

Protection and training

Institutions for improving
workforce integration
in Latin America and Asia

ALBERTO ISGUT
JÜRGEN WELLER

Editors

Economic Development



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Alberto Isgut
Jürgen Weller
Editors



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Foreword

At the beginning of the twenty-first century, the world of work is going through far-reaching transformations. Technological changes, comparable in scope only to those of the Industrial Revolution, the formation of global value chains and the growing integration of goods and services markets affect both *what* is produced and consumed, and *how*.

Against this backdrop, over the last few decades, millions of new jobs have been created within emerging production and marketing circuits. At the same time, however, faltering economic growth and changes in markets have generated high unemployment, which currently affects 199.4 million people around the world. The International Labour Organization (ILO) estimates that 21 million people are currently unemployed in Latin America and the Caribbean, and 99.2 million are jobless in the Asia and the Pacific region. Furthermore, some countries in these regions display low average labour productivity levels and wide internal gaps in productivity and job quality, with large sectors of the population in work but receiving low incomes and not enjoying globally recognized labour rights.

At present, most of the population of Latin America and Asia live in middle-income countries which face new challenges in order to continue increasing productivity and the standard of living. In recent decades, several countries—more in Asia than in Latin America—have succeeded in implementing structural change processes that have enabled them to take advantage of global transformations, while also contributing to them. Millions of people in Asia and, to a lesser extent, in Latin America have joined value chains that contribute to labour markets. Although in many cases the jobs in question pay low wages and offer diminished labour rights, they nevertheless represent new job opportunities and the potential for economic

and social development for their respective countries, and they can also serve as a gateway to upward career paths for many workers.

The challenges on the road to constructing economically, socially and environmentally sustainable economies remain enormous: the decarbonization of production and consumption, economic growth based increasingly on knowledge and technological change, and the creation of more equal societies, with social, labour and political rights guaranteed for all. The 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals provide a consistent framework for achieving these targets. Goal 8 stresses the creation of full and productive employment and decent work for all. To achieve this goal, our regions need progressive structural change to correct processes that undermine sustainable development and exploit the potential of technological change and fundamental social compacts, through a strategy adapted to each country's characteristics. A key element for moving towards fulfilment of Goal 8 entails creating and strengthening labour market institutions that uphold and protect workers' rights and help to establish virtuous circles between the fostering of labour productivity and workers' well-being.

This volume analyses two labour institutions that are crucial in this respect: unemployment protection and technical and vocational education and training.

Unemployment protection has its origins in the nineteenth century, when the characteristic volatility of capitalist production started to threaten the stability of the incomes of wage-earning workers. The first policy to emerge was compensation for unfair dismissal, followed by voluntary insurance policies for workers and, lastly, mandatory unemployment insurance for formal wage earners. The protection instruments developed under international labour market regulation, which was constructed after the First World War with the founding of the ILO and first implemented in countries that had progressed furthest along the industrial development path, can be seen in the context of efforts to underpin minimum labour conditions and prevent countries from competing on labour costs by cutting wages or eroding workers' rights. In addition to helping to protect those out of work, these instruments have an important macroeconomic role to play, by countercyclically mitigating the reduction in household demand in periods of crisis or weak economic growth.

It is undeniable that the competitiveness of many countries in Latin America and Asia today is based partly on wages lower than those of developed countries, which is not conducive to a sustainable future. Accordingly, our regions must foster labour institutions, such as unemployment protection mechanisms, that transform employment relations through progressive structural change. Until now, few countries in either of these two regions have

had strong institutions in this regard, but, as shown in this volume, in many cases discussions are taking place and progress is being made to that end.

Highly volatile labour markets and the growing heterogeneity of labour relations pose major challenges for the design of these protection instruments. The contributions made to this volume clearly show that there is no single optimal solution, that it is essential to integrate passive and active labour market policies, and that participatory processes must elicit responses that are adapted to the specific conditions prevailing in each country. In addition, a highly skilled labour force is a key element for any development strategy that aims to base economic growth increasingly on innovation and knowledge. This requires significant reform, particularly of education systems. Moreover, countries need to build national technical and vocational education and training systems, to face the multiple challenges that arise from the increasingly heterogeneous needs both of the world of work and of the individuals that seek to join it productively and in a dignified manner.

To mention just two aspects: first, rapid and frequent technological and organizational changes threaten to render certain acquired knowledge quickly obsolete. Second, enabling youth to transit efficiently from school to productive employment, with rights, is a key challenge for our countries. For many young people, this transition needs to be achieved through vocational training. Facilitating labour market integration and updating the knowledge and skills needed in a continuously changing world of work not only enables workers to benefit from job opportunities, but it also allows firms to compete increasingly on the basis of growing productivity, grounded in such knowledge and skills. Nonetheless, as this volume shows, creating and developing effective national technical and vocational education and training systems is no easy undertaking, and these tasks must be shared among all stakeholders.

In short, this volume aims to contribute to the debate on the formation of labour market institutions that foster sustainable development in a constantly changing world of work. The creation of full and productive employment and decent work for all are key components of that task. As so often happens in development processes, the challenges are complex and there is no easy one-size-fits-all solution. It is only through social and political processes that countries can move forward in designing and building institutions that are aligned with their specific conditions and requirements.

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Introduction

*Alberto Isgut
Jürgen Weller*

Labour relations and employment conditions are regulated through institutions that define the frame of action for the participants, through legal or administrative rules, collective bargaining and market forces. Jointly, these labour market institutions have the twin objectives of protecting the weaker players, in a market in which the power structure is unequally distributed, and of enabling the market to adjust efficiently to economic shocks. Although there is generally a very broad consensus on these twin objectives, there are also discrepancies as to what it means for certain specific institutions. The two objectives are generally present in all institutions, albeit differently weighted. For example, the key objective of institutions that protect workers in the event of unemployment is obvious; but these protection mechanisms can also make adjustment more efficient by facilitating a match between job searchers and job vacancies. Technical and vocational education and training (TVET), can improve a firm's productivity and competitiveness; but they can also generate wage and non-wage benefits for the workers. An increase in the minimum wage favours lower-income workers and, although it generates higher costs for firms, it can also stimulate productivity improvements.

Given the simultaneous nature of the two goals, the creation or reform of these institutions are generally among the most widely discussed measures, since they have a major influence on the well-being of most households, which rely mainly on their labour incomes. They also influence business performance, both because they affect production costs and because they can generate benefits that enhance productivity and competitiveness.

The debate on the creation or reform of labour institutions is further complicated by the fact that, as is increasingly recognized, there is no unique best institutional model (Eichhorst, Feil and Braun, 2008); and the design of institutions that function effectively, in terms of the twin objectives, varies from one country to another (owing to differences in economic and social structures, power relations and the dominant cultural patterns). Effective design also varies over time (owing to changes in those factors that can make institutions less effective despite having functioned well in another context) (Berg and Kucera, 2008).¹

This necessarily dynamic nature of the institutions can be seen today, because technological innovation and globalization processes, along with the corresponding transformations in national economies, are changing the characteristics of labour market participation and employment career paths. This poses new challenges for many Latin American and Asian countries, because they aspire to improving their competitiveness and the well-being of their populations on the basis of knowledge, which means being the subject of the transformations that are unfolding, rather than the object.

For the men and women workers of Latin America and Asia specifically, these processes involve both threats and opportunities. Frequent and sometimes profound technological and organizational changes, and alterations in the relative competitiveness of the economies and firms, generate high levels of volatility in globally integrated goods and services markets, which is then transmitted to labour markets. Consequently, employment paths tend to be more intermittent than in the past, with a corresponding impact on household incomes. In this context, in addition to unemployment caused by the business cycle, changes in the production structure can raise the spectre of structural layoff (for example, when firms in a specific activity in a given country lose competitiveness relative to producers in other economies).

In Latin America high rates of open unemployment were not a lasting phenomenon until the 1980s—and even the debt crisis of that decade had only a passing impact on open unemployment, which fell rapidly as informality surged. In the 1990s, however, open unemployment rose gradually. Although the regional rate fell again as from 2004, to very low levels compared with those of the previous few decades, the recent faltering of regional economic growth has reinstated it as a threat to workers' well-being. In addition, despite relatively low open unemployment rates, jobs tend to be more short-term than in developed countries and a high proportion of the labour force is thus out of work at one time or another.

¹ The empirical evidence shows that extreme solutions—heavily biased either towards the goal of efficient adjustment or else towards protection—generally produce unsatisfactory results; but between these extremes there is a vast range of possible institutional combinations that perform reasonably well (Betcherman, 2014).

In many Asian countries, the 1997 crisis generated a massive increase in open unemployment for the first time in many decades; and workers' well-being was undermined again by the global financial crisis of 2008 and 2009. The effects of the crises on workers were exacerbated by relatively weak labour policies, for example, with regard to employment protection, industrial regulations and social security. Although employment continued to grow after the global financial crisis, it has done so more slowly than before, and Asia accounts for nearly half of the world's unemployed. In addition, when analysing unemployment statistics, whether in Latin America or in Asia, it is important to remember that these provide only partial information on the workers' situation, because a large proportion perform tasks in the informal sector. A group that requires special attention is young people as their transition to the labour market remains a major challenge, with their unemployment rates being generally more than twice the average.

Another key factor in the ongoing economic and productive transformations consists of frequent changes in the skill profiles demanded by the labour market. To some extent, this represents another threat to workers, because it can mean that some of the skills acquired become obsolete sooner than in the past, thus requiring workers, firms and public institutions to attune themselves to the concept of "lifelong learning". On the other hand, changes in the world of work can generate new employment opportunities in Latin America and Asia, related specifically to new demands and new production processes.

The transformations outlined above generate new challenges for labour market institutions, particularly for unemployment protection and TVET.² Latin American and Asian countries use different instruments to protect workers against the threat of unemployment; but these generally have weaknesses in terms of the coverage and effectiveness of the protection they provide. Only a few countries have unemployment insurance programmes, which are the most developed instruments in this regard. Nonetheless, apart from the emergence of open unemployment as a threat to workers' well-being, several processes (such as the impact of the Asian crisis on that continent's labour markets, procedures for joining the Organization for Economic Cooperation and Development (OECD) and initiatives to complement the pillars of social protection systems) have reawakened interest in strengthening these protection instruments. Consequently, several countries from these regions have taken steps either to create new institutions or to improve existing ones.

² The United Nations Educational, Scientific and Cultural Organization (UNESCO), 2002, cited in UNESCO, 2013, p. 5), defines Technical and Vocational Education and Training (TVET) as "the study of technologies and related sciences and the acquisition of skills, attitudes, understanding and knowledge relating to occupations in various sectors of economic life and social development".

Technical and vocational education and training can help increase labour productivity, facilitate domestic productive convergence and improve the quality of jobs and upward employment paths. It can also help vulnerable groups find productive employment in the labour market. The countries of Latin America and Asia have a variety of TVET institutions which generally arose during industrialization processes. These institutions have undergone significant changes, and many new players have emerged in this new context. Nonetheless, doubts remain as to the capacity of national TVET systems to adequately respond to the new challenges. In general, the different institutions and programmes need to be integrated into national TVET systems. This is a necessary condition for the training activities to be relevant to the demands of firms and workers and the individuals who wish to enter the labour market, while also contributing to a national development strategy that is sustainable in the long term, aimed at reducing productivity gaps, both externally (relative to the developed countries) and domestically (in highly heterogeneous economies). Moreover, little support tends to be given to closing the inequality gaps that affect women and young people (particularly those with low levels of schooling in both cases), persons with disability and those belonging to ethnic minorities and other vulnerable groups, to facilitate their labour market inclusion through productive employment and decent work.

In short, both regions need to create new institutions and improve existing ones to meet the challenge of containing the threats to labour market engagement and employment paths arising from the changes taking place in the economies and the exploitation of new opportunities that present themselves.³ These institutions do not emerge as a result of market forces, but require public policies and stakeholder participation, owing to multiple market failures. For example, in the TVET domain, the factors that generate these market failures include uncertainty among firms as to their chances of appropriating the return on their training investment, particularly with so many small firms operating with high levels of informality in both regions. Individuals, on the other hand, have to decide whether to incur training costs themselves in imperfect labour markets, where wages do not necessarily reflect higher vocational qualifications (Llisterri and others, 2014, pp. 17-19). In the case of unemployment protection mechanisms, both theory and practice have shown the need for mandatory instruments, as part of public policies, because there are multiple obstacles to the functioning of a private market in this domain.

³ Other labour market institutions not studied in this volume, such as collective bargaining and the minimum wage, also suffer the pressure of market changes. These institutions also need to be analysed in terms of the twin objective.

This volume analyses the challenges facing unemployment protection and TVET institutions in Latin America and Asia, and the alternatives for and progress made towards strengthening them in a changing world of work.

As noted above, the literature reflects the gradual conviction that there is no single best model for labour market institutions. This is also true in the case of unemployment protection and TVET institutions, in a global setting that involves a wide variety of institutions with different specifications. Nonetheless, the experiences of other regions can be useful for improving the design of institutions in these fields in Latin America and Asia.

Accordingly, the section of this volume that is devoted to unemployment protection mechanisms and the one that analyses national TVET systems start with an overview of the characteristics of such institutions in developed economies. In the chapter that reviews country experiences in relation to unemployment protection mechanisms, Gerla van Breugel reviews and highlights the strengths and weaknesses of unemployment insurance systems, (non-contributory) unemployment assistance, severance pay systems and individual savings accounts. The author specifically outlines the positive impact of unemployment insurance schemes in protecting laid-off workers, and the functioning of the labour market, but she also highlights the challenge of achieving a design that adequately combines these favourable effects with efficient resource use. There is a wide variety in the design of these instruments, which underscores the fact that there is no single model that optimally achieves the labour market institutions' twin goals of combining protection and efficiency. Recent changes have focused on strengthening protection in a crisis situation, and in adjusting aspects that hamper the effectiveness and efficiency of unemployment insurance. Nonetheless, the author stresses that the debate on individual savings accounts shows that targeting design on efficiency tends to neglect the solidarity and redistribution dimensions that should be included among the objectives of this mechanism.

The first part continues with a review of experiences in the two regions analysed: Latin America and Asia. In the chapter on Latin America, Mario Velásquez highlights the historical predominance of the mechanism of compensation for "unfair" dismissal, and identifies a number of weaknesses. Only a few countries in the region have unemployment insurance schemes, although many of them have attained per capita income levels similar to those of the developed countries when they introduced this protection mechanism. Although several countries have recently reformed these schemes, persistent weaknesses include limited coverage in the context of high informality, the low level of the benefits paid, and their lack of coordination with active labour market policies.

In his review of experiences in Asian countries, John Carter describes a wide variety of institutions and designs. In Asia, the proportion of the

working-age population not covered by contributory systems is even larger than in Latin America, which underscores the importance of non-contributory and social assistance arrangements. Nonetheless, several Asian countries have introduced unemployment insurance schemes over the last few years, and eight now have this instrument; whereas others (Malaysia, Myanmar, the Philippines) are discussing proposals for its introduction. The author places special emphasis on the need to adapt the mechanisms of protection to each country's priorities and the characteristics of national economies and labour markets.

The first part ends with a study of three countries that have different unemployment protection institutions. First, Colombia recently introduced a protection mechanism for laid-off workers; but the evidence shows that it did not achieve its objectives in terms of improving unemployment protection. In the analysis of this case, Mario Velásquez stresses the essential need for an adequate design; and he highlights the importance of taking account of existing institutions, with their advantages and disadvantages, since this makes it possible to build on previous progress. Nonetheless, reform attempts also encounter vested interests among the different stakeholders, which is not always conducive to an effective and efficient solution. In this context, the author develops a proposal for reforming this protection mechanism.

Second, in the Dominican Republic, the main unemployment protection instrument consists of the compensation that firms have to pay in the event of "unfair dismissal". Although this instrument has weaknesses, it can have a positive effect if well designed. In the chapter on this case, Mario Velásquez analyses the characteristics of the Dominican labour market and the severance pay system, with its strengths and weaknesses, and puts forward a proposal for strengthening it. He concludes that, although unemployment insurance schemes could have significant relative advantages, the current political economy situation would not favour such profound institutional changes, so improvements in unemployment protection would mean upgrading the existing system.

Lastly, in the Philippines, several unemployment protection mechanisms coexist, the most important being severance pay. Nonetheless, as shown by Sharon Piza, Rosemarie Edillon and Michael Dominic del Mundo, there is a wide-ranging debate on the introduction of an unemployment insurance scheme, and several draft laws have been submitted for parliamentary debate. The authors of this chapter review the proposals under discussion, and analyse ways of improving them in the context of the Philippine labour market. Among other factors, they take account of the volatility of the labour market and the population groups affected by different types of unemployment, the challenge of financing an unemployment insurance scheme, and the corresponding political obstacles. They highlight the importance of using

empirical data in designing the system of unemployment protection and the need to ensure a clear and sustainable financing plan.

The second part of this volume analyses the challenges facing national TVET systems, along with their characteristics and the changes they have undergone in recent times. As in the first section, the second starts by reviewing the situation in developed countries. The author, Gerla van Breugel, compares the experiences of initial technical and vocational education and training at secondary school level and in higher education, along with continuous vocational education and training. In these countries, initial TVET generally takes place at secondary school, under the school education or dual apprenticeship format. In many cases, the students can continue (or begin) their vocational education and training at the higher level; and in several countries, this and general university education are converging, with such integration processes facilitating upward career paths. Related to this, the recognition that training needs to continue throughout a person's working life has given rise to continuous vocational education and training, through which new skills and knowledge are generated, both for those in work and for the unemployed.

In Latin America, TVET institutions arose in the context of industrialization processes, with the aim of training technicians and semi-skilled labourers in highly specific jobs. Economic and technological changes, and the expansion of the role of a national TVET system, have generated new challenges for the countries of the region. In the chapter that reviews recent changes to these systems in the region, Sonia Gontero and Jürgen Weller start from the premise that education and training must be relevant on three counts (relevant to the demand from firms and individuals, and to the development strategy), and they highlight the increasing heterogeneity of training processes, on both the demand and the supply sides. In addition to the demand from firms, the demand for training stems, among other sources, from employed workers, particularly adults in the formal sector, workers who have been laid off and are looking for a new job; adults (particularly women) with little or no employment experience, who are looking for a paid job; young people with secondary education completed who are seeking non-university training to join the labour market; and young people with incomplete secondary schooling, who want short-term training for rapid entry into the labour market. While many countries have adopted measures to strengthen their national TVET system, significant weaknesses persist. These can be seen, among other factors, in the gaps between the demand that exists and the training and education programmes that are available, together with low coverage and a lack of integration and institutional coordination.

As highlighted by Jenny Grainger, Liz Bowen-Clewley, Sarah Maclean and Jim Matheson in the chapter on the experiences of Asian countries, this region has also diversified its mechanisms for acquiring qualifications and

skills and the necessary knowledge, in response to increasingly heterogeneous demand. To integrate the results of education and training processes on a comparable basis, many countries have created national (and regional) qualification frameworks and standards to certify those qualifications. These frameworks and standards can play a crucial role in terms of the relevance, quality, reputation and sustainability of national TVET systems. In this regard, a meaningful engagement with industry in developing both frameworks and standards is particularly important. The chapter draws attention to the increasing importance of combining generic (or transferable) qualifications with technical skills that are more related to specific occupations; and it develops a set of indicators of good practices for the development of an effective and efficient national TVET system. These good practices must, however, be tailored to the specific circumstances of each country and to the beneficiaries of technical and vocational training. The three chapters containing country case studies by Ívico Ahumada (on Mexico), Oscar Amargós (on the Dominican Republic) and Aniceto Orbeta and Emmanuel Esguerra (on the Philippines) analyse in greater detail the topics covered in the previous chapters, highlighting, among other things, the challenges of a systemic approach, inter-agency coordination, financing, initiatives to link supply and demand, more training in firms, the coverage of vulnerable groups and the importance of monitoring and evaluation. Each author proposes reforms to strengthen the national TVET systems existing in the countries analysed.

This volume pinpoints how the countries of Latin America and Asia are responding to a growing need to promote unemployment protection mechanisms against a backdrop of major technological and economic transformations in markets, but also the difficulties they face in creating an effective and efficient unemployment insurance scheme. It is often claimed that the countries of the two regions have not attained a development level that makes it possible to finance an instrument of this type. Yet, as shown by Berg and Salerno (2008) —and, specifically for Latin America, by Velásquez in this volume— many countries that do not have unemployment insurance have already attained, or even surpassed, the per capita GDP that today's developed countries had when they first created this institution.

A broad-coverage unemployment insurance scheme not only directly protects laid-off workers, but can also affect the functioning of the labour market if it sets a reserve wage above what would otherwise prevail. Consequently, in conjunction with the minimum wage, the insurance scheme can help stabilize wages, particularly in periods of high unemployment; this gives it an indirect protecting effect, particularly for low-income workers. Nonetheless, it is crucial to have a design that generates appropriate benefits and incentives for fulfilling the twin objectives pursued by labour market institutions. This means that its characteristics in relation to the contributions, conditions and size of the benefits and other factors must be adapted to the

labour market of the specific country, with the possibility of introducing changes later, when the conditions of the market in question change. For that, a participatory institutional framework is needed, both for the initial design and for subsequent monitoring.

