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Unemployment Insurance and Emergency
Employment Programs in Latin America and the Caribbean: an
Overview

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Abstract

A sort of conventional wisdom seems to be coalescing around the notion that unemployment insurance and emergency employment programs should be the tools of choice to deal with economy-wide shocks. However, the very limited and partial experience in the implementation of income transfers through labor market programs suggests that effectively coping with economy-wide shocks require solutions that are tailor-made and adapted to the particular institutions and history of each country.

The paper describes the various income transfer programs that operate through labor market mechanisms in 7 countries in the region. Each one of the alternative approaches face design problems of its own, is adequate to face different labor market situations, and is strongly influenced by the particular political and institutional context in which the program operates. Some questions and dilemmas that emerge from this comparative exercise are presented in the concluding section.

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The purpose of these brief notes is to present a very partial assessment of emergency-inspired labor market programs in the region. When looking at the nineties it is hard not to get impressed with both the successes and failures that the region has had in such a short period of time. From being the high-inflation record setters of the world, the region has achieved remarkably stable and low inflation, growth has recuperated, and there is a new commitment to integration in the world economy that has led to a radical modernization of the productive sector. During this same period, the region has suffered (and some would say have made the rest of the world suffer) the wild gyrations of the international financial markets. Still with short breath from the exertions of coping with the Tequila effect in 1995, we have had to jump into action again to deal with the instability initiated with the financial troubles in Asia at the end of 1997.

The dismantling of the inflationary institutions of the seventies and eighties created some new problems in our ability to deal with cyclical downturns and economy wide shocks. From a world where unemployment was almost absent, and where low quality jobs in the so-called informal sector were the crux of the problem, we jumped into a brave new world of high unemployment¹. Opening of the economies resulted in declination of sectors that housed some of the most important and powerful unions, while public sector retrenchment created new and very vocal groups of displaced workers.

The crisis of 1995 was the opportunity to test some new ideas and to disseminate innovative approaches to old problems. Labor intensive public work programs, youth-aimed training programs, and semi-universalized unemployment insurance systems all became acceptable ideas to help sustain the fragile political coalitions behind the economic modernization process. The renewed instability during 1998 is testing these new reflexes in new and challenging ways. Unfortunately, it is doing so at a time when evaluations of the impact of the measures adopted at the heat of the 1995 episode are not yet available or are not comprehensive enough to give us clear guidance.

The new conventional wisdom seem to be coalescing around the notion that unemployment insurance and emergency employment programs should be the tools of choice to deal with economy-wide shocks. As it always happens with conventional wisdom, the prescription appears to be based more on the wisdom of many writers than on a hard look at past experience.

As a practitioner of the design and operation of labor market related emergency programs in these difficult times, I find it somewhat disturbing the prescription of conventional wisdom. My very limited and partial experience suggests that effectively coping with economy-wide shocks of the nature we are experiencing lately require solutions that are tailor-made and adapted to the particular institutions and history of each country. What worked marvels in Argentina may not work at all in Brazil, and may be a completely unfeasible solution in Mexico.

Thus, these notes are not more than an attempt to present some of the questions and dilemmas (and unfortunately very few answers) that arise in the design and implementation of labor market related emergency programs. I begin in the first section by describing unemployment insurance systems in the region, highlighting some of the characteristics that make them not too suitable as instruments to help the poor cope with economic downturns. In the second section I present a list

¹ For the first time in recorded history (admittedly not too long), in the second half of 1998 three countries in the region (Argentina, Colombia, and Venezuela) were experiencing double digit unemployment rates. All prognoses indicate that the roll will increase at least to four in 1999 with the inclusion of Brazil.

of labor market programs that have some potentiality as income transfer devices, and discuss some of their most salient characteristics. Finally, some discussion of the challenges created by these new policy instruments is presented in the third section.

1. The history of institutions

The high level of macro-economic volatility of Latin American economies generated a need to develop mechanisms to protect the working population from the resulting income volatility. The traditional response to that need has been the enactment of employment security regulations in the Labor Laws. However, as these regulations create high and uncertain labor costs, employment in the regulated sector remained stagnant and employment in unregulated situations grew to cover today almost half of the working population in the region. Therefore, the legally established employment protection covers today a small, and shrinking, fraction of the labor force.

Labor legislation in the region is characterized by the use of mechanisms that penalize lay-offs and firings. The region has had until the mid-nineties high levels of employment protection, even relative to those enjoyed by workers in more developed OECD countries (Márquez 1997 and IPES 1998). For workers in regulated contracts severance payments are quite high, and employment protection regulations are strictly enforced both in practice and in legal courts. This high level of employment protection tended to generate a high share of self-employment on total employment.

The wave of liberalizing reforms that started in the early nineties in the region has had an impact on the performance of labor markets, and in a number of cases has led to the implementation of labor regulation reforms aimed at easing the restrictions and costs placed on firing and lay-off decision by firms. This tendency towards more flexible forms of employment contracts, however, has not in fact weakened employment protection for workers in full-benefit, full-protection employment contracts. With relatively few exceptions, the labor reforms developed during the nineties have aimed at flexibilizing hiring and firing conditions at the margin, without diminishing the legal protections enjoyed by workers already employed. Under those conditions, one of the impacts of these reforms has been the reduction in the share of full-benefit contracts in total employment, and a corresponding expansion of more precarious forms of labor contracts.

