respectively.

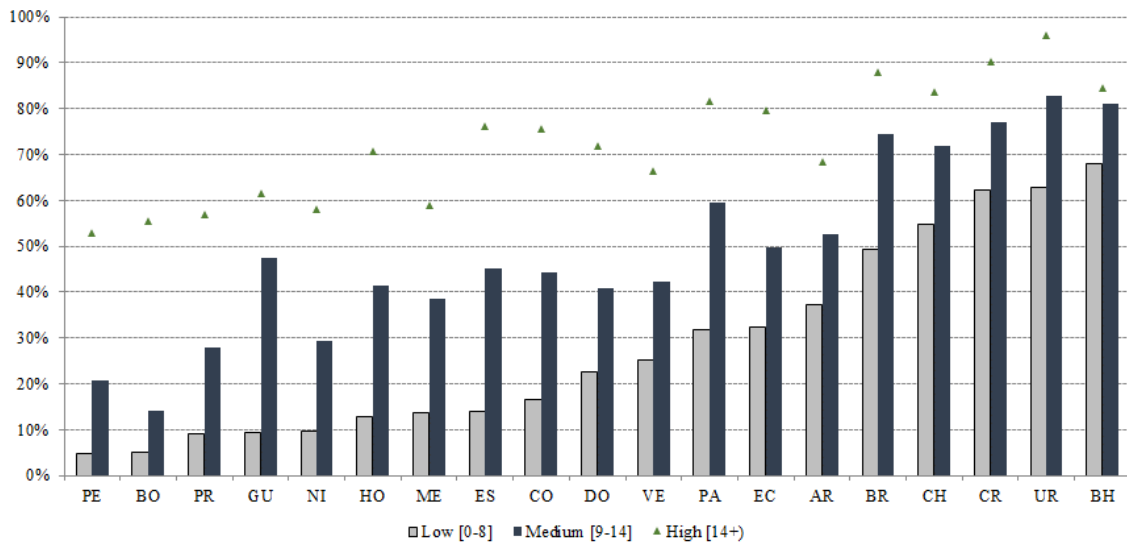
Source: Labor Market and Social Security Information System.

**Graph 8. Adult unemployment rate, by level of educational attainment**  
Total population ages 25-64



Note: Data for Jamaica do not allow identification of people with higher education.  
Source: IDB based on household surveys or censuses in each country circa 2014.

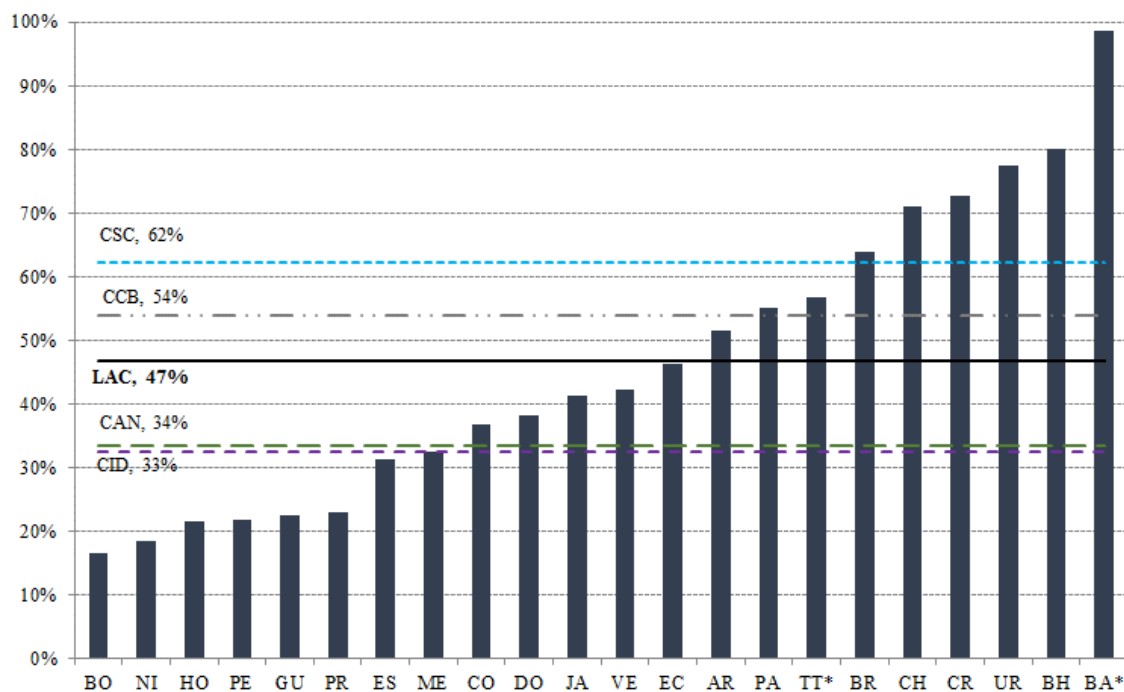
**Graph 9. Adult formality rate, by level of educational attainment**  
Total population ages 25-64



Note: Formality rate (employed persons): share of employed persons who contribute to social security (pension) schemes. In Argentina, the Dominican Republic, Paraguay, Peru and Venezuela only wage earners are asked about pension-scheme membership/contributions, so the information on people in employment is only for the wage earning population.  
Source: IDB based on household surveys in each country circa 2014.