A special challenge for the design of an unemployment insurance scheme arises from the fact that the benefits of unemployment protection instruments are generally distributed unequally, since individuals with precarious and unstable labour market participation (among whom, women tend to be overrepresented) have difficulties in fulfilling the conditions of access to these benefits; and, when they are attained, the benefits are generally small.

Although many countries have the capacity to introduce unemployment insurance schemes, a large proportion of their work force is excluded from this protection instrument owing to the informal nature of their employment. Yet, expanding unemployment insurance to cover unemployed workers in the informal sector (who, by definition, did not contribute when they were working) does not seem to be a good strategy for extending protection, since it discourages contributions by weakening their connection to the benefits and thus erodes incentives for formalization. Account should also be taken of the fact that most informal workers operate on their own account or as unpaid family workers. Employed persons in these categories are generally not covered by any unemployment insurance, even when they work in the formal sector; and the conditions for incorporating them into this mechanism are even more complex in the informal sector. This reflects the limitations of unemployment insurance as a social protection tool; but it does not mean that unemployed informal workers should not have a protection mechanism. As shown in chapter I, many developed countries have different models for providing benefits to individuals with little or no income, which select their beneficiaries on the basis of their income, but are defined independently of their occupational status. Accordingly, when introducing an unemployment insurance scheme, it is essential to develop a strategy for expanding its coverage through labour market formalization; while at the same time strengthening support for low-income households through social, productive, and active labour market policies. Lastly, although not discussed in this volume, progress needs to be made in analysing and discussing the concept of a universal basic income, which is attracting increasing interest in developed and developing countries alike.

With respect to TVET, the contributions to this volume highlight the importance of a systemic approach that facilitates the integration of differentiated supply and demand, opening up spaces, among other things, for social groups with no voice, which would make it possible to identify and cover immediate and longer-term needs, to ensure the quality both of supplier institutions and of the TVET activities themselves, while promoting supply adjustments through wide-ranging stakeholder participation.

The systemic approach also makes it more feasible to target the TVET activities, considering the triple relevance criterion, under which vocational education and training must take account of the demand from firms and individuals, and the longer term development strategy. As it is difficult for each specific activity to respond to triple relevance, the systemic approach facilitates balance on this point for TVET activities as a whole.

New challenges are surfacing with respect to ensuring that triple relevance in the current climate of profound changes in terms of technology and the world of work generally. Those changes can be expected to lead to the emergence of new tasks and jobs, the adjustment of some existing occupations and the obsolescence and disappearance of others. For Latin American and Asian countries to be subjects in these processes, they must adopt a forward-looking orientation, framed by a long-term development strategy. Specifically, to implement a profound change in the production structure, which is currently still in an initial phase, incentives must be provided to generate the skills and knowledge required for this change. A key example is the challenge of training a large proportion of the labour force to undertake “green jobs” in the framework of strategies for progressive structural change with environmental efficiency (ECLAC, 2016). Obviously, this adaptation of TVET needs to be matched by production structure development, which, through incentives, regulations and investments in innovation, generates the demand for new abilities, knowledge and qualifications and skills, in order to avoid mismatches with the corresponding supply.

These transformations entail the risk of a greater domestic polarization between the more skilled and individuals with lower levels of formal education and job training, such that a systemic approach in TVET should contribute to the productive inclusion of population groups that are at risk of exclusion. An analysis would need to be made of processes with the potential to create new job opportunities also for individuals with the lowest levels of formal education, such as demographic change and the increased demand for interpersonal services that this generates. For that purpose, TVET supply and demand requires transparency and the possibility for individuals to acquire abilities and skills cumulatively over the course of their working lives. This is particularly relevant for persons who generally face the risk of exclusion, since gender equality and the inclusion of individuals who work in the informal sector are key elements for developing more equal and productive societies.

Lastly, to be effective, a national TVET system needs to be founded on good general education; and, despite recent progress, improving the quality of education and overcoming the high level of segmentation of education systems observed in many countries remains one of the key development challenges facing Latin America and Asia in the long term.

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Part I

**Strengthening unemployment
protection institutions**

Chapter I

Unemployment protection systems: the experiences of developed and transition countries

Gerla van Breugel

Introduction

Latin America and Asia face similar challenges in developing labour market institutions. For example, they need to create new unemployment protection systems or strengthen existing ones; and they need to improve training programmes and enhance labour market inclusion for population segments living in conditions of poverty and vulnerability. This chapter aims to contribute to the discussion on policies to address those challenges, by analysing the experiences of developed and transition countries with those protection systems. First, the developed countries have accumulated many decades of experience in developing such instruments, and they have a copious bibliography on their impact. Second, transition countries, many of which have a gross domestic product (GDP) per capita similar to those of Asian and Latin American countries, faced the new challenge of open unemployment when they converted from central planning to market economies. This makes the question of how they built a brand new protection system particularly relevant.

The key objective of unemployment protection tools is, of course, to cushion the impact of job loss on the incomes of workers and their households. The mechanisms in question can have positive effects on macroeconomic performance by acting as automatic stabilizers of household demand during crisis periods; and they can enhance the functioning of the labour market by facilitating more efficient interaction between the supply of skills and the demand for them, by allowing the unemployed to spend a longer time searching for a better job.¹ Second, income stabilization would tend to limit the un-equalizing and impoverishing effects of unemployment, since labour market engagement tends to be more volatile among individuals from lower-income households. Consequently, unemployment protection tools should be designed to fulfil the twin objectives of labour market institutions, namely to protect structurally weak players and help the labour market to function efficiently.

Unemployment protection expanded in the second half of the twentieth century. An analysis of 150 countries shows that just 22 offered unemployment insurance or assistance in 1949, but in the next four decades the number rose gradually to 38, consisting mostly of the 20 countries that founded the Organization for Economic Cooperation and Development (OECD) (United States Social Security Administration, 1999, cited in Vroman and Brusentsev, 2005). Following the fall of the Berlin Wall, the countries of the former Eastern Bloc and Soviet Union also implemented unemployment insurance or assistance systems.

Unemployment protection systems provide incomes and offer assistance services to the unemployed. Although both are important in combating unemployment, this chapter focuses exclusively on income support. This can take various forms, as summarized in the following six categories:²

- (i) Unemployment insurance
- (ii) Unemployment assistance
- (iii) Social assistance
- (iv) Temporary employment
- (v) Entitlements accumulated in previous jobs
- (vi) Individual unemployment savings accounts

As social assistance and temporary employment do not exclusively target the unemployed, they fall outside the scope of this chapter. The entitlements accumulated in previous jobs are intended mainly to finance

¹ See Acemoglu and Shimer (2000) for an analysis of the positive impact of unemployment insurance on productivity.

² Although these six categories encompass many forms of unemployment protection, they are not exhaustive. Other programmes also target certain industries that display high (sometimes cyclical) unemployment rates.

retirement pensions. Nonetheless, in some special situations, such as illnesses or permanent disability, funds can be withdrawn before retirement. For that reason, the entitlements in question have been included in the foregoing list, although this report will not consider them in depth.

The following sections make a brief review of the current status of unemployment protection worldwide. They then analyse the characteristics of the most widely used instruments in the countries studied, namely unemployment insurance, unemployment assistance and severance pay, highlighting the wide variety of institutional designs that exist. There are no practical experiences of individual unemployment savings accounts in those countries, but as they have sometimes been proposed as a desirable alternative, it was decided to summarize the results of discussions on the strength and weaknesses of that instrument in this chapter. The greatest variety of unemployment protection instruments can be found in the 20 founding members of OECD, and in countries transitioning from the former Eastern Bloc and Soviet Union. The description and analysis of the three unemployment protection systems presented in sections B to D is based on the experiences of 36 European countries, plus Australia, Canada, New Zealand and the United States.³ Section E sets out the conclusions of the study.

A. Global overview

In a synthesis of unemployment protection around the world, the International Labour Organization (ILO, 2010) shows that unemployment benefits mostly tend to cover formal workers in high and upper-middle income economies, because in countries with high levels of poverty the very concept of unemployment is rendered irrelevant by the need to work to survive.⁴

Of the 201 countries covered by that study, just 44% have legally established programmes, 95% of which generate periodic cash benefits, mainly through social security systems (86% of that subtotal), with social assistance programmes and individual savings accounts representing smaller shares. Legally established programmes also include those that provide lump-sum benefits (four countries only, representing 5% of the mandatory regimes) (see table I.1).

Most of the countries analysed (56% of the total) do not have mandatory unemployment programmes and, of those, only 28% have severance pay regimes.

³ Information is not available for every country on all of the variables.

⁴ This section is based on Velásquez Pinto (2014).

**Table I.1
Types of unemployment protection programme in 201 countries, 2012-2013**

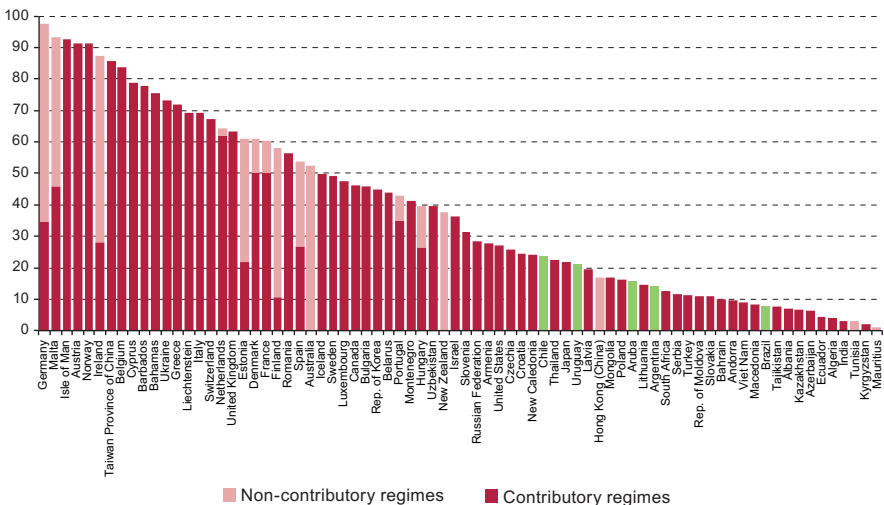
With nationally legislated unemployment programmes (89 countries, or 44%)		Without legislated unemployment benefit programmes established (112 countries, or 56%)
	Periodic cash benefits, 85 countries (95%)	Lump-sum benefits (four countries, 5%)
Main programme	Social security (public, compulsory) (73 countries, 86%)	Individual unemployment savings accounts (two countries)
	Subsidized voluntary insurance (three countries, 4%)	Only social assistance or guaranteed employment programmes (seven countries, 8%)
	Compulsory individual savings accounts (one country, 1%)	Only compulsory individual savings accounts (one country, 1%)
	Additional social assistance programme or guaranteed employment programme (26 countries, 13%)	Pension savings funds (two countries)
		Severance pay (stipulated in the Labour Code) (31 countries, 28%)
		Without severance pay or legislated programmes (81 countries, 72%)

Source: Prepared by the author, on the basis of International Labour Organization (ILO), *World Social Protection Report 2014/15. Building Economic Recovery, Inclusive Development and Social Justice*, 2014 [online] <http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/lang-en/index.htm>.

Just 28% of the world’s labour force is potentially eligible for benefits (whether contributory or non-contributory). There are significant regional differences, however, with 80% of the labour force covered in Europe, 38% in Latin America, 21% in the Middle East, 17% in Asia and the Pacific, and just 8% in Africa. Thus, only 12% of the world’s unemployed receive unemployment benefits, with effective coverage rates ranging from 64% of the unemployed in Europe to just 7% in the Asia-Pacific region, 5% in Latin America and the Caribbean and under 3% in the Middle East and Africa.

Figure I.1 shows the unemployment coverage provided by contributory and non-contributory programmes in a broad group of countries, defined as the proportion of the unemployed who receive an unemployment benefit. Contributory protection systems clearly dominate; and again there are wide coverage differences, with countries such as Germany providing almost total coverage, whereas a large group of countries do not provide more than 20%. Although non-contributory mechanisms are a minority, when they exist they attain relatively high total coverage rates. In Latin America specifically, few countries have protection mechanisms, and coverage rates are low, which reflects the extent of informal employment.

Figure I.1
Unemployed persons who receive an unemployment benefit^a
(Percentage of total unemployed, latest year available)



Source: International Labour Organization (ILO), “Income support to the unemployed”, *World Social Security Report 2010/11. Providing Coverage in Times of Crisis and Beyond*, Geneva, 2010 [online] http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_146566.pdf.

^a Latin American countries highlighted in green.

Nonetheless, ILO states that a growing number of countries are expanding the scope of protection offered under unemployment benefit regimes, to include promotion measures such as skill development and employment services, combined with cash benefits for unemployment. That combination offers new possibilities to afford income security to unemployed and underemployed workers in countries where levels of informality are high.

B. Unemployment insurance and unemployment assistance⁵

1. Background

An unemployment insurance system exists to protect the unemployed against the reduction in purchasing power associated with job loss. To that end, the insurance makes a monthly payment, the amount and duration of which generally depends on the unemployed person's employment history. It is financed essentially from contributions made by employers and employees and sometimes by the State. Unlike unemployment insurance, in the case of unemployment assistance, payment of the benefit and its amount depend on the potential beneficiary's resources and family situation (size and composition). In countries with both mechanisms, unemployment insurance generally functions as the main system, and individuals who cannot meet the requirements or whose insurance benefit entitlement period has expired, can apply for unemployment assistance (Vroman and Brusentsev, 2005).⁶

The origin of these protection systems dates back to initiatives by labour unions and other groups to create mechanisms to protect against labour market instability.⁷ In 1831, the first union fund for unemployment was set up in the United Kingdom; and, by 1900, over 100 unions had created different funds, covering 1.2 million workers.⁸

It was only in 1911 that the first compulsory national unemployment insurance system was established in the United Kingdom. This represented a significant change because until then government actions were understood as support for the poor; so, by establishing the requirement to contribute to its financing, the legal right to benefits was consolidated.⁹

⁵ This section is based on Social Security Administration/International Social Security Association (2012a, 2012b and 2013).

⁶ Several countries also operate social assistance systems to which unemployed people can apply to receive financial assistance. The objective of social assistance is to guarantee beneficiaries a minimum subsistence level, so these systems have broader coverage than unemployment assistance. For that reason, social assistance systems are beyond the scope of this study. Nonetheless, the difference between unemployment assistance and social assistance is not always very clear.

⁷ The next few paragraphs are based on Holzmann and others (2011).

⁸ See Alber (1981) and Gibbon (1911), cited in Berg and Salerno (2008).

⁹ See Flora and Heidenheimer (1981), cited in Berg and Salerno (2008).

In the ensuing years, similar schemes were put in place in Austria, Germany, Ireland and Italy; and by 1949, 22 countries had established them. In the post-war period, 50 additional countries adopted plans of that type, and, in 2005, there were roughly 80 unemployment benefit programmes around the world.¹⁰ Nonetheless, this was generally the last of the social security mechanisms to be adopted, following those covering workplace accidents, sickness and old age.

Today, all of the countries studied for this chapter have an insurance system to make up for the income loss associated with unemployment, except Australia and New Zealand, which use only an assistance system. In addition, 13 countries (Austria, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, the Netherlands, Portugal, Spain, the United Kingdom and the United States) combine unemployment insurance with unemployment assistance. Lastly, the Scandinavian countries (Denmark, Finland, Norway and Sweden) have systems with very different characteristics that involve a multitude of (private) insurance funds.

To create an unemployment insurance scheme, a large number of decisions have to be made on specific aspects of its design. This section describes the wide variety of alternatives that are applied in the countries studied, in terms of the beneficiaries and benefits of unemployment insurance (section B.2), the access conditions (section B.3), the financing of the system (section B.4) and its organizational models (section B.5). This is followed by a brief discussion on unemployment assistance (section B.6), particularly as regards Australia and New Zealand. The section concludes with some comments on the challenges facing the design of unemployment insurance (section B.7) and a brief summary (section B.8). Annex I.A1 sets out details of unemployment insurance systems per country, organized by topic, for example benefits, conditions and other issues.

2. Beneficiaries and benefits

(a) Beneficiaries

Often unemployment insurance does not cover the entire labour force, and own-account workers tend not to be included. That category of worker is explicitly excluded from the benefits in question in 20 countries. In six cases, own-account workers can register voluntarily in an unemployment insurance scheme, but only five countries provide for their automatic (and compulsory) participation in such systems.

While wage earners are the main beneficiaries of unemployment insurance schemes, some countries impose various types of restrictions on receiving benefits. For example, the beneficiary may have to belong exclusively

¹⁰ See Tzannatos and Roddis (1998).

to the private sector, be of a minimum age, or earn a defined minimum wage. There are also countries which, in addition to wage earners, include students, apprentices, or persons with disability re-entering the market on their list of beneficiaries. Some countries from the former Eastern Bloc are the most generous, because they grant unemployment benefits to any citizen of working age (Belarus, the Russian Federation and Ukraine) or also to individuals of other nationalities living in the country (Czechia and Estonia).

(b) Compulsory or voluntary

In Belgium, France, the Netherlands, Switzerland and the Nordic countries, unemployment insurance was initially a voluntary mechanism known as the Ghent system, which had several funds managed by the unions. Following the Second World War, the weaknesses of that instrument made it necessary to replace it with a compulsory insurance system, except in Denmark, Finland and Sweden. Initially, only skilled workers with the highest wages could pay the contributions, so unskilled workers (who were the majority at that time) were left unprotected. In addition, periods of mass unemployment and episodes of long-term unemployment rapidly used up the unions' available funds (Clasen and Viebrock, 2008). Although the Ghent system survived in Denmark, Finland and Sweden, considerable changes were made to it: fund management was taken out of union hands and transferred to separate agencies (albeit linked to the unions); the State started to supervise the funds, and it was no longer a requirement, as before, to be a union member to participate in its unemployment fund. Now the worker freely chooses the insurance fund to which he or she wishes to affiliate, although in Denmark the chosen fund must be State-accredited (Clasen and Viebrock, 2008).

(c) Benefits may or may not depend on previous income

In the vast majority of the countries studied, the amount of unemployment insurance benefits is equivalent to a percentage of the average wage earned by the insured before he or she became unemployed; in other words, a pay rate is used to calculate the benefits. In contrast, a fixed amount is paid in Albania, Ireland and the United Kingdom, whereas in Finland and Lithuania the benefit has both a fixed and a variable component.¹¹

¹¹ In the United Kingdom, there are two types of benefit: the first depends on previous contributions and is therefore considered in this section as a type of unemployment insurance. There is a fixed amount for unemployed 16-24 year-olds, and a higher fixed amount for the unemployed aged 25 years or over. The second benefit is for persons who do not qualify for unemployment insurance. This depends on the resources available to the potential beneficiary, in other words it is classified as unemployment assistance and, as such, is included in section B.6. See Social Security Administration/International Social Security Association (2012a).

(d) Rates and bases of payment

The payment rates mentioned vary widely between countries. The insured's wage generally serves as a reference point when calculating the benefit; but Estonia, Lithuania, Poland and Romania, use a benchmark wage; and in Belarus the benefit is based on the average wage of the beneficiary's former colleagues. Sometimes there are differences in payment rates within a single country, such as in Belarus, France, Hungary and Poland, where benefits range from 80% to 120% of a base amount, depending on the length of time the beneficiary was employed.

(e) Minimum and maximum

Calculating the insurance benefits on the basis of a payment rate and the insured's wage tends to generate a wide variety in the amounts received by the unemployed, when there are no benefit floors or ceilings, as is the case in Austria, Latvia and another five European countries. Meanwhile, four countries guarantee a minimum benefit level, and 15 put only a ceiling on the amount received. The other 10 countries set minimum and maximum benefit levels.

(f) Waiting period

Benefits are paid immediately in 25 countries; in the remainder, there is a waiting period of between three and 14 days. In some cases, waiting days are applicable if unemployment is voluntary.