This pattern of employment protection, that protects the job but not the worker after losing his or her job, is associated with the “polarized” model of wage setting, that leads to substantial costs but not necessarily to co-operative solutions at the national level (Banuri and Amadeo, 1992). For the purpose of developing effective protection against income losses, this model of regulation provides effective protection against income losses to a minority of highly organized and vocal workers, while leaving a large fraction of the working population uncovered either in non regulated employment contracts or in self-employment.

In particular, given that income protection is provided in the form of severance payments for laid off workers, there are very weak incentives for the development of more socialized forms of income protection as unemployment insurance. In Table 1 we present a summary description of unemployment insurance systems in the region. As can be seen, very few countries in the region have legally and/or administratively enacted unemployment insurance systems, and even fewer have working unemployment insurance schemes. In those countries that do have unemployment insurance systems, coverage is limited to workers that have contributed while employed to the financing of the system. In other words, only workers in full-benefit employment contracts and working in payroll tax-paying firms enjoy the benefits of the unemployment insurance system. The level of benefits provided is low relative to more developed countries unemployment

insurance systems. Replacement rates are normally quite low (in the order of 50-60% of last wage and with tops linked to the minimum wage for higher salaries), and benefits are given for very short periods (typically not more than four months).

Table 1: Unemployment insurance in the region

	Law	Funding	Replacement rates (a)	Benefit duration	Benefits Min/Max	Coverage Requirements
Argentina	1991 reform. 95	Worker: 1 % wage Empr.: 1.5 % payroll	60 %	4-12 meses	Min: 1 m.w. Max:4 m.w.	Employees 1 (12), 2,3
Barbados	1982	Worker: 1.5 % wage Empr.: 1.5 % payroll	60 % 10 weeks 40% 16 weeks	26 weeks in a 52 week period		Employees 1(6) 16-64 yo
Brasil	1986 1990	FAT (.65% tax on total sales)	1-3 minimum wages	4 months	Min: 1 m.w.	Employees 4(36, 4), 5,6
Chile	1981	Government	37\$ monthly for the first 6 months, 18\$ last 6 months	Max. 1 year (b)		Employees 2, 4(12,2), 5,
Ecuador	1958, 1988	Worker: 2% sal. Empr.: 1 % payroll	One time subsidy, amounts decided each year.			Employees 1(24), 7
Mexico		Social Security	95 % pension	5 years max		Employees Between 60-65 yo 65 yo
Uruguay	1981	Contributions to Social Security	Up to 50%	6 months	Min:0.5m.w. Max: 4 m.w.	Employees 1(6), 5, 3, 8. in commerce and industry
Venezuela	1989 reform. 1998	Worker: .7 % wages Empr.: 1.5 % payroll	Up to 60%	13-26 weeks	Max. \$44	Employees 1(12), 2

Taken from Lora E. and C. Pagés, 1997

Source: S.S. Programs throughout the World – 1995, US Dept. of Health and Human Services

Notes:

a. % last wage.

b. Beneficiaries receive also family support, medical and maternity benefits.

Requirements:

1 (s) – Be employed s months before receiving subsidy.

2 – Availability to work

3 – Does not receive other social security benefits.

4 (s, j) – Not having received more than s months of benefits in the last j years.

5 – Unemployed for reasons outside the conduct and willingness of worker

6 – Subject to economic need.

7 – Waiting period of x days.

8 – Minimum lapse of 12 months between periods of receiving subsidy.

The unemployment insurance system in Argentina is quite limited in number of beneficiaries, and has remained so in spite of strong increases in the number of unemployed workers. Mazza 1999 reports that the number of beneficiaries has remained stable around 100-125 thousand workers, more than 70% of whom are prime age males, and more than 50% are not household heads. She also reports that an analysis of beneficiaries in their personal and previous job characteristics shows that there is a definite trend towards serving younger and middle class displaced workers. This suggests that unemployment insurance is not fulfilling a safety net role for the poor in the case of Argentina.

Brazil has the biggest unemployment insurance system in the region, with around 300-400 thousand beneficiaries. Mazza 1999 reports that unemployment insurance in Brazil is also serving younger (more than 50% of beneficiaries are younger than 30) and more educated (45% of beneficiaries have completed eight grade or better) workers. As IPEA 1998 assesses, the unemployment insurance system reflects wage inequality, in the sense that benefits accrue to the middle deciles in the distribution of income.

In Venezuela, the unemployment insurance system is enacted in the law since 1989, but was never implemented. The system has been reformed last year. The new system will protect beneficiaries through a mix of individual and collective insurance operated by competitive insurance providers, but implementation has not yet begun as of this date. Given that only workers with regulated, tax-paying contracts are entitled to benefits, it is likely that the pattern of distribution of beneficiaries will be very similar to that of Argentina and Brazil discussed above.

Mexico and Uruguay have unemployment insurance programs operated by the social security system. In both cases coverage is quite limited, and in the former it is just an advance payment of old age pensions for a period of five years. In the Barbados case, the unemployment insurance system is very small in coverage, though quite well adapted to the needs of an island economy with frequent but short episodes of unemployment concentrated in workers in the tourism industry (Mazza 1999).

Though differences in design, coverage, and benefits makes it quite difficult to present an overall assessment of the importance of unemployment insurance systems as part of a comprehensive safety net, there are some common traits that deserve comment. In the first place, unemployment insurance is normally a benefit additional to severance payments. Once the worker is laid off, the firm has to pay some amount as severance payment, and the worker can recur to the unemployment insurance system as a supplementary source of income during his or her search for a new job. Therefore, income protection by the unemployment insurance system is targeted to workers that have had full-benefit employment contracts. As we mentioned above, this excludes from the protection a sizable fraction of the work force that work in the unregulated segment of the labor market, presumably those who because of their human and social capital deficits are the neediest in terms of income protection.

