Project implementation and Issues on Unemployment Protection and Technical and Vocational Education and Training in Latin America

High-level Meeting on Implementing Reforms on Protection from Unemployment and National Systems of Technical and Vocational Education and Training (NSTVET) in the Philippines

6 October 2015, Quezon City

Jürgen Weller
UNECLAC
Content

- Transformations on labor markets: the project context
- Recent evolution of the Latin American labor market and its institutions
- Unemployment protection (UP)
- Technical and vocational education and training (TVET)
- Project activities in Latin America
Transformations on labor markets: the project context

- New technologies and new organizational strategies lead to increasing instability on the labor market and to new requirements for competitiveness
- How protect workers and how take advantage of this new context?
  - Protection for the unemployed
  - Skill improvement
Recent evolution of the Latin American labor market

Source: UNECLAC
The improvements in the period 2003-2012 were due to higher economic growth ...


... which was also more labour-intensive.

Source: UNECLAC
The trend in the reforms of labor market institutions changed

- In the 80s and 90s measures to deregulate the LM (new fixed-term contracts, subcontracting, making firing easier, reduction (80s) and stabilization (90s) of real minimum wage) prevailed (but with exceptions!)

- In the 2000s: In some countries more protectionist policies, strengthening of collective bargaining, regulation of subcontracting, formalization, strengthening of labor inspection, increase of minimum wage – but with higher heterogeneity among countries and sometimes intense confrontations.
Generally less controversial policy areas
(regarding the general principle, not regarding the specific design)

- Intermediation
- Support for the integration of vulnerable groups into the labor market
- Emergency job programs
- Support for self-employment and microenterprises
- Unemployment protection
- Technical and vocational training
Unemployment protection
## Regional overview of UP instruments

<table>
<thead>
<tr>
<th>Country</th>
<th>Severance payments</th>
<th>Savings accounts</th>
<th>Unemployment insurance</th>
<th>Unemployment subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Colombia</td>
<td>x</td>
<td>x</td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>El Salvador</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honduras</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Paraguay</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

Source: Mario Velásquez, UNECLAC.
A few key aspects

- Different instruments, frequently added in an uncoordinated manner. Severance payments the oldest and most frequent instrument.
- Frequent use of savings accounts, generally related to severance payments.
- Less experience with unemployment insurance – most recent component of social protections systems.
- High volatility on labor markets limit access to UP, especially for women and youth.

- Challenge: Improve design of UP (integration of instruments) and design adequate protection in the context of high volatility and informality.
Present Latin American countries’ GDP p.c. and industrialized countries’ GDP p.c. when adopting unemployment insurance (US 2012 dollars)

Average GDP pc of industrialized countries = US$ 5,109

Source: Mario Velásquez, UNECLAC.
## Unemployment insurance

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of program</th>
<th>Contributions by:</th>
<th>Benefits</th>
<th>Eligibility conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Mandatory insurance</td>
<td>Worker: 0%</td>
<td>Employer: 0.89% - 1.11% State: Finances deficits</td>
<td>Replacement rate: 50% in first 4 months; 42.5% from 5th to 8th, and 37.5% from 9th to 12th. Duration (month): Up to 12 months. Eligibility conditions: Involuntarily unemployed, register at employment agency, availability for work, 12 previous contributions.</td>
</tr>
<tr>
<td>Brazil</td>
<td>Social Security</td>
<td>Worker: 0%</td>
<td>Employer: 0% State: All - FGTS.</td>
<td>Benefits: Between 50% and 80%, depending on income. Duration (month): 3 payments if betw.1 and 6 contrib.; 4 if betw.12 and 23; 5 if 24 contrib. Eligibility conditions: Previously employed for at least 6 months, involuntarily unemployed, no other income.</td>
</tr>
<tr>
<td>Chile</td>
<td>Mixed mandatory insurance: indiv. account with common fund</td>
<td>Worker: 0.6% to common (solidarity) unemployment fund</td>
<td>Employer: 2.4% (1.6% to individual account and 0.8% to common fund). State: Fixed annual contribution (MMUS$ 12).</td>
<td>Benefits: Between 30% and 50%; if indiv. saving is insufficient, common fund covers difference. Duration (month): Up to 5 months. Eligibility conditions: 12 contributions in 24 months; the last 3 months with same employer.</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Social Security</td>
<td>Worker: 1% (+ 8.3% to indiv. account)</td>
<td>Employer: 2% State: Complementary subsidies</td>
<td>Benefits: Fixed amount (up to 2 wages). Duration (month): 360 days. Eligibility conditions: 24 months of contributions.</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Social Security</td>
<td>Worker: Part of general contribution (12.5%).</td>
<td>Employer: Part of general contribution (12.5%). State: Finances deficits.</td>
<td>Benefits: 40% to 66% + 20% family allowances. Duration (month): Up to 6 months. Eligibility conditions: 6 monthly contribution, involuntarily unemployed.</td>
</tr>
<tr>
<td>Venezuela R.B.</td>
<td>Mandatory insurance</td>
<td>Worker: 0.5% (2.5% if independent).</td>
<td>Employer: 2.0% State: Complementary subsidies.</td>
<td>Benefits: 60% + medical assistance for 26 weeks. Duration (month): 5 months. Eligibility conditions: 12 contributions in 24 months, availability for work.</td>
</tr>
</tbody>
</table>