(g) Maximum duration

Unemployment benefit is received for a defined time period. Nonetheless, several categories of duration can be distinguished in the countries studied. Six countries pay benefits for up to six months. These include Hungary, which is the least generous, paying for up to 90 days. The situation in the United States changed temporarily during the 2008 economic crisis, when emergency federal programmes were implemented to expand the available unemployment benefits. Moreover, owing to the autonomy of the different states that make up the United States, there are considerable differences between them in terms of the maximum duration of benefits, which range from 26 to over 73 weeks.¹²

In 14 countries, the unemployed receive benefits for a maximum of between six months and a year. In five countries, payments are maintained for between one year and a year and a half; and in eight countries the benefits are paid for a maximum of between 1 and a half years and two years. The most generous in this regard are Belgium, France, Iceland, the Netherlands

¹² As the unemployment rate subsequently dropped back, that lengthening of the duration of benefits was gradually revoked, until the end of 2013 (Farber, Rothstein and Valletta, 2015).

and Portugal, with a maximum duration of over two years. Belgium is a special case because, under certain conditions, the unemployed can receive benefits throughout the period of unemployment, irrespective of its length, so the duration of payments can be limitless.¹³

In many countries, the benefits last longer and payment rates are higher when the unemployed person is older, has a longer employment history, or the amount of his or her contributions has been higher. In some countries, unemployed persons who are only a few years away from retirement receive unemployment benefits until they reach retirement age. There may also be other reasons for receiving a larger unemployment benefit and for longer: for example, if the beneficiary receives training (Austria, Czechia and Denmark), if regional unemployment is higher (Canada and Poland), if the family situation justifies it (Belgium, Sweden and Switzerland), or if there is some specific reason related to the ending of the previous job, as happens in the Republic of Moldova. In that country, the unemployed person receives a benefit at a 30% payment rate if the severance stems from an agreement between the employer and the employee, 40% if severance occurs as a result of the expiry of the contract, and 50% if the workplace closes.

(h) Payment trend

In nearly two thirds of the countries analysed (23), the unemployed receive a constant benefit throughout the period for which they are eligible, whereas in 14 countries the amount diminishes over time. Belgium uses a combination of these two arrangements: unemployed persons with one dependant, such as a spouse or a child, receive a constant amount, whereas those without dependants receive a benefit that declines after the first year. Serbia offers the possibility of receiving the unemployment benefit in a lump-sum payment, which can therefore serve as initial capital for a business start-up.

(i) Additional payments

Apart from the regular benefit, some countries have schemes that offer additional payments—for example if the unemployed person has dependent children, which happens in 25% of cases. As noted above, several countries operate a social assistance system, alongside unemployment insurance, which can grant extra funds when the insurance benefit does not attain a certain social minimum level. Other reasons for which unemployed persons obtain complementary benefits include incentives to increase their mobility.

¹³ See [online] http://www.rva.be/frames/frameset.aspx?Language=NL&Path=D_opdracht_VW/&Items=2.

3. Conditions

(a) Contributions, coverage and employment

In most countries, the main prerequisite for receiving an unemployment insurance benefit is to have completed a certain minimum period of contributions, or to have worked for a minimum period of time before losing the job. Belarus, Lithuania and Ukraine do not demand prior contributions, whereas eight countries require up to six months or 26 weeks of contributions or employment. Nonetheless, 21 countries (the majority) require contributions ranging from half a year to one complete year before paying unemployment benefits. Some countries are even more demanding, such as Portugal (450 days' coverage), Turkey (600 days) and Slovakia (two years of contributions in the three years prior to becoming unemployed). Above all, the number of contributions generally determines the generosity of the benefit receivable. In contrast to these countries, Norway and the United Kingdom use a minimum monetary amount of contributions as the main condition. The United States uses a combination between a minimum amount and weeks or hours worked previously, depending on the rules in force in each state.

(b) (In)voluntary unemployment, willingness to work and registration

Generally speaking, unemployment must be involuntary for the person in question to be eligible for unemployment benefit. In several countries however, the benefit entitlement is not immediately lost even if the unemployment is voluntary; but the unemployed person receives a smaller benefit (Austria, Bulgaria and Czechia, or else has to wait longer to receive the first payment (Australia, Iceland, New Zealand and Sweden). In most countries, unemployed people must be willing to work, which often means that they have to accept reasonable job offers. Lastly, it is usually necessary to register as unemployed before any unemployment benefit can be received.

(c) Other conditions

Aside from the conditions mentioned, five countries set further conditions such as restrictions on the income received by the unemployed. In Poland, for example, individuals who have received a severance payment do not satisfy the requirements for unemployment insurance. In contrast, some countries allow individuals to receive unemployment benefits while also receiving labour income from part-time work (Portugal and Switzerland) or sickness or maternity benefits (Turkey). In Canada, if the person cannot work for reasons of ill-health, maternity, or family care, he or she is considered eligible to receive unemployment benefits.

4. Financing

In 11 countries, wage earners receive unemployment benefits even if they do not contribute to the insurance in question. Where they do contribute (27 countries), the amount is calculated by applying a payment rate based on either the income covered or the gross income of the insured party. Exceptions include Belgium, which uses benchmark incomes; Sweden, where a fixed amount is paid; and Luxembourg, which has a special solidarity tax to finance the insurance.¹⁴ Most countries charge no more than 2% of the gross wage. The rates vary from 0.14% (Slovenia) to over 10% (United Kingdom); although rates above 4% correspond to countries where the contribution finances other benefits in addition to unemployment insurance. The payment rate is generally the same for all wage earners, although the Netherlands differentiates this according to the industry in which the insured works; and in Denmark the rate depends on the fund to which the insured is affiliated. Some countries further regulate the insured's contribution by imposing a minimum (two countries), a maximum (nine countries), or both (four countries).

In countries where own-account workers contribute to the insurance, they generally pay a higher rate than wage earners —as much as double in several cases. The income declared or covered serves as the basis for the calculation.

Employers contribute in all countries, except for Luxembourg and the Russian Federation, where they are exempt, and Denmark and Sweden, where only certain firms have to contribute. In the other cases, payment rates range from 0.06% in Slovenia to 6% in Belarus, in cases where the contribution only finances unemployment insurance. When the contribution finances several benefits at the same time, the percentages range from 4.2% (Netherlands) to 27% (Hungary). In general, there is a flat rate, but rates in some countries depend on the sector or the size of the firm (Italy), or on the region (Norway). In the Netherlands, employers also pay into a severance fund.

In the case of the State, which is the third contributor to unemployment insurance schemes, a number of operational modalities can be identified: in several countries (Albania and France, for example) the State only contributes in its capacity as employer. In other cases, the State only pays the insurance policies of certain groups (Italy and Latvia), or the amount needed to cover any deficit that remains after the contributions of the insured employees and employers. In the case of the Russian Federation, governments at all levels (federal, regional and local) fully finance the unemployment insurance.

¹⁴ The fixed amount depends on the fund and the sector in which the unemployed person works (owing to the differential unemployment risk across different sectors). See [online] http://www.arbetsformedlingen.se/download/18.ac8ae161269996840f8000485/ekonomiskt_stod_eng.pdf and <http://www.thelocal.se/20080905/14164>.

5. Organizational models

In terms of the management of unemployment insurance, three main functions can be identified: supervision of the system, administration of the benefits and collection of the contributions. In some countries, these functions are all fulfilled by a single national entity. In the United States, there is a federal programmes administration and another that runs programmes in the different states. In many countries, supervision is separate from the administration of benefits and collection of contributions, whereas in another large group of countries the three functions are completely separate.

In half of the countries, management is centralized at the national level, whereas in 13 countries it is partly executed nationally and partly at the local or regional levels (or sectoral, as in France). There are only six countries in which national, regional and local institutions act jointly to ensure correct management of the unemployment insurance system.

In general, the institutions responsible for management are Ministries of Labour or Employment, employment offices, and social security organizations. In Austria and Germany, Sickness Funds collect the contributions, whereas in Norway that function is performed by local tax offices. In Belgium, the unions are authorized to pay the benefits to their members; and, in the Netherlands, several public agencies (local governments, hospitals, schools, universities, the army) transferred delivery of the extra unemployment benefit (“bovenwettelijke WW-uitkering”) to private firms.¹⁵ Lastly, in Switzerland public and private agencies jointly administer the benefits and collect the contributions.

6. Unemployment assistance

Unemployment insurance is not the only instrument used by countries to cushion the adverse consequences of unemployment on their unemployed citizens. Another very common instrument is unemployment assistance, which is used in conjunction with unemployment insurance in 13 of the 40 countries studied (see annex table I.A1D). In most of those countries, the unemployed person can apply for unemployment assistance benefits when he or she ceases to be eligible for unemployment insurance, either owing to insufficient contributions or because the maximum benefit period has been reached. In Germany and the Netherlands, however, an unemployed person can receive both benefits together when the benefit paid by unemployment insurance is less than a certain level of subsistence income.

¹⁵ Workers in a number of public sector agencies in the Netherlands can apply for an extra unemployment benefit, on top of the regular benefit, when they lose their job See [online] <http://www.loyalis.nl/ontslag/bovenwettelijke-ww.asp>.

The main differences between unemployment assistance and unemployment insurance are described in table I.2.

Table I.2
Differences between unemployment assistance and unemployment insurance

	Unemployment assistance	Unemployment insurance
Conditions	Low income (or capital)	Prior contributions and work
Maximum duration	Longer	Shorter
Basis for calculating the amount	Age, marital status or cohabitation situation, having dependants	Previous income (mostly)
Financing	Public funds	Contributions of employers and employees (mainly)

Source: Prepared by the author.

There are a number of special cases in relation to this instrument in the United States, where the unemployed person can receive social assistance if he or she participates in training activities; and also in Hungary, where unemployed persons are eligible for the benefit when they are less than five years away from retirement.

Denmark's unemployment insurance is not accompanied by unemployment assistance; instead it offers social assistance for persons who, on becoming unemployed, are ineligible for the unemployment insurance and have no funds of their own. The local government pays that benefit.

Australia and New Zealand have exclusively implemented a social assistance system. Social assistance is similar to unemployment assistance, but its scope extends beyond unemployment situations. In Australia, social assistance includes, for example, a benefit for young people aged under 22 years who are not working, but who are looking for work, studying, or receiving some type of training, or who are unable to work owing to illness or injury. The beneficiaries can also receive other benefits, such as discounts on medical expenses, transport and public utilities, and partial rent subsidies, or subsidies for the expenses associated with living in remote areas.

New Zealand has a social assistance system that is very similar to that of its neighbour. Some differences stem from the fact that the system does not pay differential social assistance benefits to different target groups, and the benefits are granted for up to 52 weeks, although the beneficiary can reapply.

7. The impact of unemployment insurance and design challenges

Unemployment insurance is a good tool for stabilizing consumption by cushioning the effect of a recession (Orszag, 2001). Studies performed in

the United States show that unemployment insurance has functioned as a stabilizer in the economy: it eased the fall in the real rate of GDP growth by around 15% in the five recessions that occurred between 1969 and the early 1990s; and it saved 131,000 jobs per year during those recessions (Chimerine and others, 1999), in addition to mitigating the fall in consumption among unemployed people by up to two thirds, compared with a situation without unemployment insurance in 1968-1987 (Gruber, 1994). As a stabilizer, unemployment insurance is up to eight times more effective than taxes (Auerbach and Feenberg, 2000). The strong impact of unemployment insurance as an automatic stabilizer stems from the fact that the benefits are used mainly for consumption, so they are immediately transformed into effective demand. Moreover, when the economy slows, the potential job-search disincentive generated by unemployment benefits would be less, because in that situation, the main reason for unemployment would clearly not be lack of effort, but slack demand (Orszag, 2001).¹⁶

In addition to protecting an income floor for the unemployed and serving as an automatic stabilizer, unemployment insurance tends to improve the match between skill supply and demand, which helps the labour market to function more effectively. The income stabilization it causes can also play a role in favour of greater equality, since low-income households tend to be more prone to labour market volatility. Nonetheless, that positive impact is limited by the link that exists in most cases between contributions and benefits, because it negatively affects persons who have precarious jobs, since their contributions are generally unstable and small. As that situation affects women who work part time in particular, many unemployment insurance schemes have a gender bias. As seen in the review of experiences, an important instrument in this regard is the establishment of benefit floors and ceilings that soften the relationship between the amounts of contributions and benefits, and introduce a solidarity component into the system.

In order to take advantage of the potential of unemployment insurance an important issue is how to design effective unemployment insurance schemes. In general, unemployment insurance schemes contain adverse incentives caused by moral hazard and adverse selection. Moral hazard arises when individuals can influence the risk being insured; and this happens when, given the possibility of receiving higher benefits, the duration of unemployment and the chances of severance tend to increase. In voluntary insurance systems, adverse selection biases their use towards individuals with higher probabilities of unemployment; but even in compulsory insurance systems that factor complicates the design of an optimal mechanism, since the insurance provider, namely the State, does not have certain data on the

¹⁶ These effects assume that people are risk averse (Gruber, 1994; Hansen and Imrohorglu, 1992).

unemployed person, such as his or her productivity, job search effectiveness, or leisure preferences (Fredriksson and Holmlund, 2006a).

For all of these reasons, in designing an effective unemployment insurance scheme attempts must be made to diminish the negative effects of moral hazard and adverse selection. Studies that have analysed the factors that need to be taken into account in designing this type of insurance have focused only on certain aspects of the full range of parameters considered in sections B.2 to B.5, which are reviewed below.¹⁷

(a) Limited duration

Theoretically, the rate at which the unemployed gain employment increases when the benefit expires, because the unemployed person's reserve wage falls sharply. That effect has been detected in empirical studies performed in Canada, France, Spain, Sweden, and the United States.

(b) Payment trend over time

Several empirical studies have shown that a payment scheme that diminishes over the unemployment period (until either the person finds a job or the entitlement expires) has greater positive effects than an equal-payment scheme. Despite those positive effects, the studies in question made various assumptions about the level of moral hazard, risk aversion and the possibilities of saving and lending money, which are not necessarily valid in all circumstances and countries, but can alter some of the findings. Moreover, a declining payment is beneficial for individuals suffering short periods of unemployment, but has a negative effect on the long-term unemployed.

(c) Waiting period

The establishment of a waiting period tends to reduce entry into the unemployment system because it operates as a tax on that transition. In Canada, if the applicant has previously been unemployed and now has a new episode of unemployment, the waiting period increases by a period that takes account of how long the person was previously unemployed. This feature could make it more difficult to obtain unemployment benefits owing to behavioural changes, such as choice of profession, sector and the nature of the contracts. Given the losses implied in waiting periods, it could also reduce work shirking and the use of implicit contracts with temporary layoffs.

¹⁷ The review that follows is mainly based on an analysis of the literature presented by Fredriksson and Holmlund (2006a), which contains the corresponding bibliographic information. Apart from aspects such as limited duration, the trend of the payment through time, and the requirements and sanctions, the authors also examine conditional social benefit schemes (which commit the individuals to undertake some type of work to be eligible to receive the benefit). As conditional social benefits are an active labour market policy, they are outside the scope of this chapter and are not discussed here.

(d) Control and sanctions

On the issue of control, the literature has analysed the effect of making part of the unemployment insurance benefits conditional on undertaking job search activities. Some studies performed in the United States and United Kingdom have shown that obligatory job search and its control have a positive effect, because they improve the rate at which people move out of unemployment. This effect is based on the fact that the unemployed use more varied job search strategies and spend more time looking for work owing to the control. In contrast, studies performed in the Netherlands show that such controls merely involve the replacement of informal job search activities with formal activities that the beneficiaries can demonstrate to the controlling bodies, without having significant effects on leaving unemployment. The few studies (conducted in the Netherlands and Switzerland) that have investigated the effects of sanctions in the form of benefit cuts found that even the threat of a cut had positive effects on the rate of exit from unemployment.

(e) Efficiency of unemployment insurance

An unemployment insurance scheme can be claimed to be efficient when its benefits give the unemployed chance to search for a new and suitable job, while individuals who are basically not prepared to work do not apply for the benefits in question. In such circumstances, the benefits could be higher in the case of individuals for whom the insurance was designed (Fredriksson and Holmlund, 2006b). According to those authors, control and sanctions have a more positive effect on the efficiency of an insurance scheme than declining benefits.

(f) Unemployment assistance

In many countries studied, unemployment insurance is combined with unemployment assistance (see section B.6). That combination tends to increase employment, since individuals who do not yet satisfy the requirements for the unemployment insurance are encouraged to make greater job search efforts, if they subsequently want to be eligible for the unemployment insurance.¹⁸ That effect would occur under the reasonable assumption that a given period of work is an eligibility requirement and that there is a considerable difference between the benefits of the insurance and those of the unemployment assistance.¹⁹

¹⁸ The fact that a person who is not yet eligible for unemployment insurance increases his or her job search efforts to become eligible in the future, has been called the "entitlement effect".

¹⁹ Fredriksson and Holmlund (2001, cited in Fredriksson and Holmlund, 2006a) i.e. the duration of benefit payments (or more generally the time sequencing of benefits suggest that a ratio of 1.7 to 2.0 between the two benefits would be optimal.

8. Summary

Studies show that unemployment insurance has a positive impact in terms of protecting the incomes of many unemployed people. This is because it can lessen the deepening of inequality caused by the loss of labour incomes, particularly if minimum and maximum benefit levels are established. It can also have a significant impact as an automatic stabilizer and in the process of matching the supply of and demand for skills. Nonetheless, trends towards greater volatility and precariousness (for example, higher staff turnover, more part-time employment) pose a challenge for protecting the worst hit population groups, particularly women and young people. Moreover, the right design is a key condition for ensuring the effectiveness and efficiency of the insurance scheme. Specifically, the available studies suggest that unemployment insurance tends to work better if the benefit is of limited duration, the amount declines over time, a waiting period is enforced prior to the first benefit payment, and job search activities are controlled through the threat of sanctions. In addition, combining unemployment insurance and unemployment assistance may have positive effects. The results of the studies corroborate the validity of certain elements of the design of current unemployment insurance schemes. Nonetheless, in relation to many other aspects, it is impossible to say for sure whether the design is right. In conjunction with the diversity of the countries' socioeconomic environments, this explains the wide variety in the design of unemployment insurance schemes in the 40 countries studied.

Account also has to be taken of the potential for contradictions or disadvantages between different objectives. For example, speeding up the move from unemployment to employment by applying incentives or disincentives and sanctions, may reduce the unemployment rate but may also affect the quality of the match between supply and demand and, thereby, the welfare of the person in the longer term, and the efficiency with which the labour market functions.²⁰

Lastly, although not directly part of the analysis of the experiences of those countries, it should be noted that the effectiveness of an unemployment insurance scheme is closely linked to the good functioning of the employment service responsible for information, advice and intermediation in the labour market, together with vocational training and skill development institutions. Close cooperation between these services is crucial in this regard.

²⁰ For example, Engbom, Detragiache and Raei (2015) find that the labour reforms introduced by Germany in the 2000s helped to significantly reduce the unemployment rate; but that individuals who re-entered the labour market following a period of unemployment suffered a steeper income loss than in the pre-reform period, related to a fall in their reservation wage.

C. Severance pay²¹

1. Characteristics and background

Severance pay consists of a payment made by the employer to laid-off workers who fulfil certain conditions. It is generally paid in a lump sum, in an amount that depends on the number of years of service and the worker's final wage. Severance pay was one of the earliest social benefits, dating back 130 years, which means that it existed before benefits such as unemployment insurance and pensions were introduced.

Many severance pay systems were instituted under specific provisions negotiated directly between the firm and its workers. Often this was done outside the jurisdiction of existing regulations or collective agreements. The aim was to strengthen the employee's commitment to the employer and thus avoid the costs of hiring and training replacement staff.

These mechanisms can also be seen as an early form of social protection, because they were introduced in many countries before unemployment insurance schemes or retirement pensions were established.²² In most developing countries, those benefits continue to be crucial for the formal labour force, because eligibility and access to unemployment and retirement benefits remain limited, even though they were initially considered a temporary legislative measure.²³

In general, three trends have favoured the creation of severance systems in the world: (i) the development of labour codes aimed at establishing a legal balance between the employer and the worker; (ii) long and intense periods of unemployment owing to the major restructuring that occurred between the two world wars; and (iii) the expansion of the welfare state following the Second World War.

The objectives of severance pay programmes can include compensating for job loss, stabilizing employment, preventing unemployment by discouraging layoffs, promoting long-term labour relations by keeping on valuable workers, and reducing the transaction costs associated with staff turnover.

²¹ This section is mainly based on the Holzmann and Vodopivec (2012) study on severance pay systems in 183 countries. Of these, the experiences of 42 European countries plus Australia, Canada, New Zealand and the United States are analysed.

²² In the late nineteenth century, in the United States, the United Kingdom and also in countries of continental Europe, damages were payable if the employment contract was terminated owing to non-compliance. Severance pay was granted if the employer did not respect the dismissal notice period; and job stability issues also gained importance. For example, in the 1870s, and in France in the 1880s, many dismissal cases in the railroad industry led to rulings that can be recognized as starting points for the establishment of severance pay. See Holzmann and others (2011).

²³ For example, mandatory severance pay came to an end with the passing of social security legislation (Costa Rica), or was replaced by benefits from a social welfare fund (Dominican Republic, Egypt, Lebanon and Syrian Arab Republic). See Herz (1954), cited in Holzmann and others (2011).

This section starts by describing the key elements and their variants in European countries, in addition to Australia, Canada, New Zealand and the United States. It continues by considering recent reforms made to severance systems, and their positive and negative effects. The section concludes with a brief summary.