In the second place, unemployment insurance systems generally lack connection with other labor market intermediation and placement services. Even in the cases where the UI system is operated through the Labor Ministry (as in Brazil) workers are not required to register in the intermediation service, and payment of the benefit is not contingent on verification of a search effort. On the one hand, this lack of connection generates opportunity for fraud. Even if it is illegal to have a job and receive UI payments simultaneously, most operators complain of their lack of capacity to control what is perceived to be widespread fraud and collusion between firms and workers.² On the other hand, this lack of connection with labor market intermediation services makes the system a pure income transfer that does not ease the transition of the unemployed into a new job.

² Mazza 1999 reports that some efforts have been made in Argentina to detect if workers receiving unemployment insurance were working by using a common tax-payer identification number. It was found that a sizable number of workers were not only working, but also contributing to the social security in a new job while continuing to receive the UI payment.

In the third place, most unemployment insurance systems are financed through payroll taxes, which are already quite high in the region. This partly explains why coverage is limited, replacement rates are low, and periods of coverage quite short. Any expansion of the system to cover hitherto unprotected segments of the population is likely to face substantial opposition by its own present beneficiaries and by firms operating in the regulated sector of the economy. Only in the case of Brazil some expansion to new groups have been made (to traditional fishermen and to workers affected by the drought in the Northeast), but the expansion has been temporary and financed through the use of excess funds. If unemployment insurance is to work as part of the safety net in a crisis, the expansion of coverage would have to be produced just when the flow of benefits to already protected workers is highest, creating financial strains on the system and the need for additional funding. The question is whether this effort is worth doing through the unemployment insurance system, or by creating a new mechanism for income transfer. The answer to this question apparently is the latter, as countries in the region have chosen to implement a multi-faceted and varied array of programs that aim to provide income transfers and/or employment to workers that have been displaced or who cannot find a job.

In conclusion, unemployment insurance has a role as part of the safety net, but there is a need for complementary mechanisms that protect the poor who do not have protected employment contracts. Given the resource investment needed to establish a new system, and the negative impact that unemployment insurance cost has on labor demand, this is not an area where one should concentrate effort and resources during a crisis.

2. Labor market programs as income transfer devices in the region

In spite of a satisfactory economic evolution during this decade, there are still serious problems of labor market performance in the region. Employment growth has slowed down, informality has increased, wage inequality has grown, and unemployment has not fallen. This evolution is rooted in changes in the relative prices of capital and labor, in turn connected to the processes of stabilization and structural reform. In order to at least partially compensate for the labor market situation, governments in the region have adopted and/or expanded labor market policies and programs aimed at supporting incomes and/or expanding employment opportunities for particularly disadvantaged groups.

The responses of different countries varied widely both in function of tradition and history of labor market programs implementation, and in terms of the political equation that made diverse groups more or less visible as objects of income protection. Generally speaking, governments reacted along two main lines. Where organizational and political constraints so permitted, labor intensive public work programs were implemented. Where the perception was that youth unemployment was a particularly important problem, training programs were implemented that targeted unemployed youth as clientele. Some governments in the region opted for developing both lines of action simultaneously, and yet some others (as Argentina) opted for an ever-wider variety of programs that also covered subsidization of private sector employment generation.

In Tables 2 and 3 we present a summary description of the employment generation and training programs that 7 countries in the region had in operation around 1995. The list was extracted from a joint ILO-IADB volume on active labor market policies in Argentina, Brazil, Chile, Costa Rica, Jamaica, Mexico, and Peru. These countries represent a wide spectrum of variation in terms of policy development, operational capabilities, and exposure to international capital markets volatility. Program description and characteristics were summarized in Verdera (1998) and some more detailed description of program operations was obtained from the national reports contained in that volume.

In terms of description of the responses to the crisis the problem faced by an analyst is to identify within the wide array of actions, programs, and policies that the countries have in place those that are suitable as income transfer devices and that can be expanded on short notice. Existing labor intensive public works programs that are executed in a decentralized fashion by sub-national governments or NGOs are the most obvious candidates for inclusion in a list of income transfer devices. A prime example of this class of programs is the *Trabajar* program in Argentina, financed and supervised by the Federal government using the *Fondo Nacional de Empleo* (a fund financed through a pay-roll tax), and with works executed by a wide variety of agencies, including from local governments to NGOs. Short-term training combined with some degree of job search assistance are also natural members of this class, at least to the extent that the scholarships during the training period are an immediate source of income for the beneficiaries. A well-known example of this class of programs is the *Chile Joven* in Chile, or the *PROBECAT* program in Mexico. In both cases a scholarship is offered to the trainee during the training period and, in the case of Chile, wages are paid during the trainee period of apprenticeship in a private firm. By the same token, the normal training programs executed by the National Training Institutions are not a source of immediate income for beneficiaries, and are quite difficult to expand without significant institutional redeployment. Therefore, they are not included in the list of programs presented below.

Micro-enterprise credit programs present a less clear-cut case. On the one hand, they represent an effective income transfer to the household that owns the firm (as otherwise investment would have had to be financed out of current income savings) and it is likely to expand both employment and incomes associated with the small firm activities. On the other hand however, because the firm's income and profitability depends on the overall level of economic activity, the productivity of resources (and particularly that of financial resources) will be lowest in a crisis episode. In those conditions, it is likely that households will not take additional credit and, therefore, the short-term impact of the program in terms of employment and incomes could be minimal.