**Graph 10. Formality rate among working people, circa 2014**  
**Total population ages 15-64**



Note: (1) Estimated using harmonized methodology. Countries identified with an asterisk (\*) were estimated from World Bank Pensions database data, household surveys, and United Nations population projections; (2) Formality rate (employed persons): share of employed persons who are pension scheme members or contributors. In Argentina, the Dominican Republic, Paraguay, Peru and Venezuela only wage earners are asked about pension-scheme membership/contributions, so the information on employed persons only applies to the wage earning population.

Source: Labor Market and Social Security Information System.

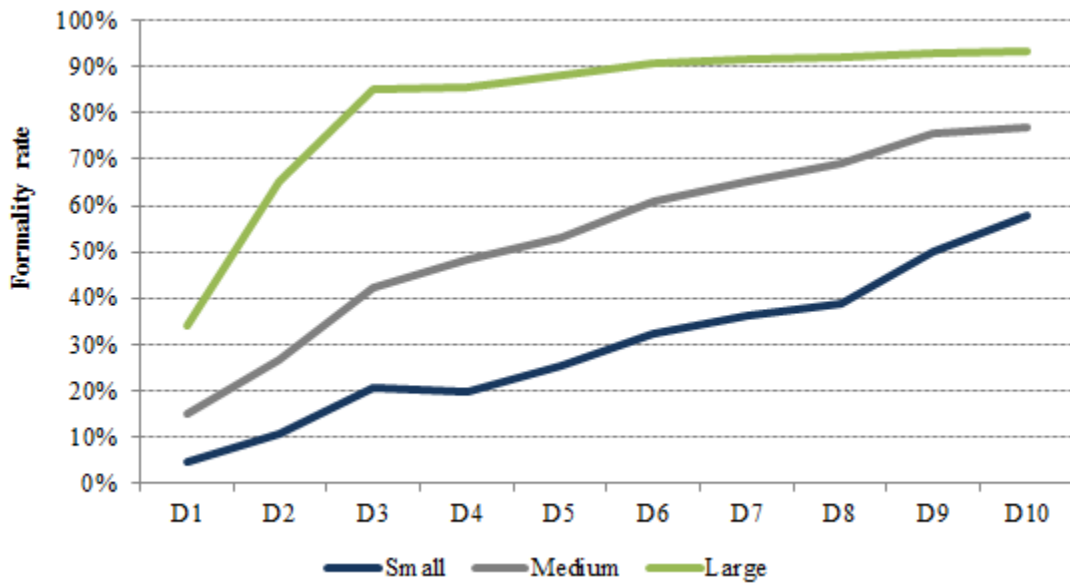
**Graph 11. Formality rate among employed persons by monetary employment income decile in Latin America and the Caribbean, by labor status and company size**

**Self-employed vs. wage earners**



Source: IDB based on household surveys in each country circa 2014.

**Company size**



Source: IDB based on household surveys in each country circa 2014.