2. Key elements

(a) Mandatory nature and coverage

Although the severance pay system is mandatory in many of the countries studied, that is not the case in nearly all Nordic countries, Belgium, the Netherlands, several countries of the former Eastern Bloc (Poland, Romania), along with Cyprus, New Zealand and the United States. In nearly two thirds of countries for which there is information, coverage is only mandatory in the private sector. In many cases, all private sector workers (and, in some cases, those of the public sector) are covered by this instrument, although there are some exceptions, particularly for smaller firms (those with fewer than 10, 15 or 20 employees). In some cases, personnel in management posts, or farmers, seafarers, military personnel or domestic employees, are also ineligible for severance pay. In several countries, if severance pay is not mandatory it is regulated in collective agreements; and in some cases obligation and collective agreement coexist.

(b) Conditions

The reasons for the termination of an employment relationship and those that define a worker's eligibility for severance pay may vary. Six types are distinguished:

- (i) Dismissal for non-economic reasons
- (ii) Dismissal for economic reasons
- (iii) Bankruptcy of the firm
- (iv) Retirement
- (v) The worker's incapacity to work owing to temporary or permanent health reasons
- (vi) Expiry of the contract and resignations

Dismissal by the employer for economic or non-economic reasons nearly always generates an entitlement to severance pay. Nonetheless, some countries only consider bankruptcy, retirement, incapacity, the expiry of the contract and resignation as valid reasons.

Another important condition in which there are differences is the minimum time for which the worker must have remained in the job.²⁴ In most countries, this ranges between 12 and 24 months, although there are also extreme cases: in Greece, only two months are required, whereas Swiss workers must have accumulated 240 months to be eligible for severance pay when they are laid off for economic reasons.

(c) Benefits

The amounts paid to compensate for dismissal based on economic reasons are not uniform across the countries studied. To compare data, a “generosity index” is calculated, which represents the average of the benefits received by individuals with 1, 5 and 10 years’ service in the job, expressed as a multiple of the weekly wage. The average across 43 countries is 2.5 weeks’ wages. Nonetheless, in two countries, the minimum employment history for entitlement to severance pay is over 10 years; and in 10 countries the index amounts to the equivalent of a maximum of one week’s wage. Countries in which the benefits are more generous are mainly the former Eastern Bloc, with indices up to 11.3 (Montenegro). Relatively high amounts are also paid in Portugal (7.2 weeks), Sweden (9 weeks) and Greece (10.4 weeks).²⁵ The benefit received depends not only on the gross amount paid but also on the prevailing tax regime. In 20 countries, workers have to pay taxes on the whole of their severance pay, whereas in six cases only part of the compensation is taxed. Unfortunately, in the remainder of the countries there are no data available or the situation is not applicable.

(d) Financing

Severance pay is financed in four ways. The first, and most common, consists in the employer paying severance from the funds it has available at the time of wage payment. In the second modality, the employer uses accounting reserves to obtain a (partial) tax exemption. Nonetheless, that modality is not applicable to the group of countries analysed here. Another alternative is based on individual accounts managed by external financial institutions and is used in Austria and Italy. Since 2003, every Austrian worker has an individual severance account into which the employer deposits 1.54% of the payroll, and from which the laid-off worker can withdraw the accumulated funds. In addition to a system of individual accounts, Italy uses a centralized system to finance severance pay in cases of unfair

²⁴ This only considers the minimum period for receiving severance pay for economic reasons, since this is the best documented and most current cause.

²⁵ Based on population data from 183 countries, Holzmann and Vodopivec (2012) found a negative and significant relationship between per capita GDP and generosity. They also observed a positive and significant relationship between the generosity of the pension system and the level of severance pay.

dismissal (see also section C.3 on the reforms). The fact that in nearly all countries employers have to make severance payments at a certain time, creates the risk that, particularly in smaller firms, the available funds do not suffice and the payment is not made (see also section C.4.b on the negative effects). To avoid that situation, as a fourth modality, seven countries have set up a guarantee fund, financed by employer contributions and generally administered nationally, which is also used when a bankrupt firm cannot pay the workers' wages.

3. Reforms

Most severance pay systems have remained broadly unchanged over the last decade. In countries where reforms have been introduced, these involve changes to the benefits (France, 2008), the conditions and financing (Austria, 2003) or the administration (Italy, 2007).

In 2008, France introduced a minimum payment and additional benefits for persons who had been in their job for over 10 years. In 2003, the Austrian government changed the financing to a system based on individual severance accounts into which employers deposit their contributions and which workers can keep in their name when they change employer.

Before the reforms implemented in 2004 and 2007 in Italy, the country had two severance pay subsystems. The first allowed a worker to receive severance pay for dismissal when the layoff was declared unfair in a labour court. In such cases, firms with up to 15 workers had to pay between 2.5 and 6 months' wages and larger firms had to reinstate the worker, or compensate him or her with 15 months' wages. The other subsystem functioned with individual accounts, into which employers contributed 1/13.5 of the worker's gross wage. The funds contained in those accounts became available at the time of dismissal. The first reform, implemented in 2004, consisted in workers being able to exchange their severance accounts for participation in complementary pension regimes. By 2008 only one quarter of workers had switched to the complementary pension system, which suggests that people prefer to have funds accessible during their working life rather than wait until retirement. Apparently, that preference was strengthened by the low yields on the funds administered by financial institutions. Following a second reform in 2007, firms with 50 or more workers now have to hand over the severance contributions to the government, which subsequently makes severance payments to the worker.

4. Effects

Although severance pay is a very common benefit, there are few studies on its effects. Moreover, several studies investigate the effects of severance pay as

part of employment protection legislation, without being able to distinguish the individual effect of severance payments from that of other components, and are unable to reject the hypothesis that the effect depends on interaction between severance pay and other institutions, such as the rules on collective bargaining.²⁶ Consequently, the findings of studies on the positive and negative effects of severance pay must be interpreted with caution.

(a) Positive effects

The effects of severance pay programmes are largely a question of efficiency and can stimulate long-lasting labour relations. Accordingly, they encourage employers to invest in their workers' training, which increases their productivity and employability. Other positive effects of more permanent labour relations include greater trust, cooperation and loyalty between the two parties, in addition to stimulating team spirit, which could generate higher productivity and facilitate the introduction of new technologies. Those effects are greater in the case of voluntary programmes.

(b) Negative effects

Two types of negative effect can be identified: effects on incomes and effects on efficiency.

(i) Income effects

Although one of the objectives of severance pay is to protect the worker's income, often this does not happen owing to three shortcomings. The first is that severance pay is generally a blunt instrument; for example, its characteristics mean that it does not take account of the duration of unemployment. Nor is it linked to other active labour market policies. The second deficiency is that, in several cases, laid-off workers do not receive payment despite fulfilling the conditions, owing to the limited possibilities of distributing risks in severance programmes, limited funds and the fact that employers have to pay under conditions of liquidity constraint. Above all, in view of the large amounts involved in severance payments, particularly in the case of individuals who have been employed by their firms for a longer time, the latter have an incentive to avoid payment (Kugler, 2005). In Slovenia, for example, one third of severance payments are never paid. The workers who are hardest hit are those over 40 years of age and those working in small and medium-sized enterprises (SMEs). The third deficiency concerns the effect of generating a dual labour market, since severance payments are considered to increase firing costs and thus result in a lower hiring rate,

²⁶ Employment protection legislation encompasses laws governing the start and termination of employment, and therefore include the types of contract permitted, lay-off conditions and procedures, and the requirements for severance pay (Betcherman, 2012).

particularly among vulnerable workers, such as young people, women of childbearing age, the unemployed and the poor.

(ii) Efficiency effects

The potential negative efficiency effects of severance pay relate to higher firing costs (as noted above) and, indirectly, to higher hiring costs. Both types of costs hinder the flow of workers into and out of employment. Severance pay creates its own moral hazard problem, by encouraging workers to quit their jobs to some extent, although it does not reduce job search efforts.

5. Summary

The main effects that need to be considered in the case of mandatory severance pay are, first, the higher firing costs for the employer. This could lead to an increase in investments in the workers by that employer; but it also reduces worker mobility, which affects allocative efficiency in the labour market. Second, the same increase in firing costs represents a considerable complication for SMEs when they have to pay multiple severances at the same time, because it could generate liquidity and solvency risks. Lastly, in several cases workers do not receive their severance pay owing to the difficulties mentioned above, and because firms do not comply with the laws owing to the weakness of legal frameworks and inadequate law enforcement. As in the case of unemployment insurance, most of the benefits defined depend on the design of the mechanism. For example, a guarantee fund can reduce the risk of severance payments not being made.

D. Individual unemployment savings accounts

1. Content and functioning of individual unemployment insurance savings accounts, theory and simulation models

Given the weaknesses that exist in unemployment insurance and severance payment systems, individual unemployment insurance savings accounts (UISAs) have emerged as a possible alternative in some countries. This section briefly outlines the characteristics of this instrument and its potential impact, although the mechanism had not been introduced in any of the countries analysed.²⁷

UISAs come in several different forms and their design considerably influences the way they operate. In general, the worker pays a defined

²⁷ In this case, by contrast with usual practice, the World Bank sponsored studies on OECD countries with respect to a new instrument that had been introduced first in middle-income countries, particularly in Latin America.

minimum monthly amount into an individual account on a compulsory basis. In some cases, the worker can voluntarily deposit more than the minimum or more than the amount the employer and the government deposit. When a worker loses his or her job, a certain amount can be withdrawn each month. If all the funds in the account are used up before the worker finds a new job, he or she could receive benefits, for example, from social assistance. In the case of pension systems with individual accounts, any amounts remaining when the worker retires are transferred to pension funds. Government contributions to the accounts of low-income individuals and funds for social assistance could be financed through taxes on the contributions made by future UISA holders (Ferrer and Riddell, 2011; Orszag and Snower, 2002).

Based on a number of studies that simulate the impact of the introduction of UISAs in OECD countries, the following conclusions can be drawn.²⁸ First, it seems that UISA systems reduce the public spending needed to finance the system, compared with unemployment insurance schemes, even if the government makes up any deficits that exist upon retirement. Second, UISAs could possibly replace a modest unemployment insurance scheme more successfully than a generous one. Third, all the simulations reported a redistribution of income from the lower quintiles to the higher ones. In other words, UISAs do not have progressive redistributive capacity. To conclude, it is important to note that the results of the simulations are often very sensitive to the models' parameters and assumptions, such as levels of moral hazard and risk aversion, the payment rate, the contribution and saving rates and the existence of adequate labour market institutions.

2. Conditions, strengths and weaknesses²⁹

(a) Conditions for effective operation

Any funds remaining in the account at the time of retirement should preferably be transferred to retirement funds or, when there is a pension system with individual accounts, they should be handed over to the workers. Without that guarantee, workers have an incentive to quit the labour force before retirement in order to be able to withdraw the remaining funds. Moreover, although the risks are not perfectly correlated across individuals, the integration of UISAs with other social insurance schemes could be welfare enhancing (Orszag and others, 1999; Stiglitz and Yun, 2005).

The UISA managers should have the workers' trust with respect to being able to generate a sufficiently high yield from investment of the funds

²⁸ On this point, see the studies by Feldstein and Altman (2007), Vodopivec (2010), Vodopivec and Rejec (2001), Fölster (1999 and 2001), Bovenberg, Hansen and Sørensen (2008), Rodrigues (2008) and Jongen (2009).

²⁹ This section is based mainly on Ferrer and Riddell (2011), who also review practical experiences with this instrument in other countries.

held in the individual accounts. Otherwise, an incentive would be created to access the funds through alternative means, such as fictitious dismissal agreements between employers and workers. Lastly, governments would have to consider additional alternatives or systems to solve the problem of low-income individuals, who have suffered long or frequent episodes of unemployment and have thus not accumulated sufficient funds to meet their needs.

(b) Strengths

(i) Positive employment incentives

Compared with traditional unemployment insurance schemes, UISAs tend to internalize the costs of unemployment benefits better and, therefore, offer the unemployed a greater incentive to seek work, while also reducing moral hazard.

(ii) Payments guarantees

Compared with severance pay, UISA systems provide a stronger guarantee that there are funds available to pay the benefits when the worker becomes unemployed. This is because firms make monthly contributions before dismissal, so UISAs reduce the firms' moral hazard. In addition, UISAs represent deferred payments, whereas severance pay is seen as a dismissal cost. Accordingly, the latter could cause the firm to resist firing unproductive workers or be reluctant to hire new workers. UISAs thus have the potential to increase labour market efficiency without eroding income protection.

(iii) Lower labour costs for employers

UISAs might not raise labour costs for firms as much as other instruments because the employer's contributions do not generally depend on the duration of the employment, nor are they linked to other labour costs. Accordingly, they have less of a tendency to stimulate the use of informal agreements rather than formal contracts. Nonetheless, the effect in practice will depend on the specific features of each country, such as implementation, the cost compared with the previous system, and interaction with other labour market policies.

(iv) Lower administrative costs

In general, the accounts have relatively low administrative costs because the specific amount depends on the alternatives and limits that are established. For example, if access to the funds is granted for any contract termination, and if the accounts are created in pre-existing financial institutions, then monitoring and administration costs are considerably lower. In contrast, if fund withdrawal depends on the cause of dismissal, or if the accounts are combined with a social insurance scheme, the associated costs are higher.

(v) Higher pensions

UISAs that are converted into retirement funds at the end of the individual's working life could make the retirement system more sustainable, owing to their greater portability and lower cost compared with pensions managed by company pension fund managers.

(vi) Increased labour mobility

The account belongs to the worker and not to the employer (or to the industry), as in the case of some unemployment insurance or severance payment system designs. Accordingly, changing employer or industry does not affect the UISA, which has positive repercussions for workers' labour mobility between firms and sectors.

(c) Weaknesses

(i) Deficits

One possible weakness of UISAs, compared with other unemployment protection mechanisms, is that the funds in the individual accounts may be insufficient for a person who is unemployed for a long time or very frequently. That risk is compounded if funds can be withdrawn for reasons other than unemployment, particularly when the individuals have few resources available to them. It would therefore be necessary to set up some form of complementary system, or else ensure that the UISA system includes other options, such as a government contribution to a separate fund, or withdrawal limits; or else enable account holders to obtain loans from the government when their individual account is empty. This problem could be aggravated if the calculations to relate contributions to benefits make assumptions about the yield earned by investing the funds accumulated in the savings accounts, which could be far from the reality prevailing on financial markets.

(ii) Stimulus to informal means of fund withdrawal

Another potential weakness is that liquidity-constrained individuals might try to access the funds informally (with collaboration from their employers). Steps to strengthen the UISA system, by reducing those weaknesses, entail an administrative cost and could erode some of its advantages.

(iii) The positive effects depend on certain parameters and assumptions

The positive effects of UISAs are not particularly robust, and sometimes they require information that is unavailable or limited (such as moral hazard and risk aversion levels among the workers); or else they depend on the features of the current unemployment insurance scheme (payment and contribution rates), or on the characteristics of the UISAs or labour market institutions, which are not always taken into account.

(iv) Weak protection for individuals with precarious connections to the labour market

Individuals whose labour market engagement is precarious (such as those with part-time jobs, piecework contracts or fixed-term jobs), many of whom are women or young people, have fewer possibilities to accumulate the savings needed to cope with unemployment episodes; and the benefits provided by UISAs in the event of unemployment depend on previous individual contributions. Yet it is precisely these people who tend to be unemployed most frequently, so the UISA system is less useful to them.

(v) Loss of solidarity and limited redistributive capacity

Related to the previous point, a UISA system loses the inter-worker solidarity that characterizes a well-designed unemployment insurance scheme, particularly between workers of different income levels. So, compared with unemployment insurance, UISAs generally shift the distribution of income towards workers in the highest quintiles or deciles. In other words, UISAs are not really a mechanism for promoting a less unequal income distribution.

In summary, UISAs exemplify a labour market institution aimed above all at improving labour market efficiency. They do not fulfil the other objective of labour market institutions, namely to strengthen the position of the structurally weaker players in that market. Only with a design that incorporates aspects of protection for individuals with precarious labour market participation, together with redistributive solidarity, or through an appropriate combination with other instruments that provide these components, can the UISAs be considered instruments that fulfil the objective of contributing to efficient functioning of the labour market and, at the same time, protect the structurally weakest participants.

E. Conclusions

The analysis of the unemployment protection instruments in the countries studied from Europe, North America and Oceania, namely unemployment insurance and assistance and severance pay, along with the review of individual unemployment insurance savings accounts as a possible alternative, vary widely in the design of their components, which makes it difficult to compare one model with another. Moreover, the degree of success of the instrument also depends on the goals set by each country: reducing unemployment, stabilizing income and the economy, redistributing income between workers and reducing public expenditure, among others. Thirdly, labour market conditions vary between the different countries, so the same mechanism can generate different results, which also limits the possibility of drawing conclusions on the optimal protection mechanism or ideal design for any given instrument.

The first instruments considered (unemployment insurance and unemployment assistance) compensate for the lack of income associated with job loss. Their main strength consists of maintaining a certain level of income for the unemployed person while he or she looks for a new job. So they have a stabilizing effect both for the individual and for the national economy.

In the case of unemployment insurance, a higher previous wage and a longer employment track record generally make it possible to obtain a higher benefit for longer, although this has its limits in several countries. The amount of the benefits is constant or declines through time and, in several cases, the benefits are not received immediately but only after a waiting period. The insurance is generally obligatory, except in three Scandinavian countries that still have voluntary systems. Accordingly, wage earners have the widest coverage, particularly those in the private sector. Own-account workers are generally not included on a mandatory basis; but several countries allow voluntary affiliation to the unemployment insurance system.

To be eligible for unemployment benefit, usually a person must have worked or contributed to the insurance for a certain minimum period. The growth of unstable and short-term employment relations is tending to impede access for a growing proportion of the labour market, particularly women and young people. Another condition on access to the benefits is registration as unemployed and availability for work. In many cases, benefits are conditional on the beneficiary not having resigned from his or her job. The financing of the unemployment insurance is linked to the payroll in the case of the employer's contribution, and depends on income in the less frequent case where contributions are made by workers. The contribution rate can be as high as 4% in the case of countries which finance only unemployment insurance. The government always contributes as an employer and, in many countries, underwrites any deficit. Organizational models vary widely and are subject to greater or lesser State influence. At minimum, the State supervises the process and, in some cases, it also participates in collecting the contributions or distributing the benefits. These responsibilities fall mainly on ministries of work or employment, employment offices and social security agencies.

Several countries operate a combined system, in which unemployment insurance is accompanied by unemployment assistance. Although the former is more generous than the latter, it also has strict conditions, such that individuals who do not satisfy the eligibility requirements for the insurance can receive unemployment assistance benefits based on their income. In that sense, the assistance represents a link between unemployment protection and minimum income protection, irrespective of labour market status, as happens in the social assistance and universal basic income models.

Unemployment insurance tends to be welfare-enhancing for the unemployed and can curb the deepening of inequality based on the loss

of labour incomes, particularly if a floor and ceiling are set on the benefits. It can also serve as an automatic stabilizer and improve the process of matching the supply of skills with the demand for them. The weaknesses of unemployment insurance and assistance stem from the fact that, owing to risk aversion and moral hazard, the benefits can reduce incentives for the individual to seek and find a new job; and coverage tends to be sparser in the case of more volatile labour markets and more precarious jobs. Those weaknesses do not affect all cases equally, but depend on a set of factors such as the level of risk aversion and moral hazard among a country's workers. In any event, the negative effects can be mitigated by a well-designed insurance scheme, including control and sanctions, time-limited benefits, payments that decline over time, and a waiting period before benefits can be received.

Severance pay is a tool with a long track record that is used widely throughout the world. It varies greatly on aspects such as mandatory status, coverage, reasons for terminating the contract and permanency. In addition, large differences are seen in the amounts of severance pay and how it is financed.

Some countries have made reforms to their severance pay systems during the last 10 years. While in some cases the reforms introduced more generous features (minimum payment, reduction of conditions), others related severance pay to the pension system or established individual accounts.

Severance pay has the potential to compensate for income loss, stabilize employment and promote long-term labour relations. However, this potential is often not realized in practice owing to financing problems, whereby the unemployed do not receive their severance pay owing to a lack of funds, even though they are eligible. In the case of employment stabilization effects and the promotion of sustainable labour relations, experiences have been both positive and negative. The few positive ones seem to be related to a voluntary severance pay system and a well-developed institutional environment. Nonetheless, it could be said that the design of the severance pay system, above all in terms of the financing model and guaranteed access to the benefit in the event of job loss —through a common fund for example— is crucial for it to function to an acceptable level. Nonetheless, the jury is still out on severance pay mechanisms and on their possible combination with unemployment insurance.

In developed countries, individual unemployment savings accounts have been proposed as an alternative way to finance that protection and overcome the weaknesses of unemployment insurance and severance payment. The accounts are designed so as to stimulate efforts to search for a new job or to avoid losing the current one, in addition to avoiding problems of financing the benefits when needed. The worker, employer or the State contributes each month to an account that belongs to the worker; and, when

the worker becomes unemployed, he or she withdraws the funds from the account to make up for the income loss. If the funds are not sufficient for the unemployment period, a deficit could be permitted, which the worker would finance with a government loan to be repaid when he or she starts to work again. It is often suggested that any funds remaining on retirement should be transferred to retirement funds, with the State making up any potential deficit.