Source: Mario Velásquez, UNECLAC.
Challenge: Low coverage of unemployment insurance (UI)

Coverage of UI (% of unemployed)

- Chile: 23.6%
- Uruguay: 21.3%
- Argentina: 14.5%
- Brasil: 7.8%
- Ecuador: 4.2%

Source: Mario Velásquez, UNECLAC
Four key aspects of design of UI

- Common funds, individual savings or combination
- Operational rules and coverage
- Financing
- Active labour market policies
Technical and vocational education and training
Potential contributions of TVET ...

- ... for growth strategies based on increasing productivity
- ... for internal productive convergence
- ... for the improvement of job quality and ascending job trajectories
- ... for the integration of vulnerable groups into the labour market.
TVET institutions in Latin America

- Foundation of national TVET institutions since the 1940s
- Key role for industrialization policies
- Financing through contribution from firms (main proportion), workers and public sector budget – later also selling services
- Tripartite governance structure – strengthens pertinence and sustainability (?)
- Increasing questioning of institutions’ effectiveness and efficiency:
  • Adequate response to changing requirements (economic crisis, change of production patterns, transformation of labor markets)?
  • Institutional inflexibility, bureaucratization, too great a distance from “real world of work”, technology becoming obsolescent
  • Limited coverage of real demand (vulnerable groups)
New TVET institutions in Latin America

- In the 1990s, new programs ("Joven") to foster integration of (low/middle-skilled) youth into productive employment
- Dual model with new suppliers, outside of traditional TVET institutions
- Certain success, but limited by firms’ demand, dependency of external financing and no transformation into permanent institutions
- Need for additional components for vulnerable groups: The “integrated model”
Skill problems are a growth constraint for many Latin American firms

Latin America and the Caribbean: Percentage of firms that report skill problems as a growth constraint

Source: World Bank
... with differences between firm strata regarding training efforts

Latin America and the Caribbean: Proportion of firms with training programs for their workers (simple average for 20 countries)

Source: World Bank
Firms report increasing skill problems – especially regarding soft skills

Costa Rica, El Salvador and Peru: Percentage of firms that report problems with the hiring of workers with the required qualifications, by type of skill, 5 years ago and at present

Source: UNECLAC
Many firms do not get from the educational and training system what they need

El Salvador and Peru: Percentage of firms that report that young people’s qualifications do not meet their expectations, by level of education

Note: The survey in El Salvador permitted only one answer; the one in Peru permitted more than one answer.

Source: UNECLAC
Recent efforts to adjust national training institutions to new circumstances

- Stronger demand orientation
- More diversity of beneficiaries
- More diversity of providers
- Stronger consideration of transversal competencies and soft skills, not just knowledge and hard skills
- Certification of providers and skill competencies
- Stronger institutional links education – job market
- Use of ICT
- More information in labor markets and links to intermediation
Persistent institutional problems

- Missing integration with development strategies
- Weakness of general education
- Biased use of resources
- Difficulties in the identification of demand
- Insufficient numbers of qualified training institutions
- Limited participation of private sector (free-rider problem)
- Weakness in the inter-institutional coordination (public-public, public-private, public-NGO … academia)
Persistent institutional problems (2)

- Isolated design of TVET curricula (missing options for transitions)
- Low coverage of vulnerable groups due to traditional funding structure of TVET and limited recognition of specific needs (e.g., single mothers, youth from low income households, handicapped).
- Perspectives and limits of training for own-account work, especially for young people
- Mechanisms of monitoring, evaluation and follow-up
Project activities in Latin America
Project activities on the country level (some of them ongoing):

Unemployment protection

- Mexico: Analysis of and seminar on Government UI proposal, participation in Parliamentary debate, proposal of a monitoring system
- Dominican Republic: Reform proposal for existing protection system (severance payments), to be debated in tripartite working group
- Colombia: Proposal of reform of existing unemployment insurance (Min Lab); proposal for permanent program for (temporary) public works
Project activities on the country level (some of them ongoing): TVET

- Mexico: Interinstitutional working group on improvement of TVET
- Dominican Republic and Peru: National consultancies for diagnosis of strengths and weaknesses of existing TVET institutions
- Chile: Development of national training program for the handicapped
- Colombia: Consultancy for the improvement of the pertinence of the programs of the national training institution