Other important decision regarding inclusion in the list of labor market programs as income transfer devices relates to public sector investment programs. It is clear that public investment programs have important employment effects. However, there is no reason why (and often many why not) an investment in sanitation, for instance, should be executed with labor intensive technology. Moreover, the redesign of the investment program to incorporate labor-intensive technology usually takes a long time, as it normally requires a complete re-engineering of the investment project, not to speak of the institutional redeployment needed. Therefore, we decided not to incorporate public sector investment as employment program, even if in some cases they are described as such by the authors of the national studies.

Table 2: Employment generation programs in 7 countries in the region

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
Argentina	892.2	9.31%	249.2	0.09%
Brazil	221.8	0.49%	1,188.8	0.21%
Chile	4.3	0.10%	1.4	0.00%
Costa Rica	8.1	0.71%	3.3	0.04%
Jamaica	6.0	0.61%	21.2	0.50%
Mexico	1,024.0	4.42%	1,802.0	0.51%
Peru	4.2	0.14%	0.1	0.00%

Source: data from Verdera 1998, modified by the author. For a complete listing, see Table in Appendix.

In the design of employment generation program there is the question of what jobs are to be stimulated: temporary employment in public works vs. private sector jobs. The alternative of public works requires the existence of local organizations (be it local governments or NGOs) that can manage the selection and execution of the works, and the selection of beneficiaries. This is a far from trivial requirement, as it implies the existence of a network of organizations at the national and local level to ensure that the projects selected are labor-intensive, have some value to the community, and that they are executed according to the agreed-upon quality standards. Opportunities for political manipulation appear both at the local (in the selection of beneficiaries and the location of works) and national level (in the allocation of funds among different places and/or organizations).

The alternative of subsidizing private sector jobs is not less fraught with difficulties. Subsidies should be given on an “additionality” requirement, and that requires the determination of a baseline number of employees, a task often beyond the capability of program administrators. The program can subsidize job creation as a per-worker subsidy, or can subsidize (often simply making available) credit to small firms. In both cases, there is the question of targeting or not on particular groups of the population. If a target group is narrowly defined, there is the question about how much additional jobs are being created and how much the subsidy results in substitution of subsidized by not-subsidized workers. Too broad the definition of target group, and the subsidy becomes unsustainable in financial terms.

In general terms, the 7 countries studied in the region invest very little resources in employment generation programs, and the programs benefit small fractions of the total work force. Mexico is the country that spends the most resources in employment generation (one half of a percentage point of GDP) to benefit around 4% of the total workforce, while Argentina reports expenditure below one tenth of 1% of GDP to benefit around 9% of the total workforce. Part of the difference in expenditure and beneficiaries arise from differences in reporting methodologies, but it is also the case that in the Argentina case all employment generated under promotional contractual forms is counted as generated by the programs. As some fraction of these promotional contracts would

have been generated without the program, one should be cautious in concluding about the efficiency of subsidizing promotional contractual forms in the private sector relative to labor intensive public works.

Argentina is the country with the most varied set of employment generation programs, comprising a combination of public works and subsidies to private employment, in the form of payments to firms that increase the number of employees under promotional contractual forms. These promoted contracts are generally more precarious than regular, full-benefit contracts, and also receive some exceptions from payroll taxes.

More typically, employment generation programs work through the financing by the central government of small scale and labor-intensive public works (in many cases social infrastructure, but also roads and small sanitation works), with the works being executed by local governments and NGOs. This is basically the operational mechanism of the *Trabajar* program in Argentina and of the rural roads program in Mexico.

A contrasting mechanism is that used by the *PROGER* program in Brazil, that operates through the establishment of credit lines offered through the national development banking system to small enterprises, cooperatives, NGOs, and other civil society associations. This mechanism serves to circumvent the sub-national governments for works execution, given the complicated financial relationship between different levels of government in Brazil³. Partial and incomplete evaluations of *PROGER*, however, are not too optimistic about the results in terms of employment generation

Credit to promote employment generation in small firms is widely used in Jamaica in a battery of programs, some of which also include a form of short-term training. Jamaica also has a training and temporary employment program for unemployed youth, which is supposed to ease their labor market insertion.

Chile and Peru have been pioneers in the use of employment generation programs during the eighties and before. In the case of Chile, the PEM and POJH programs were widely criticized by worker's organizations and perceived as make-work efforts that stigmatized workers and reduced their likelihood of finding a regular job at regular wages after participating in the program (Graham 1994). In the case of Peru, the PAIT program was perceived as a tool of political manipulation, but the explicit reason of its demise was the economic crisis at the end of the eighties (Graham 1994). Both programs had been effectively faced out by the end of the eighties, and have not been revived. It is suggestive that neither Chile nor Peru is presently implementing any public works-based employment generation program. Chile has a number of programs to address living conditions that may hinder the labor market insertion of particular groups, but these programs are very small and narrow in scope and target beneficiaries. In the case of Peru, there is a line of credit to promote employment in small firms, and a number of development agencies have a mandate to develop small scale labor-intensive works alongside their regular investment programs.

³ As a matter of fact, this conflictive relationship that has become quite famous lately is at the root of Brazil not having a full-fledged employment generation program (*Trabajar* style) in spite of the not too satisfactory perception of both *PROGER* and *PROEMPREGO* performance in terms of employment generation.

The use of training programs as income transfer devices presents policy makers with a different set of challenges in terms of design and targeting. The main challenge arises from the existence of a national training institution, normally a monopolistic public provider of training financed through a payroll tax with no incentive whatsoever to adapt the nature of its activities and clientele to the challenges of high unemployment. A related problem arises in connection with the nature of training to be provided. Experience suggests that short-term training is not adequate to the needs of skill updating or upgrading of workers displaced from declining sectors, but that it may be quite adequate to provide young new entrants to the labor market with job search skills. Therefore, training programs as income transfer devices seem to be more effective when used in high youth unemployment situations, where the provision of some income support and teaching job search skills could be crucial in easing young new entrants labor market insertion.