Simulations with various models in OECD countries and experiences in countries that have implemented individual account systems show that UISAs have some potential to encourage job search, affording the possibility of moving out of unemployment more quickly, and at a smaller expense of public funds than the existing unemployment insurance schemes. On the other hand, the benefits depend on many factors and assumptions that are not always fulfilled. In addition, compared with unemployment insurance schemes, they involve less solidarity between employed and unemployed workers and between employed workers with different income levels because they do not contribute to income redistribution.

To summarize, an analysis of developed- and transition-country experiences with three unemployment protection instruments revealed a wide variety of design modalities, in terms of access conditions and the size of the benefits, management schemes and financing models, among other things. That variety reflects the difficulty, and probably the impossibility, of establishing an institutional design that optimally fulfils the twin role of labour market institutions, namely to protect the less privileged players and promote an efficiently functioning market.

The analysis of those countries' experiences clearly showed that a very strong emphasis on one of the two objectives tends to impair fulfilment of the other. Thus, very generous benefits tend to slow down re-engagement with the labour market, with costs for the protection system and society at large. Second, the more recent trend towards strengthening the efficiency of protection instruments tends to weaken their redistributive and solidarity function. Individual savings accounts, in particular, make no contribution to this at all, and need to be combined with additional instruments (for example a common fund) to be able to attain the twin goal. Lastly, all of the protection mechanisms reviewed face the challenge of extending the benefits adequately to individuals with precarious labour market engagement, who tend to benefit little from those mechanisms because of the difficulties they have in meeting the access requirements. This problem tends to affect women and young people more acutely. For all of these reasons, the challenge in designing and strengthening a protection mechanism is to satisfy the two goals in a balanced way while adapting to the specific conditions prevailing in each country.

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Annex I.A1

Table I.A1.1
Selected countries: unemployment insurance
A. Benefits

Countries	Legal framework (year of the first law; year of current law) ^a	Payment rate (at start) ^b	Calculation base	Lower or upper limit	Extras	Waiting period (days)	Development	Duration	Level or duration depends on:
Albania	Law (1947, 1993)	Uniform	Not applicable	Lower	Children	0	Constant	Up to one year	Nothing
Australia ^c	Law (1944; 1991)	Not applicable	Persons under 22 years of age (means-tested): age, cohabitation situation, marital status, having children	Lower and upper	Discounts for medical expenses, transport, public utilities	0	Constant	Not available	Not applicable
Australia ^d		Not applicable	Persons aged over 21 (means-tested): age, marital status, having dependents	Upper	Discounts for medical expenses, transport and public utilities	0 (voluntary unemployment up to 8 weeks)	Constant	Not available (voluntary unemployment up to 26 weeks' less duration)	Not applicable
Australia ^e		Not applicable	Parenting payment (means-tested): marital or cohabitation status	Upper	Discounts for medical expenses; transport and public utilities; extra payments for rent, living in remote areas	0	Constant	Not available	Not applicable
Austria	Law (1920; 1977, 1994)	55%	Insured's net income	No	Children and single persons with low incomes	28 in some cases	Constant	20-52 weeks	Age, coverage, training
Belarus	Law (1921; 2006)	50%-100%	Average income of colleagues in previous job	Upper	No	0	Decreasing	Six months	Employment

Countries	Legal framework (year of the first law; year of current law) ^a	Payment rate (at start) ^b	Calculation base	Lower or upper limit	Extras	Waiting period (days)	Development	Duration	Level or duration depends on:
Belgium	Law (1920; 1944, 1991)	40%-60%	Insured's income in the last month worked	No	For persons aged under 30, over 49 and over 59 years or with a certain number of years of employment history	0	Constant or decreasing	Up to unlimited, with certain conditions	Family situation, duration of unemployment and employment history
Bulgaria	Law (1925; 2000)	60%	Insured's average income in previous 24 months	Lower	No	0	Constant	4-12 months	Coverage
Canada	Law (1940; 1996)	55%	Insured's average income in previous 26 weeks	Upper	Unemployed with low or modest income and children	14	Constant	14-45 weeks	Employment history, regional unemployment rate
Croatia	Law (1952; 2002, 2008, 2009)	70%	Insured's average wage in previous three months	Upper	Participation in training; compensation for removal costs	0	Decreasing	90-450 days	Employment
Czechia	Law (1991; 2004)	65%	Insured's average income in the previous three months	Upper	No	0	Decreasing	Not specified, five months at least	Training, voluntary or involuntary nature of the unemployment
Denmark	Law (1907; 2005, 2008)	90%	Insured's average income in previous 12 weeks	Upper	No	15 for own-account workers	Constant	Up to 2 years	Age, training, military service
Estonia	Law (1991; 2001, 2005)	50%	Benchmark income	Upper	No	Seven	Decreasing	100-360 continuous days	Coverage
Finland	Law (1917, 1960; 1997, 1998, 2002)	Uniform plus 20% or 45%	Insured's wage	Lower and upper	Children; re-employment programme	Seven	Constant	Up to 500 working days	Nothing
France	Law (1905; 1958, 1973, 1984, 1988, 2009)	57.4%-75%	Average incomes declared in previous 12 months	Upper	Displacement and vocational training	0	Constant	Equal to the number of months contributed, up to two or three years	Age

Countries	Legal framework (year of the first law; year of current law) ^a	Payment rate (at start) ^b	Calculation base	Lower or upper limit	Extras	Waiting period (days)	Development	Duration	Level or duration depends on:
Germany	Law (1927, 2003; 1997, 2010)	60% or 67%	Insured's average income	No	Compensation for a reduction in working hours, bad weather, or insolvent employers	0	Constant	Up to two years	Age and coverage
Greece	Law (1954; 1985, 1989, 1990)	40% or 50%	Insured's wage	Lower	Compensation for persons with seasonal employment	Five	Constant	Up to one year	Age and coverage
Hungary	Law (1957, 1991)	30%-60%	Insured's gross average income for the previous year	Upper	No	0	Constant	Up to 90 days	Coverage
Iceland	Law (1956; 2006)	70%	Insured's average income in the previous six months	Lower	Children	0 (40 for voluntary unemployment)	Constant	Not available	Coverage
Ireland	Law (1911; 2005)	Uniform	Not applicable	Not applicable	Children and adult caring for children of the unemployed person	0	Constant	Up to 312 days	Age and coverage
Italy	Law (1919, 1945; 1935, 1939, 1975, 1977, 1988, 1991, 1994, 1996, 1997, 1998, 2000, 2005, 2009)	60%	Insured's average gross income in the previous three months	Upper	Compensations for mobility and reduction in working hours	0	Decreasing	Up to one year	Age
Latvia	Law (1991, 1999)	55%-65%	Insured's average income in the previous 12 months or subsidy from State Social Security	No	No	0	Decreasing	Up to 9 months	Coverage and duration of unemployment
Lithuania	Law (1919; 2005, 2006)	Part uniform and part variable	Insured's average income in the previous 36 months, level of income, and benchmark wage	Upper	No	Seven	Constant	Up to 9 months	Coverage

Countries	Legal framework (year of the first law; year of current law) ^a	Payment rate (at start) ^b	Calculation base	Lower or upper limit	Extras	Waiting period (days)	Development	Duration	Level or duration depends on:
Luxembourg	Law (1921; 2006)	70%-85%	Insured's average income or legal minimum wage	Upper	No	0	Decreasing	One year, plus extension	Beneficiary category, age, difficulty in finding employment
Netherlands	Law (1949; 1987)	75%	Insured's average income in the previous 12 months	Upper	No	Three	Decreasing	Up to 38 months	Duration of previous job
New Zealand	Law (1930; 1965)	Not applicable	Age, marital status, cohabitation situation, having children	Upper	No	0 (voluntary unemployment: 13 weeks)	Constant	52 weeks with the possibility of reapplying	Not available
Norway	Law (1906; 1997)	87.6%	Insured's annual income	Upper	Children	Three	Constant	Up to two years	Previous income level
Poland	Law (1924; 2004)	80%-120%	Fixed basic amount	Lower and upper	No	0	Decreasing	Up to 18 months	Duration of previous job plus regional unemployment rate
Portugal	Law (1975; 2006, 2009, 2010)	65%	Insured's average income in the previous 12 months	Lower and upper	No	0	Constant	Up to 1140 days	Age and coverage
Republic of Moldova	Law (1992, 2003; 1992, 2003)	30%-50%	Insured's average income in the best nine of the previous 24 months	No	No	0	Constant	One year	Reason for unemployment and duration of previous job
Romania	Law (1991; 2002)	50%-75%, plus 3%-10%	Social benchmark amount	Not applicable	Extra payment if the new workplace is further than 50 km away, or for removal expenses	0	Constant	6-12 months	Coverage and whether or not the person is seeking work for the first time
Russian Federation	Law (1921; 1991, 1997, 2001, 2004, 2006)	75%	Insured's previous average income	Lower and upper	Children; persons living in radiation-contaminated zones, or radiation victims	0	Decreasing	Up to 12 plus 12 months	Nothing

Countries	Legal framework (year of the first law; year of current law) ^a	Payment rate (at start) ^b	Calculation base	Lower or upper limit	Extras	Waiting period (days)	Development	Duration	Level or duration depends on:
Serbia	Law (1927; 1996, 2003)	50%	Insured's average income in the previous six months	Lower and upper	Possibility of lump-sum payment, as initial capital for business start-up	0	Constant	3-24 months	Age and coverage
Slovakia	Law (1991; 2004, 2005)	50%	Income in previous two years	No	No	0	Constant	Up to 6 months	Nothing
Slovenia	Law (1927; 1991)	80%	Insured's average income in previous eight months	Lower and upper	No	0	Decreasing	Up to one year	Coverage
Spain	Law (1919; 1985, 1994)	70%	Insured's average income in previous six months	Lower and upper	No	0	Decreasing	120-720 days	Coverage
Sweden	Law (1934; 1998)	Uniform plus 80%	Previous income	Upper	No	Seven	Decreasing	Up to 450 days	Having children
Switzerland	Law (1924; 1982, 2000)	70%-80%	Covered income	No	No	Five	Constant	Up to 520 days	Coverage and age, having children
Turkey	Law (2000, 2006, 2007, 2008; 2000, 2006, 2007, 2008)	50%	Insured's average income in the previous four months	Lower and upper	No	0	Constant	180-300 days	Coverage
Ukraine	Law (1921; 1991, 2000, 2010)	50%-70%	Average income	Lower and upper	Funeral subsidy; special provisions for women with children	0	Decreasing	Up to 360 or 720 days	Coverage and age
United Kingdom	Law (1911; 1995)	Uniform, a small amount for persons aged under 25	Not applicable	Lower and upper	No	Three	Constant	Up to 6 months	Age
United States	Law federal (1935), State laws (1932-1937)	50% (approx.)	Insured's income	Upper	Children and other dependents	Seven	Constant	Up to 6 months	Longer duration in states with a high level of unemployment

B. Conditions and beneficiaries

Countries	Conditions				Beneficiaries	
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Excluded
Albania	Not available	Yes	No	One year of contributions	Willingness to receive training	Own-account workers
Australia ^c	Not available	Not available	Not available	Not applicable	Not applicable	None
Australia ^d	Yes	Not available	Yes	Not applicable	Voluntary unemployment; reduced duration or waiting period of up to 8 weeks	None
Australia ^e	Not available	Not available	Not available	Not applicable	Not applicable	None
Austria	No	Yes	Yes	28 weeks of contributions in the previous 12 months	Voluntary unemployment; waiting period	Public sector wage earners
Belarus	Yes	Yes	Yes	0	Residency	None
Belgium	Yes	Yes	Yes	The minimum coverage depends on age: 312 days in 18 months for the youngest and 624 days in 36 months for the oldest	Not applicable	Own-account workers
Bulgaria	No	No	No	Nine months' coverage	Voluntary unemployment; only minimum benefit	Own-account workers
Canada	Yes	Yes	Yes	420-910 hours worked	Also eligible are persons who cannot work owing to illness, maternity, or care for family members	Own-account workers (other than fishermen)

Countries	Conditions				Beneficiaries		
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Beneficiaries	Excluded
Croatia	Yes	Yes	No	Nine months' employment in the previous 24 months	Not applicable	Wage earners with contract	Own-account workers and farmers
Czechia	No	Yes	No	12 months' coverage in the last two years (including vocational training, military service, under-fives childcare)	Voluntary unemployment: reduced benefit	Citizens of Czechia, from the European Union and dependants, other citizens living permanently in the country	None
Denmark	Yes	Yes	Yes	One year of registration in the fund, plus 52 weeks of employment in the previous three years	Member of an approved unemployment fund	Wage earners (including public sector), own-account workers, persons with at least 18 months' vocational training or in military service	None
Estonia	Yes	Yes	Yes	12 months' employment in the previous three years	Minimum age 16 years	Citizens of Estonia capable of undertaking paid activities, temporary residents and legal refugees	None
Finland	Yes	No	No	34 weeks' employment and registration in the fund for the last 28 months	Insurance related to income: member of an unemployment fund	Wage earners, own-account workers, entrepreneurs	None
France	Yes	Yes	Yes	122 days' employment in the 28 (under 50 years of age) or 36 previous months (over 50 years of age)	Not applicable	Wage earners (including apprentices, domestic staff and child carers)	Public sector wage earners and own-account workers
Germany	Not available	Yes	Yes	12 months of employment in the previous two years	Not applicable	Wage earners (including apprentices, domestic employees) and more; own-account workers, caregivers and foreign workers can voluntarily join (under certain conditions)	Persons with irregular employment
Greece	Yes	Yes	Yes	125 days in the previous 14 months or 200 days in the previous two years	Not applicable	Wage earners in industry and commerce and related occupations, persons aged 20-29 years without employment history	Own-account workers

Countries	Conditions				Beneficiaries		
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Beneficiaries	Excluded
Hungary	Yes	No	Yes	One year of coverage in the previous three years	Not receiving other benefits	Wage earners and own-account workers	None
Iceland	No	Yes	Yes	Wage earners: 10 weeks of employment in the previous year; own-account workers: 12 months of contributions and three months of taxes	Residing in the country; voluntary unemployment; waiting period of 40 days	Wage earners and own-account workers	None
Ireland	Yes	Yes	Yes	104 weeks' contributions and unemployed for three of the last six days	Not applicable	Wage earners	Certain part-time workers, own-account workers, public service workers, occasional domestic employees
Italy	Yes	Yes	Yes	52 weeks' contributions in the two previous years (different conditions for certain professions)	Not applicable	Wage earners in the private sector	Own-account workers and apprentices
Latvia	Not available	Yes	No	One year	Not applicable	Wage earners, military personnel and their wives, residents in the country with a child under 18 years of age, recipients of benefits for childcare, sickness, or pre- or postnatal leave	Own-account workers
Lithuania	No	Yes	No	0 (involuntary unemployment), or 18 months of contributions in the previous 36 months (voluntary unemployment)	Voluntary unemployment: three months waiting period	Certain wage earners in the public and private sectors, certain civil servants and military personnel	Own-account workers
Luxembourg	Yes	Yes	Yes	26 weeks' employment in the previous year	Not applicable	Wage earners, certain own-account workers, recent graduates and persons aged 16-28 years with vocational training completed	None

Countries	Conditions				Beneficiaries		
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Beneficiaries	Excluded
Netherlands	Not available	Yes	Yes	26 weeks of employment (including looking after children and others) in previous 36 weeks	Not applicable	Wage earners	Own-account workers
New Zealand	No	Not available	Yes	Not applicable	Voluntary unemployment; ineligible for benefits for the first 13 weeks	New Zealand residents	Pensioners, full-time students, workers on strike
Norway	Yes	Yes	Yes	Certain level of income before unemployment	Not applicable	Wage earners (including public sector), own-account workers over 63 years of age	None
Poland	Yes	Yes	Yes	One year's employment (including maternity leave, military service) in the previous one and a half years	Not receiving severance pay or compensation	Wage earners	Own-account workers
Portugal	Yes	Yes	Yes	450 days' coverage in the previous 24 months	It is possible to work part time and receive unemployment benefits if the income is less than the benefit	Wage earners, persons with disability reassessed as able to work	Own-account workers
Republic of Moldova	No	Yes	Yes	Six months' employment covered in the previous 24 months	Not having taxable income; benefit reduced, postponed, suspended, or terminated in several cases, including voluntary unemployment	Citizens with permanent domicile in the country, including own-account workers	None
Romania	Not available	Yes	No	12 months in the previous 24 months	Income less than a certain level; person seeking work for the first time, more than 60 days after graduating	Wage earners with a contract, civil servants and military personnel, voluntary insurance for own-account workers and certain other workers	None

Countries	Conditions				Beneficiaries		
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Beneficiaries	Excluded
Russian Federation	No	Yes	Yes	26 weeks in the previous year (lower benefits for those who do not fulfil certain conditions)	Reduced benefit, postponed, suspended or terminated in several cases, including voluntary unemployment	Citizens age 16-59 years (men) or 16-54 years (women)	None
Serbia	Not available	No	No	12 consecutive months or 12 months in the previous 18 months	Not applicable	Wage earners and own-account workers	Farmers
Slovakia	Not available	Yes	No	Two years of contributions in the previous three years	Not applicable	Unemployed seeking work; voluntary insurance for own-account workers and residents under 16 years of age	None
Slovenia	Not available	Yes	Yes	Nine months of employment in the previous 24 months	Not applicable	Employees (including civil servants, part-time workers and own-account workers); voluntary insurance for citizens employed by foreign firms outside the country (in certain countries)	None
Spain	Not available	Yes	No	360 days in the previous six years	Not applicable	Wage earners in industry, commerce and services; voluntary insurance phone account workers	Domestic workers and civil servants
Sweden	No	Yes	Yes	12 months in the insurance fund plus 480 hours' employment in 12 months	Voluntary unemployment; suspension of benefits the 10-60 days	Wage earners and own-account workers under 65 years of age and members of an insurance fund	None
Switzerland	Not available	No	Yes	12 months' contributions in the two previous years	Living in the country, having completed compulsory schooling, not receiving a pension; possibility of receiving benefits for reduction in working hours	Wage earners	Own-account workers

Countries	Conditions				Beneficiaries	
	Involuntary unemployment	Registration	Willingness or capacity to work	Minimum contribution or employment period	Other	Excluded
Turkey	Not available	No	No	600 days' coverage in the previous three years	Can receive unemployment benefits along with sickness and maternity benefits	Civil servants, agro-forestry workers, domestic employees, military personnel, students and own-account workers
Ukraine	No	Yes	Yes	0	Income below the minimum wage; benefit reduced, postponed, or terminated in several cases, including voluntary unemployment	Citizens of working age; voluntary insurance phone account workers
United Kingdom	Not available	Yes	Yes	Contributions equal to 26 times the minimum weekly amount in one year	Contributions equal to 50 times the minimum weekly amount in two years	Own-account workers
United States	Yes	Yes	Yes	Minimum income, number of weeks' employment or hours worked (depends on the state)	Not applicable	Occasional workers, family work, wage earners in religious organisations

C. Financing

Countries	Contribution if the insured is a wage earner	Contribution if the insured is an own-account worker	Insured's contribution, maximum or minimum	Insured's contribution exclusive for unemployment	Employer contribution	Employer contribution maximum or minimum	Employer contribution exclusive for unemployment	State contribution
Albania	0	Not applicable	No	Yes	0.9% of the payroll	No	Yes	0
Australia ^c	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	General funds
Australia ^d	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	General funds
Australia ^e	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	General funds
Austria	3% of covered income	Not applicable	Maximum	Yes	3% of the payroll	No	Yes	Any deficit
Belarus	0	6% of income declaration	No	No, sickness, maternity, funerals and family subsidies	6% of the payroll	No	Yes	The state and local governments contribute
Belgium	0.87% of benchmark income	Not applicable	No	Yes	1.46% of benchmark income	No	Yes	Any deficit
Bulgaria	0.4% of covered income	Not applicable	Minimum and maximum	Yes	0.6% of the covered payroll	Maximum	Yes	0
Canada	1.78% (1.41% of covered income)	Not applicable	Maximum	No (except in Quebec)	2.49% (1.97% covered payroll)	Maximum	No (except in Quebec)	0
Croatia	0	Not applicable	No	Yes	1.7% of the covered payroll	Minimum and maximum	Yes	Pays periodic subsidies in total or partial benefits to certain categories of people
Czechia	0	1.2% of declared covered income	Maximum	Yes	1.2% of the payroll	No	Yes	Any deficit
Denmark	8% of gross income. Depends on the fund	Not applicable	No	No, voluntary early retirement	Some contribute	No	Yes	Subsidies
Estonia	2.8% of gross income	0%	No	Yes	1.4% of the gross payroll	No	Yes	0
Finland	0.2% to 0.4% of income plus 0.6% of income (for income-related insurance)	2.70% to 2.75% of income (for income-related insurance)	No	Yes	0.8% or 3.2% of the payroll (depends on the total payroll) for income-related insurance	No	Yes	Fixed insurance costs; subsidy equal to fixed insurance