**Table 1. Knowledge products produced by the IDB in the labor area, 2013-2015**

Year	Region	Country	Type of publication	Name	Authors
2013	CID	Mexico	Technical note	Transiciones entre el trabajo formal e informal y medios de intermediación laboral en México: 2005-2010	Flores Lima, R.; Zamora, S; and Contreras, E.
2013	RG	Regional	Working paper	Unemployment Insurance in High Informality Countries	Espino, E.; Sánchez, J. M.
2013	RG	Regional	Discussion paper	Una visión crítica sobre el financiamiento y la asignación de recursos públicos para la capacitación de trabajadores en América Latina y el Caribe	Huneus, C.; De Mendoza, C.; Rucci, G.
2013	RG	Regional	Working paper	Labor Market Effects of Introducing Unemployment Benefits in an Economy with High Informality	Bosch, M.; Esteban-Pretel, J.
2013	GR	Regional	Book	Better Pensions, Better Jobs: Towards Universal Coverage in Latin America and the Caribbean	Bosch, M.; Melguizo, A.; Pagés-Serra, C.
2014	CCB	The Bahamas	Monograph	In pursuit of employable skills: Understanding employers' demands	Fazio, M. V.; Pinder, E.
2014	CSC	Chile	Technical note	Participación laboral femenina y calidad de empleo	Piras, C.; Rucci, G.
2014	CID	Honduras	Technical note	Perspectivas del mercado de trabajo y las pensiones en Honduras: Desafíos y propuestas	Flores Lima, R.; Pavón Tercero, F.; Tapia Troncoso, W.
2014	CID	Honduras	Monograph	Prácticas de capacitación y reclutamiento de personal en los establecimientos en Honduras	Baptista, D.; Flores Lima, R.
2014	CID	Mexico	Monograph	Toward a National Framework of Lifelong Learning in Mexico	Ricart, C.; Morán, T.; Kappaz, C.
2014	CID	Panama	Monograph	Capacitación y reclutamiento de personal en los establecimientos de Panamá	Baptista, D.; Flores Lima, R.
2014	CID	Panama	Technical note	Mercados de trabajo y seguridad social en Panamá	Baptista, D.; Flores Lima, R.
2014	CSC	Paraguay	Technical note	Perspectivas del mercado de trabajo y las pensiones en Paraguay: Desafíos y propuestas	Alaimo, V.; Tapia Troncoso, W.
2014	RG	Regional	Book	Pensions at a Glance: Latin America and the Caribbean	IDB; OECD; World Bank
2014	RG	Regional	Book	Social Insurance, Informality, and Labor Markets. How to Protect Workers While Creating Good Jobs	IDB; IZA; World Bank
2014	RG	Regional	Monograph	Cinco hechos sobre la capacitación en firma en ALC	Flores Lima, R.; Rosas-Shady, D.; González-Velosa, C.
2014	CSC	Uruguay	Monograph	Formación para el trabajo en Uruguay: el punto de partida	De Mendoza, C.; Di Capua, L.; Rucci, G.
2014	RG	Regional	Book chapter. DIA, 2014	¿Cómo repensar el desarrollo productivo? Políticas e instituciones sólidas para la transformación económica	Bassi, M.; Rucci G.; Urzúa S.

Year	Region	Country	Type of publication	Name	Authors
2015	CID	Belize	Technical note	Estudio sobre el sistema de pensiones en Belice	Tapia Troncoso, W.
2015	CSC	Brazil	Working paper	Nudging the Self-employed into contributing to Social Security - Evidence from a nationwide experiment in Brazil	Villa, J. M.; Fernandes, D.; Bosch, M.
2015	CSC	Chile	Monograph	Educación técnico-profesional en Chile	Arias, E.; Farías, M.; González-Velosa, C.; Huneeus, C.; Rucci, G.
2015	CSC	Chile	Working paper	The Effect of Mandated Child Care on Female Wages in Chile	Prada, M.; Rucci, G.; Urzúa, S.
2015	CSC	Chile	Working paper	Training Vouchers and Labor Market Outcomes in Chile	Kaplan, D.; Novella, R.; Rucci, G.; Vázquez, C.
2015	CSC	Chile	Technical note	Porque No Quiero o Porque No Puedo- ¿Cuánto No Sabemos del Trabajo Femenino en Chile?	Novella, R. Rucci, G.; Vázquez, C.
2015	CSC	Chile/ Colombia	Working paper	Returns to Higher Education in Chile and Colombia	González-Velosa, C.; Rucci, G.; Sarzosa, M.; Urzúa, S.
2015	CAN	Colombia	Technical note	Diagnóstico del Sistema Previsional Colombiano y Opciones de Reforma	Bosch, M. Berstein, S.; Castellani, F.; Oliveri, M. L.; Villa, J. M.
2015	CAN	Peru	Monograph	Hacia un sistema de formación continua de la fuerza laboral en el Perú	Días, J. J.; Chacaltana, J.; Rosas-Shady, D.
2015	RG	Regional	Book	Empleos para Crecer	Alaimo, V.; Bosch, M.; Kaplan, D.; Pagés-Serra, C.; Ripani, L.
2015	CID	Dominican Republic	Working paper	Are You (Not) Expecting?: The Unforeseen Benefits of Job Training on Teenage Pregnancy	Novella, R.; Ripani, L.
2015	CID	Dominican Republic	Working paper	Experimental Evidence on the Long Term Impacts of a Youth Training Program	Ibarrarán, P.; Kluge, J.; Ripani, L.; Rosas-Shady, D.
2016	CAN	Colombia	Monograph	Avances y retos en la formación para el trabajo en Colombia	González-Velosa, C.; Rosas-Shady, D.
2016	CAN	Peru	Working paper	Impact evaluation of the Job Youth Training Program Projoven	Días, J. J.; Rosas-Shady, D.
2016	RG	Regional	Technical note	Métodos para anticipar demandas de habilidades	Rucci, G.; González-Velosa, C.
2016	RG	Regional	Book	The World of Public Employment Services	IDB; WAPES; OECD
2016	RG	Regional	Book chapter	Saving for Development: How Latin America and the Caribbean Can Save More and Better	Berstein, S.; Bosch, M.

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