Overall, countries in the region dedicate small resources to this sub-set of training activities, as most of the financing for training is concentrated on the traditional, monopolistic public training institutions. As can be seen in Table 3, resources invested in training programs are of the same order of magnitude of those dedicated to employment programs, though the number of beneficiaries seem to be somewhat bigger. This may result from the practice of head-counting without reference to the length of time the beneficiary spend in the program, so numbers should be interpreted with caution.

Table 3: Training programs in 7 countries in the region

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
Argentina	133.0	1.4%	95.6	0.04%
Brazil	740.5	1.6%	310.2	0.1%
Chile	36.6	0.8%	18.3	0.03%
Costa Rica	13.1	1.2%	60.6	0.73%
Jamaica	43.5	4.4%	18.6	0.44%
Mexico	410.3	1.8%	135	0.04%
Peru	1.5	0.1%	5.0	.010%

Source: data from Verdera 1998, modified by the author. For a complete listing, see Table in Appendix.

The pioneer experience in the region with training programs aimed at reducing youth unemployment rates is that of *Chile Joven*, a youth short-term training program that combined training properly with a three month apprenticeship in a private firm job. There are two main aspects of this experience that deserve particular attention. On the one hand, it created pressures for an institutional and content revamping of the training system, as firms accepting apprentices acted as controllers and gate-keepers of the relevance and adequacy of the training provided. Therefore, the program was rightly perceived as a tool to modernize and connect the training with real productive activities. On the other hand, the provision of scholarships acted as an income transfer to beneficiaries. Participation in the program took beneficiaries out of the unemployment queue and gave them some labor market experience during the apprenticeship. Those two beneficial aspects of the *Joven* program were quite adequately suited to the particular conditions of the Chilean labor market at the time, characterized by high youth unemployment rates and

generally low overall unemployment rates. Thus, a mechanism that provided youth with some basic skills and, most importantly, labor market experience was particularly effective in easing labor market insertion.

The contracting mechanism of *Chile Joven* has been perceived as a way to create incentives for training providers to deliver good quality and labor market-relevant content of their courses. Basically, funds are bid out and training institution proposals must describe the content of the courses to be taught and a commitment from private sector firms to accept the trainees as apprentices for a period of time (normally three months).

The success of the *Chile Joven* program generated emulation in other countries in the region. Among the countries in the study reported here, Argentina and Peru have adopted programs inspired in that design, both with some success in easing the labor market insertion of young beneficiaries.

Argentina has used the contracting mechanisms of the *Joven* program to develop training programs for other groups of the population. In the case of Argentina, the method of contracting out training to be provided by private and competitive training institutions through public bidding has developed into a mechanism to rebuild the country training system after long years of neglect. Other programs in Argentina provide subsidies to private employers who hire apprentices under promotional employment contracts.

Brazil uses the same type of contractual mechanism for training but the program operates in a highly decentralized way. The program is financed through the FAT, a payroll tax financed fund, and funds are allocated to states and local governments, who in turn hire different providers (both private and public) through competitive bidding to provide the training. States must present annual training plans to the *PLANFOR* administration, and funds are allocated in proportion to the state's share of the total workforce. This method of allocation is presently being changed to reflect the state level of poverty and education, and past experience with the execution of annual training programs. It is interesting to note that the national training institutions (in the case of Brazil the SENAI-SENAC system) participate in the bidding process as another provider of training services, thus creating an interesting financial and institutional dynamics in the overall training system.

Costa Rica used instead the national training institution (INA) as a channel for delivery of training services to semi- and skilled workers. Thus, INA schedules and delivers training programs for low income workers in marginal urban areas, for displaced public sector workers and for handicapped workers using its own facilities and instructors. A special line of action was established to enable INA to contract out other training institutions, but no special targeting mechanism has been used.

Jamaica uses a number of programs to provide training for unskilled and young unemployed workers, but the mechanism for income transfer is temporary jobs rather than scholarships during training.

Mexico has the biggest training as income transfer program in the region, and it has been effectively used as a protective device for unemployed and displaced workers, and expanded according to the economic cycle. The program provides a scholarship for the beneficiaries, and the state offices of the Labor Ministry organize a variety of training programs that are delivered locally. Different program evaluations have found that the program has been somewhat successful as a training program, increasing incomes and likelihood of employment for

beneficiaries, even though positive effects tend to increase with higher levels of education of the beneficiary.

3. How effective and for what purpose are these programs?

Economy-wide shocks affect the poor through a variety of transmission mechanisms (Lusting and Walton, 1998):

1. Reduced labor demand, either directly through lay-off of workers in poor families or indirectly through reduced demand for the product of household enterprises.
2. Price changes, that can increase the cost of poor families' consumption basket or through their effects on economic activity and, therefore, on labor demand.
3. Public spending cuts, that reduce both labor demand and the quantity and quality of social services consumed by the poor.
4. Change in the value of assets, and particularly on social capital for the poor that may affect their capability of putting labor to income-earning use.
5. Long term impact on capabilities, mainly driven by falls in school attendance of poor children called in as additional sources of income or family labor, or by the inability of the family to pay for costs associated to school attendance of children.