Countries	Contribution if the insured is a wage earner	Contribution if the insured is an own-account worker	Insured's contribution, maximum or minimum	Insured's contribution exclusive for unemployment	Employer contribution	Employer contribution maximum or minimum	Employer contribution exclusive for unemployment	State contribution
France	2.4% of covered income	Not applicable	Maximum	Yes	4.15% of the covered payroll. Plus variable amount with dismissal (over 50 years of age)	Maximum	Yes	0
Germany	1.45% of covered income	3% of monthly income	Maximum	Yes	1.45% of covered income	No	Yes	Any deficit
Greece	1.83% of gross covered income	Not applicable	Maximum	Yes	3.17% of gross covered income	Maximum	Yes	Guaranteed annual subsidy
Hungary	1.5% of gross income	1.5% of declared income	No	Yes	27% of the gross payroll	No	No	Pays the National Employment Fund (benefits, vocational training and skill development)
Ireland	4% of covered income	Not applicable	No	No	4.25% or 10.75% of gross wages	No	No	Any deficit
Iceland	0	7.79% of presumptive income	No	No	7.79% of the gross payroll	No	No	0
Italy	0	Not applicable	No	Yes	1.61% of gross income (in certain sectors or important firms they pay more)	No	Yes	Administrative costs and subsidies for fieldworkers
Latvia	11% of covered income and administrative expenses of the UISAS	Not applicable	No	No	24.09% of covered income	No	No	Contribution for the wives of military personnel and residents in the country who look after a child under 18 years of age
Lithuania	0	Not applicable	No	Yes	1.1% of the payroll	No	Yes	Any deficit and contributes as employer

Countries	Contribution if the insured is a wage earner	Contribution if the insured is an own-account worker	Insured's contribution, maximum or minimum	Insured's contribution exclusive for unemployment	Employer contribution	Employer contribution maximum or minimum	Employer contribution exclusive for unemployment	State contribution
Luxembourg	Pays a special solidarity tax	Not applicable	Not available	Yes	0	No	Yes	Fixed amount plus VAT revenue, plus 4% of income of local governments
Norway	Wage earners: 7.8% of the gross wage or 4.7% of other income	11% of covered income	Minimum	No	14.1% of the gross payroll (less in certain regions)	No	Yes	Any deficit
Netherlands	4.2% of covered income (average, because the percentage depends on the industry)	Not applicable	Maximum	No	4.2% of the covered payroll plus 1.47% of the covered payroll by the indemnity fund	Maximum	No	0
New Zealand	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	General funds
Poland	0	Not applicable	No	Yes	2.45% of the gross payroll	No	Yes	Any deficit
Portugal	Wage earners and employers contribute jointly 5.14% of gross income based on the payroll	Not applicable	No	Yes	Wage earners and employers contribute jointly 5.14% of gross income based on the payroll	No	Yes	0
Republic of Moldova	0	Fixed amount	No	No	22%-23% of the payroll	No	No	Pays subsidies if necessary
Romania	0.5% of covered income	1% of declared covered income	No	Yes	1% of the gross payroll	No	Yes	Any deficit
Russian Federation	0	Not applicable	No	Yes	0	No	Yes	Federal, regional and local governments pay everything
Serbia	0.75% of covered income	1.5% of covered income	Minimum and maximum	Yes	0.75% of the covered payroll	Minimum and maximum	Yes	0, contributes as employer
Slovakia	1% of insured's covered income	2% of declared income	Minimum and maximum	Yes	1% of the covered payroll	Minimum and maximum	Yes	Any deficit

Countries	Contribution if the insured is a wage earner	Contribution if the insured is an own-account worker	Insured's contribution, minimum or maximum	Insured's contribution exclusive for unemployment	Employer contribution	Employer contribution maximum or minimum	Employer contribution exclusive for unemployment	State contribution
Slovenia	0.14% of gross income	0.2% of declared income	Minimum	Yes	0.06% of the gross payroll	Minimum	Yes	0, contributes as employer
Spain	1.55%-1.60% of covered income	2.2% of covered income	Minimum and maximum	Yes	5.5%-7.7% of the covered payroll	Minimum and maximum	No	Subsidizes the programme and contributes as employer
Sweden	Fixed amount	Not applicable	Not available	Yes	2.91% of the payroll	No	Yes	0
Switzerland	1.1% plus 0.5% of covered income	Not applicable	Maximum	Yes	1.1% plus 0.5% of covered payroll	Maximum	Yes	Up to 0.159% of covered payroll (services and policies)
Turkey	1% of monthly income	Not applicable	Maximum	Yes	2% of the monthly payroll	No	Yes	1% of monthly income (with a ceiling)
Ukraine	0.6% of income	Contributes voluntarily	No	Yes	1.5% of the payroll	No	Yes	Subsidizes as necessary
United Kingdom	9.95% plus 1% of insured's income	Not applicable	No	No	11.9% of the income of the employed	No	Yes	Any deficit
United States	0, Except in some states	Not applicable	No	Yes	6% of the taxable payroll (federal and state)	Maximum	Yes	The federal government pays administrative expenses, part of the benefits, loans to the states and certain services, the states pay the benefits

D. Unemployment processes and assistance

Countries	Processes (reception of contributions, assignment of benefits and supervision)		Unemployment assistance
	Type of system	Level	
Albania	Unemployment insurance	National	No
Australia ^c	Social assistance	National	No
Australia ^d	Social assistance	National	No
Australia ^e	Social assistance	National	No
Austria	Unemployment insurance, unemployment assistance	National and regional	Emergency assistance (means-tested) for unemployed persons who need such assistance
Belarus	Unemployment insurance	National	No
Belgium	Unemployment insurance	National, regional and local	No
Bulgaria	Unemployment insurance	National	No
Canada	Unemployment insurance	National, regional and local	No
Croatia	Unemployment insurance	National, regional and local	No
Czechia	Unemployment insurance	National	No
Denmark	Unemployment insurance, social assistance	National	No
Estonia	Unemployment insurance, unemployment assistance	National	Personal income below unemployment assistance
Finland	Unemployment insurance, unemployment assistance	National	Unemployment assistance (means-tested) for unemployed persons who are not yet eligible for unemployment insurance
France	Unemployment insurance, unemployment assistance	National and sectoral	Unemployment assistance (means-tested) for unemployed persons who are ineligible for unemployment insurance and certain categories of unemployed
Germany	Unemployment insurance, unemployment assistance	National and local	Unemployment assistance (means-tested) for unemployed persons who cannot satisfy their basic subsistence needs (although they receive unemployment insurance benefits)
Greece	Unemployment insurance, unemployment assistance	National and local	Special unemployment benefit (means-tested) for unemployed persons who are ineligible for unemployment insurance and have income below a certain amount

Countries	Processes (reception of contributions, assignment of benefits and supervision)	Level	Specific features	Unemployment assistance
	Type of system			
Hungary	Unemployment insurance, unemployment assistance	National	Not available	Helps persons seeking employment who are ineligible for unemployment insurance or less than five years away from retirement
Iceland	Unemployment insurance	National	Not available	No
Ireland	Unemployment insurance, unemployment assistance	National	Not available	Provision for job seekers (means-tested) who are ineligible for unemployment insurance
Italy	Unemployment insurance	National	Not available	No
Latvia	Unemployment insurance	National and local	Not available	No
Lithuania	Unemployment insurance	National and local	Not available	No
Luxembourg	Unemployment insurance	National and local	Not available	No
Netherlands	Unemployment insurance, unemployment assistance	National and local	Social security agencies have the function of paying the benefits	Complementary provision (means-tested) for unemployed persons who receive unemployment benefits below the social minimum
New Zealand	Social assistance	National	Not available	No
Norway	Unemployment insurance	National and local	Tax services collect the contributions	No
Netherlands	Unemployment insurance, unemployment assistance	National and local	Social security agencies have the function of paying the benefits	Complementary provision (means-tested) for unemployed persons who receive unemployment benefits below the social minimum
Poland	Unemployment insurance	National and local	Not available	No
Portugal	Unemployment insurance, unemployment assistance	National	Not available	Unemployment benefits (means-tested) for unemployed persons who are ineligible for unemployment insurance and whose household incomes do not exceed a certain level
Republic of Moldova	Unemployment insurance	National	Not available	No
Romania	Unemployment insurance	National and local	Not available	No
Russian Federation	Unemployment insurance	National, regional and local	Not available	No
Serbia	Unemployment insurance	National	Not available	No
Slovakia	Unemployment insurance	National and local	Not available	No
Slovenia	Unemployment insurance	National, regional and local	Not available	No

Countries	Processes (reception of contributions, assignment of benefits and supervision)			Unemployment assistance
	Type of system	Level	Specific features	
Spain	Unemployment insurance, unemployment assistance	National	Not available	Unemployment assistance (means-tested) for unemployed persons who are ineligible for unemployment insurance
Sweden	Unemployment insurance	National	The national government supervises the insurance funds	No
Switzerland	Unemployment insurance	National, regional and local	Collaboration between public and private funds, and between public and private agencies	No
Turkey	Unemployment insurance	National	Not available	No
Ukraine	Unemployment insurance	National	Not available	No
United Kingdom	Unemployment insurance, unemployment assistance	National	Supervision responsibilities are unclear	Benefits for job seekers (means-tested) who are ineligible for unemployment insurance, have insufficient income, savings below a certain amount, and couples who work less than 24 hours a week
United States	Unemployment insurance, unemployment assistance	National and state	Each level has its own programmes, there is no separation by programme	Assistance for unemployed persons who are ineligible for unemployment insurance and participate in training activities

Source: Social Security Administration/ International Social Security Association, *Social Security Programs throughout the World: Asia and the Pacific*, 2012, Washington, D.C., 2013; Social Security Administration/ International Social Security Association, *Social Security Programs throughout the World: Europe*, 2012, Washington, D.C., 2012; Social Security Administration/ International Social Security Association Social, *Social Security Programs throughout the World: The Americas*, 2011, Washington, D.C., 2012.

- ^a In some cases, the law was not implemented in the year in which it was passed, so the year of implementation is indicated.
- ^b In several countries, the payment rate changes over time; the rate in the first period is shown.
- ^c Unemployed persons aged 16 to 21 years, or full-time students aged 18 to 24 years.
- ^d Unemployed persons aged 22 years or over, until retirement age.
- ^e Single parents looking after one or more children under the age of eight years, or parents as a couple looking after children under six years of ages.

Chapter II

An analysis of unemployment protection in Latin America

Mario D. Velásquez Pinto

Introduction

This chapter analyses the current status of unemployment protection in Latin America, considering the diversity of instruments available, beneficiary coverage and the situations protected, along with their financing and interrelationships.

The analysis considers an unemployment protection system to be complete if it provides a cash benefit that compensates for the loss of earnings during a given period of unemployment, and if it also helps the unemployed worker to find a new job. Special attention is paid to unemployment insurance schemes, given their high potential to achieve the stated objectives.

The first section analyses unemployment protection in Latin America, covering severance pay programmes, individual unemployment saving accounts and unemployment insurance schemes. Special emphasis is placed on the latter, and how they relate to income levels, coverage and links with active policies. The second section describes evidence of the progress in this field, as shown by recent studies, including on the effect of informal employment on the functioning of those protection mechanisms in the region,

and by reform initiatives that have been applied in Chile and Colombia, or those that have been developed in Mexico.

The chapter ends with a section setting out the main conclusions on the status of unemployment protection in the region.

A. Unemployment protection

1. Background

The way countries function under conditions of trade and financial liberalization makes economic activities more exposed to external shocks and cyclical fluctuations. This increases a person's chances of facing episodes of unemployment during their working life, and thus highlights the importance of protection against such situations.¹

Without adequate protection mechanisms, unemployment can render the household of a laid-off worker highly vulnerable (Fajnzylber and Repetto, 2007). In Latin America, the only source of income for over 70% of workers is their work (IDB, 2003). In the specific case of Chile, it has been estimated that family incomes are about 40% lower if the head of household is unemployed than if he or she is in work, which suggests that consumption will be adjusted significantly in such cases (Cowan and Micco, 2005).

This means that, for a large group of workers in the region, facing job loss without protection or help from third parties is a catastrophic situation that puts household living standards at risk and increases the likelihood of falling into poverty.

2. The situation in Latin America

Unemployment protection is associated with compensating for the loss of income caused by joblessness, in addition to supporting job search and helping the worker to re-engage with the labour market in a new job. This is the approach that will be used to analyse the characteristics and scope of protection in the region.

As noted in chapter I of this volume, there are few cases of protection mechanisms in Latin America, and coverage levels are low, owing to the extent of informal employment.

Table II.1 shows that severance pay mechanisms exist in all of the countries analysed, and confirms this as the most widely used institution

¹ See Velásquez (2003) for a detailed analysis of the causes of unemployment and the factors that explain the validity of public protection solutions. See also Mazza (2000).

in the region.² Individual saving accounts and unemployment insurance schemes also exist but are less widespread.

Table II.1
Latin America: unemployment protection instruments

Countries	Severance pay	Saving accounts	Unemployment insurance	Unemployment subsidies
Argentina	X	X ^a	X	
Bolivia (Plurinational State of)	X			
Belize	X			
Brazil	X	X	X	
Chile	X	X	X	X
Colombia	X	X		
Costa Rica	X	X		
Dominican Republic	X			
Ecuador	X	X	X	
El Salvador	X			
Guatemala	X			
Honduras	X			
Mexico	X			X
Nicaragua	X			
Panama	X	X		
Paraguay	X			
Peru	X	X		
Uruguay	X		X	
Venezuela (Bolivarian Republic of)	X	X	X	

Source: Prepared by the author.

^a Applicable to the construction sector.

(a) Severance pay³

Severance pay systems operate in most countries, through lump-sum payments in the case of dismissal without just cause or owing to the needs of the firm; and labour codes specify the circumstances in which layoffs can be so considered.⁴

² In industrialized and also in some developing countries, employers must give advance notice (averaging between one and two months) before layoff, to give the worker time to look for a new job. In some cases, the law specifies the number of daily hours of work that must be made available for this. Otherwise, the employer must charge the last month worked to layoff costs.

³ Based on Holzmann and others (2011).

⁴ It refers to situations leading to contract termination with no blame attached to the worker. The category also includes other situations that result in the extinction of the contract, such as force majeure, justified complaint by the worker, bankruptcy of the firm, and entrepreneurial incapacity. These causes are ultimately against the wishes of the worker. In contrast, a "justified" cause stems from inappropriate conduct by the worker or a decision by him/her to quit the job. Such cases do not give benefit entitlement.

Mandatory severance pay exists in nearly all transition economies and roughly 90% of the countries in Africa, the Middle East and Latin America. Among high-income countries there are relatively fewer compulsory severance pay systems but a larger proportion of collective agreements. In most countries those institutions are applicable in the private sector.

To be entitled to the benefit, the worker must have been employed in the firm for a minimum period of time, and the benefit must be self-financed in most countries. In all low-income countries, it depends on the internal flows of the firms, and there are a few cases in which specific reserves are created, such as in Japan and the Republic of Korea.

In Latin America, legislation on severance pay for wage earners was first introduced by Mexico in 1917, and then by Bolivia (1924 and 1925), Chile (1924), Argentina (1930), Colombia (1934), El Salvador (1935), Peru (1924, 1925, 1930), Venezuela (1936) and Uruguay (1944). Since then, employment protection has been its chief motivation.

In general, those institutions and their characteristics are reproduced in the region. Nonetheless, some schemes have specific features, such as in Chile, which offers the option of transferring that entitlement to an account outside the firm, as from the seventh year of service in the job.⁵ Moreover, although it is applicable to private sector wage earners, farm labourers and domestic employees, among others, tend to be excluded.

In terms of the amount of the benefit, some countries set a ceiling, such as Chile, Peru and the Bolivarian Republic of Venezuela. Moreover, although the provisions are financed from the firm's internal funds, there are also cases in which external individual accounts are set up, such as in Brazil (the Guarantee Fund for Time of Service, FGTS); Chile (part of the employer's contribution to the worker's individual unemployment benefit account is earmarked for severance payments); Peru (Compensation for Time of Service, CTS); and the Bolivarian Republic of Venezuela, where the worker has the option of either keeping the funds in the firm or creating an individual account.⁶

As severance pay schemes operate as part of a formal and relatively stable wage-earning relationship, they are basically applicable in the case of indefinite employment contracts. This makes the scope of the protection partial or incomplete, because it does not ensure coverage for a definite employment period nor is it linked to active labour market policies (see table II.2).

⁵ This was established under the Substitutive Severance Pay Pact, which has, however, hardly ever been used. See Government of Chile (2014).

⁶ See Bolivarian Republic of Venezuela (1999).

Table II.2
Latin America: severance pay in selected countries

Countries	Legal basis	Coverage	Eligible contingencies	Benefits for economic reasons (weeks)		Financing	Income level
				First year	After ten years		
Argentina	Compulsory	Private sector, excluding farm labourers and domestic workers	Economic reasons	4.3	43.3	Internally generated resources	Upper-middle
Bolivia (Plurinational State of)	Compulsory	Private sector, excluding farm labourers	Dismissal and economic reasons	Internally generated resources	Lower-middle
Brazil	Compulsory	Private sector, excluding farm labourers and domestic workers	Dismissal, economic reasons, bankruptcy, disability, old age and end of the job	1.7	16.6	External individual accounts	Upper-middle
Chile	Compulsory and collective agreements	Private sector, excluding domestic workers and employees in a position of trust	Economic reasons	4.3	43.3	Internally generated resources and individual accounts*	Upper-middle
Colombia	Compulsory	Private sector	Dismissal and economic reasons	4.3	30.0	Internally generated resources	Upper-middle
Dominican Republic	Compulsory and collective agreements	Private sector	Dismissal, economic reasons and old age	3.8	41.8	Internally generated resources	Upper-middle
Ecuador	Compulsory	Public and private sectors	Dismissal and economic reasons	14.1	54.2	Internally generated resources	Lower-middle
El Salvador	Compulsory	...	Economic reasons	4.3	42.9	Internally generated resources	Lower-middle
Guatemala	Compulsory	...	Dismissal and economic reasons	5.1	50.6	Internally generated resources	Lower-middle
Honduras	Compulsory	...	Dismissal and economic reasons	4.3	43.3	Internally generated resources	Lower-middle
Mexico	Compulsory	Private sector	Dismissal and economic reasons	14.6	30.0	Internally generated resources	Upper-middle
Nicaragua	Compulsory	Public and private sectors	Dismissal, economic reasons and end of the job	4.3	21.7	Internally generated resources	Lower-middle
Panama	Compulsory	Private sector excluding members of cooperatives	Economic reasons	4.0	34.0	Internally generated resources	Upper-middle
Paraguay	Compulsory	...	Economic reasons	2.1	42.9	Internally generated resources	Lower-middle

Table II.2 (concluded)

Countries	Legal basis	Coverage	Eligible contingencies	Benefits for economic reasons (weeks)		Financing	Income level
				First year	After ten years		
Peru	Compulsory	Private sector	Economic reasons and end of the job	2.9	17.1	Individual accounts	Upper-middle
Uruguay	Compulsory	Public and private sectors	Dismissal and economic reasons	5.2	31.2	Internally generated resources	Upper-middle
Venezuela (Bolivarian Republic of)	Compulsory	Private sector, excluding firms with fewer than 10 workers and domestic employees	Dismissal, economic reasons and old age	4.0	45.4	Internal provisions and individual accounts	Upper-middle

Source: Prepared by the author, on the basis of R. Holzmann and others, "Severance pay programmes around the world: history, rationale, status, and reforms", *IZA Discussion Papers*, No. 5731, Bonn, Institute for the Study of Labor (IZA), May 2011.

^a Individual accounts, either through substitutive severance pay agreements or through individual unemployment saving accounts.

(b) Individual saving accounts⁷

The creation and expansion of the welfare state made it necessary to legislate social security programmes to help formal sector workers deal with unforeseen events. Nonetheless, the growing increase in the coverage of social insurance encountered financing constraints, so unemployment insurance was not applied in low- and middle-income countries with high levels of informal employment. This triggered the expansion of more generous programmes than severance pay schemes. Saving accounts to cope with unemployment in Latin America belong to that type of institution (Ferrer and Riddell, 2011).

These operate in a small but growing number of middle- and high-income countries, where the firms (and sometimes the workers) are legally obliged to make periodic contributions. The corresponding deposits earn interest and are paid as a lump sum or in monthly instalments subject to eligibility conditions.

In Latin America, they have been implemented in recent years in Chile, Colombia and Ecuador, joining the already existing schemes in Argentina, the Bolivarian Republic of Venezuela, Brazil, Panama and Peru, as shown in table II.3. In Argentina, they are applied in the construction sector through a collective agreement that establishes monthly employer contributions of 12% of the wage in the first year and 8% in subsequent years, which are deposited in individual bank accounts. In Brazil, contributions to the FGTS (8% of monthly pay) are paid into individual accounts; and these are topped up with an additional compensation (between 10% and 40% of accumulated balance) when the dismissal is "without just cause".

⁷ Based on Ferrer and Riddell (2011).