The experience of the region with labor market programs shows that they can effectively help to at least partially compensate for the first four effects mentioned above, and that they may have an indirect effect of the fifth. The varied array of programs in the 7 countries we analyzed has been used to help poor families to cope with one or another of the damaging effects of economy-wide shocks. This battery of programs will be the backbone of any labor market-related response to a crisis, given organizational and resource constraints that limit the ability of the government to create new programs. Perhaps as a by-product of the commitment of governments to them, it is becoming conventional wisdom that unemployment insurance and emergency employment programs are the mechanisms that should be used in response to falling incomes and employment during a crisis.

From an analytical point of view, however, the quest is for mechanisms to transfer income to the poor that can be set up quickly and that can concentrate resources on the poor. Employment generation programs have the advantage of self-targeting (Grosch 1994, Ravallion 1998), and to some extent this virtue can be extended to training programs of the sort discussed in the previous section. However, neither of these programs are the solution to all problems under all conditions. For instance, a short-term training program can effectively help if youth unemployment is very high as it will help to ease the transition of young inexperienced workers into the labor market. If, however, the problem is an increase of experienced workers inflow into unemployment then training programs will have little effect and a public works employment generation program should be the tool of choice. Furthermore, public works employment generation programs will not work if there is little or no capability at the local level to implement and manage civil works.

In a perfect world, countries would have automatic mechanisms to protect the more vulnerable during economic shocks, or if they do not exist countries would be able to set them in place as soon as possible once the crisis starts. In that world, an unemployment insurance system would be a useful tool to protect the incomes of the poor to the extent that the poor were employed in contractual conditions that generated rights to the unemployment insurance benefits. In reality, however, the fact is that few countries in the region have a system of unemployment insurance and, even in those countries, the protection of unemployment insurance is limited to a relatively small, and dwindling, fraction of the total workforce.

In the absence of unemployment insurance, the choice of income transfer mechanisms is quite limited. 1) a cash subsidy to poor families; 2) labor intensive public works or, more generally, employment generation programs, and 3) training programs that reduce the open unemployment and transfer some resources to the poor. If an operational targeting system were in place, a cash transfer would be the simplest mechanism to operate, as they do not require a new and complex institutional setup, as employment generation and training programs do.

The arguments in favor of labor market programs as income transfer mechanisms hinge basically around two questions. The first relates to the effectiveness of these programs to mitigate the impact of cyclical or shock-originated downturns on the poor (be it in terms of generating employment, or providing other form of income support). The second relates to the contribution that these interventions can do to the development of more effective labor market exchange mechanisms and, therefore, to improve the situation of the poor on the longer run. After all, safety net interventions are supposed to contribute to the reduction of poverty over the long run

Each one of the lines of action described in the previous section has problems of their own, and is adequate to face different labor market situations. Labor intensive public works require an extensive and solid network of institutions at the local level, with the technical and operational capacity to choose the works to be done, to organize the production process, and to channel resources to the needy poor. Though the experiences are quite varied, both wages and working conditions in public works programs seem to have some negative “stigma” effect for workers engaged in them.

Paying wages below the legal minimum in employment generation programs is needed in order to target resources on poor groups, and to avoid inducing distortions in local labor markets. It seems to be a more or less indisputable tenet in the design of employment programs. One look at the literature on work-fare in the developed world, however, suggests that this targeting mechanism is not without costs in terms of stigmatizing workers who participate in the program (Lightman 1995), and in terms of political and social discrimination among workers by program administrators (Rose 1994).

On the other hand, the experience of at least some transition economies also shows that some level of ‘universal’ unemployment insurance benefit can be used to help families cope with labor market transitions (Terrel 1998, among others), though the fiscal impact of the program can be overwhelming.

Finally, there is the question of whether these employment generation programs are transitory or permanent. In the developed world literature on work-fare, taking people out of the dole and relieving the pressure on the welfare system during cyclical downturns are important reasons to implement employment generation programs (Krashinsky 1995). However, considerations related to the easing of labor market insertion for disadvantaged groups have led some analysts to make the case for these programs to be permanent (Rose 1994 and advocates of work-fare vs. welfare in the US debate).

The consensus in the region seems to be that employment generation program are transitory devices, to be implemented during emergencies (however they are defined) and gradually phased out or incorporated into other mechanisms for infrastructure investment. With the benefit of hindsight, there seems to be agreement among analysts in that the decision to terminate employment generation (PEM and POJ in Chile and PAIT in Peru) was a reaction to widespread problems of design and political manipulation. Without the benefit of hindsight, the lack of comprehensive and independent evaluations make it risky to assess that the “new wave” of

employment generation programs is exempt from these vices and that, therefore, the programs as such should be made permanent once the emergency is over.

Training programs, on their side, imply that a sizable fraction of the program cost goes to pay the trainers. In order to control training costs courses should be of short duration, making them more suitable for job search assistance for unemployed youth than for displaced workers' skill updating or upgrading. Therefore, it is not clear again whether these emergency training programs could have a role beyond the emergency itself.

Arguments around this question center in two particular effects. On the one hand, these training programs when organized as financial funds that are bid out to competitive contractors create a new structure of incentives for training institutions, and make them more responsive to market forces. In and by itself this is a very desirable side product of the programs' implementation, and suggests that the contracting innovation embodied in the programs should be sustained beyond the emergency. On the other, the growing body of program evaluations suggests that they are effective in providing job search skills to young new entrants to the labor force, but they are mostly failures when used to deal with experienced workers displaced from declining sectors. Partly, this arises from the program design where financial considerations dictate the need to have very short courses not suited to skill upgrading or updating. This suggests that more sophisticated training programs will likely require a different institutional layout, quite different from that of emergency training programs.