Table II.3
Latin America: individual unemployment saving accounts

Country and year of creation	Coverage	Contributions	Eligibility conditions	Benefits	Other benefits	Administration
Argentina (1975)	Construction workers	Employer: 12%–8% of the wage	Dismissals	Account balance	-	Banks
Brazil (1989)	Dependent workers not covered by another instrument	Employer: 8% of the wage	Based on the cause of dismissal	Account balance	Partial withdrawals for housing or health	Government
Chile (2002)	Dependent workers	Employees: 0.6%. Employer: 1.6% of the wage	12 contributions and all events	Account balance and cause	-	Unemployment fund administrator
Colombia (1990)	Dependent workers	Employer: 9.3% of the wage	Dismissals	Account balance	Partial withdrawals can guarantee loans for housing and other purposes	Pension and unemployment fund administrator
Costa Rica (2000)	Dependent workers	Employer: 1.0%. Worker: 2% of the wage	All events	Account balance	Voluntary withdrawals five years of continuous employment relationship	
Ecuador (2001)	Dependent workers	Employer: 1%. Worker: 2% of the wage	Minimum: 24 contributions and 60-day waiting period	Minimum account balance: twice previous monthly wage	-	Ecuadorian Social Security Institute (IESS)
Panama (1972)	Dependent workers	Employer: 1 wage per year plus 5% compensation. Employee: voluntary	Additional compensation depending on cause	Account balance	Partial withdrawals for housing, education or health	Insurance company
Peru (1991)	Dependent workers not covered by another instrument	Employer: Two deposits of average wage	Dismissals	Account balance	50% withdrawal and other additional withdrawals authorized occasionally	Banks
Venezuela (Bolivarian Republic of) (1997)	Dependent workers	Employer: 5 days' wages; rising with length of service to 30 days' wages per year	Three months' service	Account balance	-	Financial institutions or employer

Source: A. Ferrer and W. Craig Riddell, "Unemployment insurance savings accounts in Latin America: overview and assessment", *Discussion Papers Series*, No. 5577, Bonn, Institute for the Study of Labor (IZA), 2011.

The regime in Panama, which dates from 1972, provides for a quarterly deposit of one week's wages per year worked, plus 5%; and the worker also must make deposits in those accounts which, at the same time, serve as collateral for mortgage loans, and are managed by banks and other financial institutions.

In Peru, CTS, which was introduced in 1991, is financed by the employer who deposits the equivalent of 50% of one month's wage every six months into a financial institution chosen by the worker. It was later established that workers could withdraw the equivalent of 50% of the accumulated balance in emergency situations, and use an equivalent percentage as loan collateral. Nonetheless, since 2002, the withdrawal of all of the funds has been authorized, initially to pay debts with the financial sector. Subsequently, the measure was maintained as a demand stimulus, which distorted its original purpose.

In the Bolivarian Republic of Venezuela, individual accounts date back to 1977. The worker has the option of opening an account (earning a market yield) or else can keep his or her contributions in the firm. In that case, the employer must guarantee a rate of return specified by the Central Bank of Venezuela.

In Colombia, since 1990 the employer has had to deposit into the individual account the equivalent of around one month's wage per year worked, which is available for withdrawal once the employment relationship has ended. Partial withdrawals were also authorized to finance education and housing expenses. The accounts are managed by the employment fund management companies, which are exclusive purpose entities, supervised by the Banking Superintendency.

In Costa Rica, the Labour Capitalization Fund (FCL) was created in 2000, financed from an employer contribution of 3% of wages, obtained from the unemployment assistance. This is maintained as compensation for unfair dismissal, but its size and calculation decreases according to years of service.⁸

Half of the fund (1.5 times the wage) plus its yield, net of the commission for administrative expenses, is transferred into an individual saving account belonging to the workers, who may make use of the account when the employment terminates, or every five years in the case of a continuous employment relationship.⁹ This means that workers periodically use up the saving and only have a small fraction available if they lose their job. If the worker dies, any balance is passed to his or her inheritors.

In Ecuador, the 2001 Social Security Law established a mixed unemployment insurance system, with individual accounts for workers up to 40 years of age. The worker makes a monthly contribution of 2% of the wage, and the employer contributes 1%. The worker must have accumulated

⁸ Based on Trejos (2009).

⁹ The other half of the Labour Training Fund is used to set up a Compulsory Pensions Regime (ROP) envisaged as a second pillar of the pension system and complementary to the general regime of the Costa Rican Social Security Fund (CCSS). See Trejos (2009).

a balance equivalent to 24 months' contributions in his or her individual account, and there is a 60-day waiting period before being able to withdraw the funds. In the case of retirement, sickness, or death, withdrawal of the entire balance is authorized.

Lastly, in Chile individual accounts have been incorporated into the unemployment insurance since 2002, and are combined with the Solidarity Unemployment Fund, to ensure benefits in the event of unfair dismissal. They are also related to severance pay, because the employer's contributions into the individual workers account are earmarked at the time of payment.

In terms of their advantages, individual accounts are considered as an alternative to unemployment insurance systems, since the worker will use his or her own capital to finance the benefits, so moral hazard is avoided. Nonetheless, incentives can be generated to bring forward the claim on the worker's accumulated savings.¹⁰

Individual accounts have another advantage over severance pay, since the latter are liquidated upon termination of the employment contract. Depending on the worker's time of service, a large amount can be accumulated, thereby generating incentives for the firms to avoid payment (Kugler, 2001). These will be greater if the firms did not create reserves for those purposes. In contrast, saving accounts constitute cash reserves and are financed through periodic prior deposits, which underwrites their payment.

Nonetheless, their main weakness is that they do not necessarily guarantee the financing of a replacement rate or a defined unemployment period. So they also only represent a partial protection solution, which is further compounded by the absence of links to active policies. They are more effective when they form part of a pay-as-you-go fund or insurance payments, whether to guarantee sufficient benefits, expand the coverage of beneficiaries, or promote re-engagement with the labour market, if they operate in an integrated or complementary way with active policies.

(c) Unemployment insurance schemes

In Latin America, unemployment insurance schemes only operate in Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador and Uruguay. Since 2000, they have undergone various modifications, ranging from parametric adjustments (Uruguay) to structural changes (Chile). Table II.4 summarizes their chief characteristics. In Argentina, Uruguay and the Bolivarian Republic of Venezuela, they are designed to operate as pay-as-you-go systems, financed mainly from the affiliates' monthly contributions. There are mixed structures in Chile and Ecuador. In Chile, the system has two components — a solidarity unemployment fund and individual accounts— which are combined to finance a defined benefits programme in the event of unfair dismissal.

¹⁰ Orszag and others (1999) and Stiglitz and Yun (2002), cited in Holzmann and others (2011).

Table II.4
Latin America: unemployment insurance schemes

Country	Type of programme	Contributions from:			Benefits		Eligibility conditions
		Worker	Employer	State	Replacement rate	Duration (months)	
Argentina	Compulsory unemployment insurance	0%	0.89%-1.11%	Finances shortfalls	50% in the first four months; 42.5% between the fifth and eighth month; and 37.5% between the ninth and twelfth months.	Up to 12 months	Registration in employment agency, willingness to work and involuntary unemployment, with at least 12 contributions.
Brazil	Social Security system	0%	0%	All of FGTS functioning	80%-50% of average wage, according to income bracket.	If contributions have been made: three payments if there are 6-11 contributions. Four payments if there are 12-23 months of contributions and five payments if there are up to 24 months' contributions	Previous employment for a minimum of six months, involuntary unemployment and without sufficient income from other sources.
Chile	Mixed compulsory insurance: solidarity fund with individual accounts	0.6% to the individual unemployment account	2.4% (1.6% into individual accounts and 0.8% into the solidarity fund)	Contributions of US\$ 12 million per year roughly through general revenues	Decreasing rates from 70% to 35%. If the savings in the account are insufficient, the solidarity fund is drawn upon.	Up to 5 months and two additional months in situations of crisis	12 contributions in 24 months; the last three with the same employer
Ecuador	Social Security system			All benefits of the solidarity unemployment regime	Fixed sum: up to the value of two basic family shopping baskets.	-	Unfair dismissal, 24 contributions and a 60-day waiting period.
Uruguay	Social Security system	Cannot be separated from the general contribution of 12.5%	Cannot be separated from the general contribution of 2.0%	Finances shortfalls	66%-40%; there is a 20% supplement for family dependants.	Six months	Six months of contributions and involuntary unemployment
Venezuela (Bolivarian Republic of)	Compulsory unemployment insurance	0.5% and 2.5% in the case of own-account workers	2.0%	Various subsidies	60% of the average wage plus medical assistance for 26 weeks.	Five months	12 months' contributions in the last 24 months and available for work

Source: Prepared by the author.

Ecuador has an unemployment fund (individual accounts) and a solidarity-based unemployment regime financed by the State, which subsidizes the affiliate in all cases of dismissal and when the balance of the worker's individual account is less than twice his or her wage in the month preceding layoff.¹¹ The amount of the benefit is limited to a value equivalent to two basic family shopping baskets, as defined by the National Statistics and Census Institute (INEC).

In contrast, in Brazil, unemployment insurance is a non-contributory programme financed from general revenues through the Worker Protection Fund (FAT), which functions alongside the individual accounts component operated by FGTS. In Uruguay, the insurance is funded from a global contribution to social security.¹²

State participation is present in all cases, although the modality varies. It may be direct, as in Uruguay and Brazil, or else contribute the funds to cover deficits (such as in Argentina and the Bolivarian Republic of Venezuela); or it may be based on subsidies (Ecuador) or a defined annual contribution (Chile).

The workers who are typically protected are wage earners in the formal sector and, particularly, those with indefinite contracts. Nonetheless, the system has been expanded to cover rural, farm and construction workers, and those with fixed-term contracts. In Argentina, Brazil and Chile, public sector workers are excluded from coverage, because they generally have their own specific arrangements which are considered as special job-stability and layoff compensation mechanisms.¹³

The benefits are normally defined as a proportion of the wage received in the job prior to layoff; floors and ceilings are defined along with a decreasing payment rate to encourage job search. The period covered is generally set according to the average duration of unemployment. Eligibility requires a certain number of prior contributions, evidence of out-of-work status, and verifiable steps undertaken to find a new job.

¹¹ The Solidarity Unemployment Regime is only available to private sector workers who present a certificate of having been dismissed from their job, issued by the Labour Inspector in their jurisdiction within eight days; and to civil servants who submit the document notifying unilateral termination of the employment contract by the employer. Nonetheless, the benefit is not payable if dismissal from the post or job in question is for disciplinary reasons, without prejudice to the actions the party is entitled to take to reverse its legal effects (Chamber of Commerce of Quito, 2013).

¹² On this point, see Velásquez (2005), who estimates the implicit contribution rate.

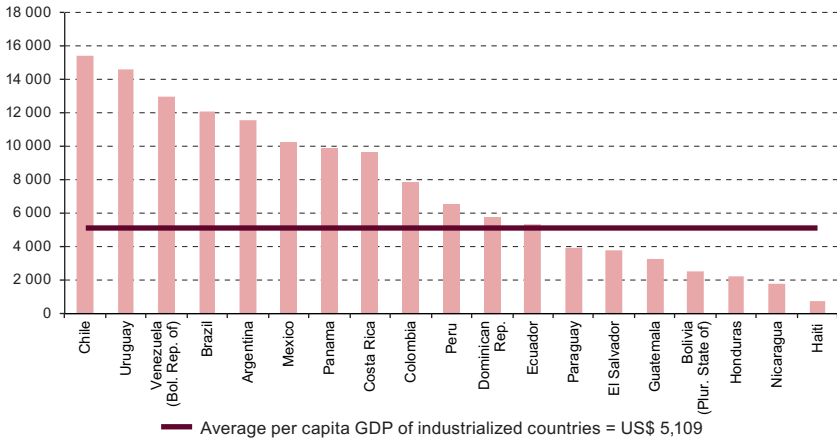
¹³ This refers to workers who are included on the sector payroll, however, and not to those who have been hired under other modalities and, owing to the characteristics of their contract, could be assimilated in private wage-earner categories.

(i) Unemployment insurance schemes and per capita gross domestic product

It is often argued that creating an unemployment insurance scheme requires an economic context similar to that of the developed countries, which would explain why they are less frequent in Latin America. One way of testing this hypothesis is to compare the income level of the region's countries with the level today's developed countries had when they created their unemployment insurance schemes.

Berg and Salerno (2008) performed that exercise and concluded that the per capita GDP of industrialized countries at that time was US\$ 3,941 at 2001 prices. When this is updated to the values of 2012 (deflated by the United States consumer price index), it can be compared with the per capita GDPs of Latin America in that year, as shown in figure II.1. This shows that the Latin American countries with an unemployment insurance scheme in place today have per capita GDPs above those of the industrialized countries when they instituted their programmes. In contrast, the countries of the region whose per capita GDPs are not yet above that level mostly do not have unemployment insurance systems.

Figure II.1
Per capita GDP in Latin American countries in 2012 and in industrialized countries when they adopted unemployment insurance
(United States dollars at 2012 prices)



Source: Prepared by the author, on the basis of J. Berg and M. Salerno, "The origins of unemployment insurance: lessons for developing countries", In Defence of Labour Market Institutions. Cultivating Justice in the Developing World, J. Berg and D. Kucera (eds.), International Labour Organization, 2008; and International Monetary Fund (IMF), "World Economic Outlook Database", 2013 [online] https://www.imf.org/external/ns/cs.aspx?id=28.

Nonetheless, there is a third group of countries which do not have unemployment insurance, despite having attained a per capita GDP above the reference level. Examples are Colombia, Costa Rica, the Dominican Republic, Mexico, Panama and Peru, although there have been initiatives in this regard. In Mexico, a move to set up an unemployment insurance scheme is currently under development. In Colombia, a scheme was proposed in 2013, but it resulted in the unemployment protection mechanism; while Peru and the Dominican Republic have not progressed beyond intentions.

(ii) Coverage of the protection

One of the main criticisms when adapting unemployment insurance schemes in developing countries is that many workers do not benefit from the system because they work informally in agriculture or in services. Nonetheless, the available evidence shows that, when unemployment insurance schemes were created in many of today's industrialized countries, a large portion of the labour force was then employed in agriculture. Owing to exceptions in the legislation, those workers also did not benefit from the programmes created at that time.¹⁴

Moreover, although those programmes do protect formal wage earners who normally have indefinite employment contracts in the private sector, over the last few years, initiatives have been launched to broaden their scope to other beneficiary groups, such as rural, agricultural and construction workers and those with temporary contracts, among others.¹⁵

In Argentina, since 2004, the benefit has been extended to seasonal farm workers and casual labourers; in Brazil, to small-scale fishery workers and persons rescued from forced labour (non-contributory benefits); and, since 2000, to female domestic workers if the employer has voluntarily contributed to FGTS. In Uruguay, domestic workers were incorporated and the duration of the benefit was increased for persons aged over 50 years. In Chile, the system established a special regime for workers on fixed-term contracts, guaranteeing their access to the Solidarity Unemployment Fund; and, since 2005 in the Bolivarian Republic of Venezuela, own-account workers, domestic and live-in servants have been included through a State subsidy of 50% of the contribution.¹⁶

In addition, several countries have sought to strengthen their countercyclical effects. In Brazil, between 2008 and 2009 the benefits were extended by two months for workers laid off from the mining and iron and steel sectors. In Chile, the 2009 reform activated additional payments

¹⁴ This discussion is taken from Berg and Salerno (2008).

¹⁵ See Velásquez (2010).

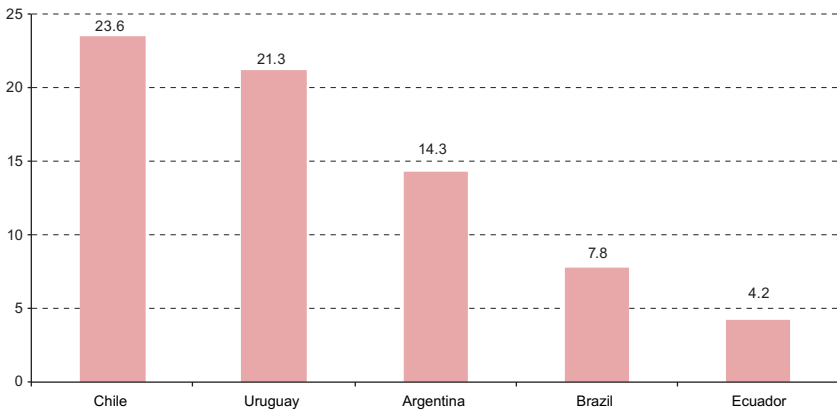
¹⁶ See Bolivarian Republic of Venezuela (2012).

when the unemployment rate surpassed its trend of the last four years. In Uruguay, although in 2008 an expansion of the subsidy in a recession was legislated, this did not happen because the defining two consecutive quarters of negative growth did not actually occur. Instead, the concept of suspension was used, through which firms in difficulties can refer workers to unemployment insurance for up to six months, without having to terminate the employment relationship, with the possibility of re-incorporating them when the situation improves.

In Argentina, although coverage grew in 2009, it did so only moderately. This was probably because efforts were focused on increasing the coverage of non-contributory programmes (such as training and employment insurance) and owing to the priority given to mechanisms for keeping people in work through subsidies under the production recovery programme, and thus avoid layoffs. In that case, the emphasis has been placed on the transition to active regional economic development policies, based on the municipalities, by forming a wide network of public employment services.

In any event, the information contained in figure II.2 displays a low beneficiary coverage rate relative to the total number of unemployed persons in the countries; and it shows that coverage is greater for certain groups of workers, such as women and young people. The latter tend to display higher unemployment rates than men and adults, respectively, along with generally higher indices of labour turnover and greater informality in employment.

Figure II.2
Latin America: unemployment insurance beneficiary coverage^a
(Percentage of total unemployed)



Source: International Labour Organization (ILO), “Transitioning to formality in Latin America and the Caribbean: situation and trends”, *2013 Labour Overview. Latin America and the Caribbean*, Lima, Regional Office for Latin America and the Caribbean, 2013.
^a The indicators refer to 2011 (Chile), 2009 (Brazil and Uruguay), 2008 (Argentina) and 2005 (Ecuador).

Low coverage can be explained by two main factors. The first stems from the design specifications, because in those systems, beneficiary status is defined directly in relation to cause of unemployment for economic reasons and the existence of a minimum number of prior contributions. This means that only a fraction of the potential beneficiaries is eligible. Those who remain unemployed but have already used up their coverage period are also excluded.

A second factor concerns the high proportion of informal employment which affects roughly one half of the employed and operates as a constraint for covering all unemployed people (ILO, 2013). In addition, the existence of transitions or switching between formal and informal jobs affects the density of the prior contributions and, thus, also the proportion of workers who have formal contracts at the time of being laid off.

It has been argued that those systems raise labour costs and obstruct the creation of formal jobs, because they favour informality. The evidence on this is not conclusive, however. In cases where that type of effect has been detected, its magnitude is generally insignificant, because it depends on the characteristics of the design and operation of each programme, and how these have been adequately incorporated into the estimation models.¹⁷

(iii) Integration with active policies

Unemployment protection can be made more effective if it is envisaged as a combination between passive and active labour market policies. This combination has the potential to achieve greater results than those that would be obtained with each instrument individually. Attaining an optimal linkage will depend on the economic and institutional characteristics of each country.

Employment services and labour training foster the quantitative and qualitative mobility of human resources and, in an integrated mechanism with the use of cash benefits, can help to strengthen the economies' adaptation capacity, improve the quality of job search, reduce the costs of re-engaging with the labour market, and help to avoid undesired transitions into informal jobs.

¹⁷ Velásquez (2003) summarizes the potential effects of unemployment insurance mechanisms on labour markets and their empirical backing. The article reviews a set of studies that include the analysis of the effects on labour markets based on a search model and other potential effects on income and employment discipline; on unemployment based on the concept that, by reducing the cost of job loss and the benefit of finding one (for those who are entitled to its benefits) the tendency would be to increase both the rate and duration of unemployment. It also reviews long-term joblessness, employment, income and labour market discipline. The main conclusion is that the available evidence does not allow definitive conclusions to be reached, although it does help to highlight the mechanism's potential weaknesses and strengthens the need for careful operational design. To that end, moderate and declining benefits should be established, along with direct incentives that do not distort the functioning of markets and financing mechanisms but make it possible to ensure balance through time. The distinction between an insurance and an assistance programme is also crucial in identifying potential behavioural effects among the different agents.

The region's unemployment insurance schemes have also forged links with active policies and make their benefits conditional on the beneficiaries' participation in these programmes. It is a common practice to require their registration in employment agencies and, if a worker refuses suitable job offers, he or she loses the benefit entitlement. The concept of "suitable job" is based on the administrative classification of the worker's reasons for rejecting job offers.