A final world on training programs relates to the long term effects that a well-developed and articulated training system can have on poverty reduction. If emergency training programs are helpful in easing the insertion of young workers in the labor market there are fundamental reason why they should be permanent as part of the labor market intermediation mechanisms. But this assertion should not lead us to believe that the efforts related to the training system should end there, because we would be ignoring the importance of skill upgrading in helping workers cope with normal job churning in a dynamic economy. Emergency training programs has given us the opportunity to introduce institutional innovation into a training system characterized by the monopolistic power of payroll tax financed institutions. My perception is that these innovations are still marginal, and that we have not been successful yet in disseminating these innovations to the mainstream vocational training system. This will not be an easy task, but it is a good example of the opportunities and challenges that the experience of implementing emergency programs creates for policy makers.

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Table A-1: Employment generation programs in 7 countries in the region

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
Argentina		9.31%		0.09%
<i>Public works financed with public resources</i>				
1. Programa de Asistencia Solidaria (PROAS) Unemployed household heads in public works executed jointly by Sec. Desarrollo Social and state Governments	260.0	2.7%	54.5	0.020%
2. Programa de Entrenamiento Ocupacional (PRENO)	94.0	1.0%	20.0	0.007%
3. Programa de Servicio Comunitario (ASISTIR) Female household heads in community development activities	25.0	0.3%	2.6	0.001%
4. Programa Trabajar Unemployed household heads in public works executed by local governments and NGOs.	233.0	2.4%	44.9	0.017%
<i>Private sector employment promotion</i>				
5. Programa de Empleo Privado para Pequeñas y Medianas Empresas Subsidy for new jobs for unemployed workers in firms with less than 100 employees	254.0	2.7%	42.4	0.016%
6. Programa Nacional de Forestación Intensiva (FORESTAR) Subsidy for new jobs for unemployed workers in new agricultural/forestry firms.	21.0	0.2%	4.4	0.002%
7. Programa de Reinserción Laboral Subsidy to workers that find a job while receiving unemployment insurance.	n.a.		n.a.	
8. Programa de Movilidad Geográfica Subsidy to workers that have to move from place of residence to keep the job.	n.a.		n.a.	
9. Bono para la creación de empleo privado (BOCEP) Fiscal credit for workers displaced from states' payroll. New employer can use as collateral for credit from public banks.	5.2	0.1%	73.4	0.027%
Brasil (1)	221.8	0.49%	1,188.8	0.21%
1. Programa de Generación de Empleo e Ingresos (PROGER) Special credit lines to MSMEs, cooperatives and informal sector.	221.8	0.5%	1,188.8	0.21%
Chile	4.3	0.10%	1.4	0.00%
1. Trabajadoras temporeras Child-care and educational services for children of ag. Temporary workers	4.3	0.1%	1.2	0.002%
2. Programa de desarrollo del microempresario indígena Strengthening of economic networks of indigenous groups through ME creation and support	n.a.		0.2	
Costa Rica	8.1	0.71%	3.3	0.04%
1. Programa nacional de generación de empleo Transfer of a min. wage to unemployed workers who participate in construction of social services infrastructure and service delivery.	2.1	0.2%	0.1	0.001%
2. Pro Trabajo - <i>Incentivos para la reinserción laboral y el empleo temporal</i> Subsidy of 50% of min. wage for on-the-job-training for unemployed/vulnerable workers.	3.4	0.3%	2.1	0.026%
- <i>Ideas productivas</i> Support to ME creation.	2.6	0.2%	1.1	0.013%
Jamaica	6.0	0.61%	21.2	0.50%
1. Micro Investment Development Agency (MIDA) Credit for ME development	6.0	0.6%	7.6	0.181%

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
2. The Government of Jamaica/Government of the Netherlands Micro Enterprise Project (GoJ/GoN MEP) Credit for ME development	n.a.			0.000%
3. The Government of Jamaica/European Union Programme Credit for ME development	n.a.		1.4	0.034%
4. Mel Nathan Institute for Development and Social Research (MMI) Community development services	n.a.		1.6	0.038%
5. Enterprise Development Trust (EDT) Credit for ME development	0.0	0.0%	0.2	0.004%
6. The Women's Construction Collective (WCC) Training and credit for female construction workers	n.a.		n.a.	
7. ASSIST Ltd. Credit for ME development	n.a.		0.1	0.002%
8. Bee Keeping and Honey Bee Project Training and employment for youth in bee-keeping activities.	n.a.		0.3	0.007%
9. SESP Training and temporary employment for unemployed workers	n.a.		10.0	0.237%
Mexico	1,024.0	4.42%	1,802.0	0.51%
2. Programa de Conservación de Caminos Rurales Rural public works for unemployed youth, Federal Govt. financed, works organized by State and local govts.	712.0	3.1%	350.0	0.099%
3. Progr. de Construcción de Infraestructura Física y Obras de Empleo Productivo Social infrastructure public works for unemployed youth, Federal Govt. financed, works organized by State and local govts.	312.0	1.3%	1,452.0	0.410%
4. Programas Sociales Privados Club de Leones y Rotarios	n.a.	n.a.	n.a.	n.a.
Peru (2)	4.2	0.14%	0.1	0.00%
1. Progr. de autoempleo y microempresa (PRODAME) Training and credit for ME creation and support	4.2	0.1%	0.1	0.000%

(1) PROEMPREGO is excluded from the Brazilian list of employment generation programs, as it is an investment program, with obvious employment consequences, but with the primary objective of improvements in sanitation, environmental infrastructure, urban transport, etc. through BNDES lines of credit.

(2) Peru has also implemented a number of its employment generation programs as labor intensive investments sub-projects, complementary to the normal investment activities of institutions such as Instituto Nacional de Desarrollo (INADE), Programa Nacional de Asistencia Alimentaria (PRONAA), Empresa Nacional de Edificaciones (ENACE), Fondo Nacional de la Vivienda (FONAVI), Instituto Nacional de Infraestructura Educativa y de Salud (INFES), SEDAPAL, CORDECALLAO, CORDELIMA, INABIF, Fondo de Compensación Municipal, PROMANACHCS (Min. Agricultura), Ministerio de Transporte.

Table A-2: Training programs in 7 countries in the region

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
Argentina	133.0	1.4%	95.6	0.04%
1. Proyecto Joven Scholarships and stage in temporary job for low-income, non-skilled, unemployed youth.	53.0	0.6%	71.7	0.027%
2. Proyecto de Microemprendimiento Entrepreneurship training for experienced, unskilled workers	5.4	0.1%	6.5	0.002%
3. Programa Imagen (Orientación para el empleo) Job-search assistance	27.0	0.3%	1.2	0.000%

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
4. Programa de Talleres Ocupacionales (PTO) Support to NGOs on setting up training institutions	18.0	0.2%	4.2	0.002%
5. Programa de Capacitación Ocupacional Training of unemployed and SMEs personnel	24.0	0.3%	7.3	0.003%
6. Programa de Capacitación para el Empleo Scholarships and stage in temporary job for low-income, non-skilled, unemployed and displaced workers	1.7	0.0%	2.3	0.001%
7. Programa Aprender Financing of health and accident insurance for young workers hired under <i>Contratos de Aprendizaje</i>	1.9	0.0%	-	
8. Programa Emprender Financing of training cost for workers in new firms.	2.0	0.0%	2.4	0.001%
9. Programa de Crédito Fiscal Tax exception for training firms.	n.a.		n.a.	
Brazil	740.5	1.6%	310.2	0.1%
PLANFOR FAT-financed training program executed at the federal and state level by independent training institutions.				
1. <i>Programas Federales y Estatales</i> Federal and state programs for vulnerable groups.	340.8	0.7%	149.8	0.03%
2. <i>Programas de Emergencia</i> Emergencies from drought and declining/restructuring sectors	399.7	0.9%	159.4	0.03%
Chile	36.6	0.8%	18.3	0.03%
1. Programa Chile joven Stipend and stage in temporary job for low-income, non-skilled, unemployed youth.	17.9	0.4%	10.4	0.019%
2. Programa de apoyo a mujeres jefas de hogar de escasos recursos Training, day-care, health and other services to improve labor market insertion of poor women	15.0	0.3%	4.9	0.009%
3. Mujer y microempresa (Capacitación en gestión empresarial con perspectiva de género) Entrepreneurship training for female household heads with some education	0.1	0.0%	0.3	0.001%
4. Programa de reinserción laboral Job search and relocation assistance to displaced workers from carbon and textile workers.	0.2	0.0%	0.8	0.002%
5. Programas regulares de becas. Scholarships for training at official institutions for vulnerable groups (temporary workers in ag., ports and fishing)	1.3	0.0%	0.3	0.001%
6. Proyecto apoyo a los progr. de inserción laboral para personas con discapacidad Policy formulation and pilot program for labor market insertion of handicapped workers	0.1	0.0%	0.1	0.000%
7. Programa de capacitación e inserción laboral para personas con discapacidad.	0.6	0.0%	0.9	0.002%
8. Programa de rehabilitación, capacitación e inserción laboral para personas discapacitadas.	0.2	0.0%	0.1	0.000%
9. Programa de formación y capacitación para el trabajo. Adult training program privately operated.	1.2	0.0%	0.4	0.001%
Costa Rica	13.1	1.2%	60.6	0.73%
3. Llave en mano. Contracting out of training activities by the public training institution (INA)	n.a.		n.a.	

	Beneficiaries		Expenditure	
	1.000s	% of total labor force	1.000s US\$	% GDP
5. Formación y reconversión para los movilizados Training for displaced public sector workers	1.5	0.1%	n.a.	
6. Talleres públicos Training of low-income workers in marginal urban areas	6.2	0.6%	n.a.	
7. Formación profesional para el desarrollo socio laboral de personas con discapacidad Training of handicapped workers	1.0	0.1%	n.a.	
8. Prog. de becas de capacitación para el empleo del Ministerio de Trabajo y Seguridad Social Scholarships for training of workers with secondary education.	4.4	0.4%	0.1	
Jamaica	43.5	4.4%	18.6	0.44%
1. Skills 2000 Training for out-of-school and unskilled unemployed workers	40.0	4.1%	11.4	0.3%
2. Special Training Empowerment Programme (STEP) Youth training	0.6	0.1%	4.6	0.1%
3. Strategies to Rehabilitate Inner Cities through Viable Enterprises (VIABLE) Urban youth training	n.a.		n.a.	
4. National Youth Service (NYS) Training temporary employment for unemployed youth	2.9	0.3%	2.6	0.06%
Mexico	410.3	1.8%	135	0.04%
1. Programa de Becas de Capacitación para Desempleados (PROBECAT) Training and scholarships for unemployed workers	410.3	1.8%	135	0.038%
Peru	1.5	0.1%	5.0	0.010%
1. Programa de Capacitación Laboral Juvenil (PROJOVEN) Scholarships and training for unemployed youth	1.5	0.1%	5.0	0.010%