In Argentina, beneficiaries are required to "accept suitable jobs offered to them by the Ministry of Labour, Employment and Social Security; and to participate in the training actions to which they are invited" (Ministry of Labour, Employment and Social Security, 2014a). In addition, the training and employment insurance also encompasses workers aged 40 years or older who remain unemployed after receiving all of the economic benefits (Ministry of Labour, Employment and Social Security, 2014b). The continuation of beneficiary status also requires the individual to attend the Municipal Employment Office at least twice a month to report on progress in job search and update his or her job history; and it is conditional on the individual's participation in training activities and acceptance of suitable job offers proposed by the employment offices.

In Brazil, cash benefits are conditional on the insured's participation on a continuous vocational training course, lasting at least 160 hours (Presidency of the Republic, 1990). There is also a vocational qualification scholarship to finance training actions for suspended workers. This is also applicable exceptionally to beneficiaries of the unemployment insurance who have been out of work for between 12 and 18 months. Those benefits can be coordinated with employment actions implemented locally. It is also established that the benefit will cease if the beneficiary turns down a job that is consistent with his or her qualifications and previous pay.

In Chile, following the 2009 reform, it was established that the Solidarity Unemployment Fund could finance pre-employment programmes to help beneficiaries with low employability indices re-engage with the labour market (Superintendency of Pensions, 2014a). The National Training and Employment Service (SENCE) manages and inspects such programmes. Every year, the Ministry of Finance and the Ministry of Labour and Social Security decide on the benefits to be granted and the total amount of funding. The latter, in each calendar year, cannot exceed 2% of the total balance of the solidarity unemployment fund in the previous year.

The benefit of the Solidarity Unemployment Fund will also cease if the unemployed person unjustifiably rejects a job offered by the respective Municipal Labour Information Office (OMIL). This condition is only imposed if the new job would have allowed the individual to earn at least 50% of the last wage earned in the previous job. The benefit will be discontinued if the

unemployed person rejects a training scholarship offered and financed by SENCE, or if he or she does not register in the national employment exchange.

In addition, the Employment Information System and the National Employment Exchange are functioning under the Ministry of Employment and Social Security, with the aim of enhancing employability and helping unemployed workers affiliated to the unemployment insurance find a new job. Through this mechanism, unemployed workers affiliated to the insurance who are registered in the National Employment Exchange can receive labour market services and access the job vacancies database. In turn, employers who register in the Employment Exchange can offer job vacancies and scout workers for those posts.

In Uruguay, individuals who do not participate in Ministry of Labour and Social Security training courses for unjustified reasons once half of the subsidized period has elapsed, or if they illegitimately turned down a suitable job, cannot access the unemployment insurance.¹⁸

Lastly, in the Bolivarian Republic of Venezuela, the law establishing the involuntary unemployment and vocational training subsystem specifies the circumstances in which the benefits provided by the system would be suspended.¹⁹ This involves cases in which the unemployed affiliate fails to justify having missed a job interview indicated by the Ministry of Labour or by the employment agency; turns down a suitable placement in a job offered by the labour market intermediation service, or who abandons labour training without justification.

The integration of active labour market policies is a key factor in achieving complete protection for the unemployed person, targeting his or her re-engagement with the labour market. Nonetheless, the still weak institutional framework of active policies requires investments in design, processes, and both human and material resources. Their current functioning needs to be upgraded to ensure the relevance and quality of the results. Evaluations of their operation and impact are essential requirements to improve the available instruments in this domain.

(d) Unemployment assistance²⁰

Unemployment assistance is a non-contributory programme financed out of general revenues, which, normally aims to support the most vulnerable

¹⁸ See Ministry of Labour and Social Security (1981). The National Employment and Vocational Training Institute (2014) has opened a line of specific job training for all workers who receive unemployment insurance owing to dismissal, the end of the harvest, or end of contract, known as the Workers in Unemployment Insurance Programme. That programme aims to strengthen individual capacities to return to the labour market and foster entry into the formal education system.

¹⁹ See Bolivarian Republic of Venezuela (1999).

²⁰ Based on Holzmann and others (2011).

workers by paying a means-tested cash benefit. Some countries combine this with unemployment insurance, which makes it possible to cover the long-term unemployed once their unemployment insurance benefits have run out. That category includes the unemployment subsidy systems that still exist in Mexico (Federal District) and in Chile, although in the latter case the institution has been extinct since the creation of the unemployment insurance scheme in 2002.

Lastly, under a broader definition, public employment programmes can also be considered in this context. These focus on more vulnerable groups and generally make payments of up to the minimum wage. If they are well organized, they can develop productive jobs and provide job skills to the participants. Otherwise, they only serve as a platform for distributing income transfers in crisis situations.

B. Recent progress and reforms

In recent years, progress has been made on unemployment protection in Latin America both in terms of analysis considering a context of high informality, and in relation to recent reforms and reform proposals in three of the region's countries.

1. Unemployment protection with high levels of informal employment

The Inter-American Development Bank (IDB) has conducted studies that open up a new line of analysis in evaluating policies on the subject.²¹ These include the context of informal employment that characterizes the region's countries, which represents a differentiating factor with respect to the developed economies and is a key element in analysing their conclusions.

Informality is generally seen as an unemployment protection modality, despite evidence showing that the unemployed are more likely to find informal jobs and that their transition into formal employment is not guaranteed. As noted above, the presence of a high level of informal employment has consequences for the breadth and quality of the coverage that can be obtained with those systems.

Their key results show that contributory programmes can increase formality, and that this depends crucially on their design: the generosity of the benefits or the level of contributions needed to finance them, along with other labour market interventions aimed at reducing the cost of formality. They also highlight the fact that universal unemployment protection

²¹ See the studies included in the bibliography.

systems for informal workers, conditional on the beneficiaries' participation in labour-training programmes, are generally effective in terms of labour market engagement, the creation of formal wage-earning employment, and a reduction in informal self-employment.

The different protection mechanisms that exist act mainly as a temporary income insurance, rather than as a subsidy for more productive job search. In some countries unemployment periods have been found to be significantly shorter when the insurance benefits are smaller and last less time; and a declining payment structure is effective for reducing moral hazard effects.

2. Recent reform initiatives

Between 2013 and 2015 there were three initiatives in Chile, Colombia and Mexico.

(a) The unemployment protection mechanism in Colombia

Law 1636 of 2013 created the Protection Mechanism against Unemployment (MPC) in Colombia, based on unemployment support accounts as a voluntary source for generating an income to face this eventuality, and on a Solidarity Fund and Employment Promotion and Protection Interruption (FOSFEC) to provide other benefits.

Colombia's MPC is applicable to dependent workers in the public and private sectors, and to self-employed workers who make voluntary contributions to the Family Allowance Funds. The benefits are paid independently of the cause of the termination of the employment relationship; and, in the case of self-employed workers, they are paid to those who do not have any income source.

The system established the voluntary use of unemployment accounts to keep them in the MPC, to generate a proportional benefit that is activated when a worker becomes unemployed. The benefit is financed from FOSFEC, provided the saving amounts to at least 10% of the average monthly wage over the last year in the case of all workers earning up to twice the minimum wage, and to at least 25% of the average monthly wage over the last year in the case of workers earning more than that amount.

In addition, for unemployed workers who fulfil the requirements, FOSFEC will finance the payment of health and pension contributions (calculated on the basis of one minimum wage) and a family subsidy cash instalment, where appropriate. The beneficiary will be referred to the employment services network operators for job search support and job skill training, if necessary.

Although that reform incorporates new cash benefits for protection in terms of health, pensions and family transfers, as well as training and

labour market intermediation services, the voluntary nature of the use of the unemployment support accounts, together with the right to use them to finance education and housing consumption, are factors that have undermined its effectiveness and have resulted in low utilization rates.

(b) Unemployment insurance in Mexico²²

The unemployment insurance approved by the Chamber of Deputies of Mexico aims to create a subaccount of the individual saving account for retirement and a solidarity fund. The system's benefits and administrative costs will be financed by a monthly contribution from the employer equivalent to 3% of the worker's wage, plus the returns generated by those contributions. A contribution equivalent of 2% of the wage will be deposited in the subaccount, while the other 1% will accumulate in the Solidarity Fund.

Up to six monthly benefit payments are required: the first two equivalent to 60% and 50% of the average wage of the last two years before unemployment, respectively, and four payments equivalent to 40% of that wage. If the balance in the subaccount is insufficient to cover them, the Solidarity Fund will bridge the gap up to the equivalent of one month's minimum wage for each month in which the benefit cannot be covered. Moreover, if the balance of the Solidarity Fund is insufficient, the federal government will make up the difference by paying the equivalent of one month's minimum wage for every month in which the benefit cannot be covered.

To gain entitlement to those benefits, the worker must have contributed for at least 24 months in a period of no more than 36 months; have been unemployed for at least 45 calendar days; may not be receiving other income in respect of retirement, pension, unemployment support, or any other income of a similar nature; and demonstrate compliance with the requirements of the promotion, placement and training programmes administered by the Secretariat of Labour and Social Security.

The beneficiaries include persons who have provided their services on a contract basis for an indefinite period, on a seasonal basis, for a specific task, subject to trial, initial training, temporary and seasonal. In those cases, the worker must have at least six months of contributions to the unemployment insurance in a period of no more than 12 months, to receive a lump-sum payment of no more than the equivalent of twice the average wage of the last six months of contributions recorded.

Thus from the design standpoint, this combination of programmes operates sequentially and on a complementary basis: an individual unemployment saving account, complemented by a contributory solidarity fund and, ultimately, general revenues.

²² See Chamber of Deputies of Mexico (2014) and an analysis of this initiative in box II.1.

Box II.1 Mexico's unemployment insurance project^a

Mexico's adoption of an unemployment insurance scheme to protect wage earners in the formal sector was part of the tax and social security reform initiative proposed by the government in September 2013. At that time, the need for additional tax revenue was adduced as a condition to be able to finance the extra expenditure generated by moving towards a "universal social security system", to replace the existing "welfare-based social policy".^b Another reason put forward by the government for moving in that direction was to avoid being singled out by international organizations (specifically the Organization for Economic Cooperation and Development (OECD) and the International Labour Organization (ILO)) as an exception to the rule among countries of a similar development level, and also among the most developed countries, in lacking that instrument.^c It was also argued that job loss has become a frequent event in the employment histories of lower-income workers and that the lack of unemployment insurance and opportunities to access other sources of financing, such as private insurance policies, was one of the drivers of the prevailing high informality rate.

In November 2012, a federal labour law reform was passed, creating a new short-term hiring modality (the apprenticeship contract). This established a trial period and set an upper limit on the amount of wages payable by employers who lose court cases for unfair dismissal, while also regulating subcontracting, which increased the need to protect workers against the risk of job loss (Bensusán, 2013).

Although the tax reform was implemented, several factors sabotaged the goal of creating an unemployment insurance scheme (alongside a universal pension). For that reason, Mexico today still does not offer wage earners an effective mechanism of protection against income loss arising from unemployment.

Looking beyond the political and economic factors that may have obstructed the adoption of such an insurance scheme (even though it was a commitment made in December 2012 by the country's three most important political parties in the Pact for Mexico), the following paragraphs highlight the institutional design problems that led to its rejection by broad sectors of society.

- **Institutional scope:** the presidential initiative to create the unemployment insurance had constitutional scope, covered all wage earners in the formal sector and involved regulation in a specific law. Nonetheless, the constitutional reform that was passed in the Chamber of Deputies in October 2013 excluded government workers from protection and merely introduced a new mandatory unemployment insurance scheme within the framework of the social security law. Nonetheless, like the constitutional reform, the reform of that law, which was passed by the Chamber of Deputies on 18 March 2014, was never confirmed by the Senate.
 - **Coverage:** the requirements for accessing the benefit substantially restricted the potential coverage of the insurance. Firstly, prior contributions to social security institutions were required (24 months or 104 "successive" weekly contributions into the Mexican Social Security Institute or the Security and Social Service Institute for State Workers) over a period spanning no more than 36 months. In the case of casual workers, at least six months' prior contributions were required over a 12-month period. The unemployment insurance could be used once only in five
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Box II.1 (continued)

years. Although the Chamber of Deputies eliminated the requirement for contributions to be successive, no account was taken of Mexico's high turnover rates and the characteristics of people's work histories. According to the Employment History Survey, a worker who had been registered in social security for an average of 100 weeks, would likely have made just 38 weekly contributions (in other words slightly over one third of the 100 weeks),^d which is far from fulfilling the legal requirement. Another exclusive requirement was that before applying for the insurance, the worker had to have been out of work for 45 consecutive calendar days, which is far longer than the period defined in other countries or in the Social Security (Minimum Standards) Convention, 1952 (ILO Convention No. 102), which specifies a prior unemployment period of just seven days.

- **Obligations on the beneficiaries:** a set of requirements was defined to link the unemployment insurance with an active employment policy, and thus enable satisfactory re-engagement with the labour market. To that end, the Secretariat of Labour and Social Security was tasked with implementing an employment promotion and placement programme, providing assistance and promoting training and skill development, while monitoring and ensuring compliance with the unemployed person's obligations. Nonetheless, it did not earmark the resources needed to achieve this objective, even though Mexico is one of the OECD countries that spends the smallest amounts on this type of policy, even compared with other countries of a similar or even lower development level.
- **Financing:** the unemployment insurance scheme would be financed through employer contributions to the worker's housing subaccount (5% of wages), which already formed part of the worker's capital and from which 3% would be withdrawn in the event of unemployment. Of that amount, 2 percentage points would be paid into the worker's mixed subaccount and 1 percentage point into a Solidarity Fund for use when the resources in the mixed subaccount were insufficient. Only if the benefit could not be covered would the government have to guarantee the worker an income equivalent to the minimum wage for a six-month period. The presidential initiative did not establish any commitment for a government contribution to the Solidarity Fund.

Despite fierce criticism of that financing mechanism for using funds that already belonged to workers and which should be used for housing, the amendments introduced by the Chamber of Deputies were essentially maintained. The change was limited to establishing that the 3% obtained from the employer's contribution would be paid into the mixed subaccount and that the government would contribute 0.5% of the basic wage to the Solidarity Fund. This resulted in overlapping rights (the right to housing and the right to unemployment protection). In most cases, in the short and medium terms, only a very small percentage of workers would succeed in obtaining the full benefit, while most would obtain a monthly minimum wage at best.

Box II.1 (concluded)

- **Benefits:** if the purpose of the unemployment insurance was to prevent the worker falling into poverty, this would be difficult to achieve in the short and medium terms under the benefit system envisaged by the presidential initiative and approved by the Chamber of Deputies. In the best of cases, even if the housing subaccount had sufficient funds, the worker would receive 60% of his or her monthly wage in the first month, 50% in the second month, and 40% in the four remaining months, in addition to the legal compensation payable for unfair dismissal. There were also exceptions to the general rule as reduced benefits would be paid to workers with fixed-term contracts. These were criticized for unnecessarily creating unfair benefit conditions.

In short, that financing modality and its general design features were appreciated only by a number of specialists and sectors concerned with public finance. The unemployment insurance also generated little interest among workers and unions, including those linked to the governing party. As a result, the initiative approved by the Chamber of Deputies was ultimately frozen in the Senate; and it was not taken up again later owing to the difficulty of finding a way to finance it against an adverse economic backdrop of falling oil prices and slower than expected growth rates.

Source: G. Bensusán, "El seguro de desempleo en México. Opciones, características, ventajas y desventajas", *Macroeconomía del Desarrollo series*, No. 151 (LC/L.3857), Santiago, ECLAC, 2014; G. Bensusán, "Reforma laboral, desarrollo incluyente e igualdad", *Estudios y Perspectivas-Sede subregional de la CEPAL en México series*, No. 143 (LC/L.3624; LC/MEX/L.1098), Santiago, ECLAC, 2013; G. Bensusán, on the basis of National Institute of Statistics and Geography (INEGI)/Secretariat of Labour and Social Security (STPS)/National Council for Population (CONAPO), "Primera Encuesta de Trayectorias Laborales" [online] <https://issuu.com/politicaspUBLICAS/docs/trayectoriaslaborales/10> [date of reference: 9 May 2016].

^a This box was prepared by Graciela Bensusán, Research

^b Speech by the Secretary of Finance and Public Credit, presenting the tax reform initiative, 8 September 2013.

^c Draft decree in 2014 to reform the Political Constitution of the United Mexican States and add articles 4, 73 and 123.

^d This is an inter-agency project undertaken in 2012 between the National Institute of Statistics and Geography (INEGI), the Secretariat of Labour and Social Security, the National Council for Population (CONAPO) and the National Commission for the Retirement Saving System (CONSAR), with the aim of designing a survey on work history. To that end, a questionnaire was included in an additional module of the National Survey on Employment and Occupation (ENOE) in the second half of 2012.

(c) Improvement of the unemployment insurance in Chile²³

In 2015, new reforms to the unemployment insurance were approved, which resulted in increases in the benefit replacement rates and in the upper and lower limits. A contribution to pensions was also established for beneficiaries of the Solidarity Unemployment Fund (FCS), amounting to 10% of the unemployment benefit they are entitled to receive, among other things, without changing either the level or the structure of its financing.

²³ See National Congress of Chile (2001).

In addition, a 2% limit was set on the FCS to finance pre-employment programmes, causes were specified indicating that the beneficiary is not effectively looking for a job, along with grounds considered justified, and all unemployed workers over 18 years of age were included as beneficiaries of the Labour Market Information System, National Employment Exchange and other aspects related to its administration.

C. Conclusions

The current status of unemployment protection in Latin America contains various instruments that have been incorporated with the passage of time, often overlapping, and sometimes with little relation between them. All countries for which information was available have severance pay systems, and this is the oldest institution. Individual unemployment saving accounts are the second most important. They were originally linked to the former, because employers use them to try to retain workers.

Unemployment insurance schemes, on the other hand, are present in fewer countries; and, as in other parts of the world, they have been one of the most recent components of social security systems. In addition, the countries of the region that display an income level similar to or above that recorded by today's developed economies when they created their institutions, today have such systems. Others such as Colombia, Costa Rica, the Dominican Republic, Mexico, Panama and Peru, would in principle be in a position to implement them.

A complete protection system has been defined as one that provides compensation for income loss and, at the same time, is integrated with active policies to help the unemployed worker return to productive activity. From that standpoint, the existing instruments are evaluated and the results are summarized in table II.5.

According to the indicated criterion, the protection panorama in the region is incomplete, for several reasons. Firstly, in unemployment situations, the worker does not always receive cash benefits (irrespective of whether they come from severance pay or individual saving accounts); or, if he or she does have that entitlement, there is no guarantee that the funds will be sufficient to finance the duration of the unemployment. In cases where an unemployment insurance scheme does exist, although the designs differ, this objective is generally safeguarded more effectively.

Table II.5
Latin America: potential strengths and weaknesses of unemployment protection instruments

Instruments	Strengths	Weaknesses	Coverage	Integration with active policies
Severance pay	Barrier to unfair dismissal.	Payment associated with a single cause; absence of reserves and becomes more expensive with years of service.	Formal sector wage earners with indefinite contracts.	Not integrated.
Individual unemployment saving accounts	Accumulates capital balances to cover all contingencies generated by the ending of an employment relationship.	Potential incentives for other uses and uncertain financing of the job-search period.	Formal sector wage earners.	Normally not integrated.
Unemployment insurance	Protects against the dismissal event with defined benefits and timeframe.	Potential moral hazard if the design is inadequate.	Mainly formal private- sector wage earners and others with special benefits.	Typically associated with a weak institutional framework of active programmes.

Source: Prepared by the author.

Secondly, although an operational design that is integrated across instruments can improve the results, this is seldom achieved. For example, the combination of saving accounts with a pay-as-you-go mechanism can generate gains in terms of the sufficiency of the benefits and an increase in coverage limits, but both parameters tend instead to operate in parallel.

Moreover, although there is some evidence of integration between a passive policy (unemployment insurance benefits) and active policies, this is an area in which further progress can be made, and active policies can be made more effective. The recent initiatives discussed in this chapter should be followed up and evaluated in this regard; and a roadmap should be created to avoid informality and support transitions towards productive jobs. Thus, the continued development of new analyses that incorporate the effects of high informality in employment are of crucial importance.

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Chapter III

Unemployment protection schemes in Asia

John Carter

Introduction

Unemployment protection schemes are important for providing secure income for women and men of working age,¹ most of whom are economically active and gain their livelihoods through an income-generating activity such as formal or informal employment. The purpose of unemployment protection schemes is to assist them in stabilizing their incomes and ensure that they have at least a basic level of income security in the event of loss of employment. Most employment-related, contributory social security programmes, including unemployment insurance, cover people who have been economically active in the past, but have lost their income from work either permanently or temporarily as a result of job loss.

However, these types of programmes often do not cover the situations and needs of people who are economically active but not in formal employment, whose income from employment is too low to prevent them and their families from falling into poverty, or who simply have no income at all, having been unemployed or underemployed for too long to qualify for benefits. While

¹ See ILO (2015). Working age is defined as the age range during which most people are, or seek to be, economically active. In established international practice, the age range from 15 to 64 years is considered to be working age.

contributory insurance schemes usually cover formal employment, the needs of those engaged in informal employment can be addressed through effective non-contributory programmes.

Unemployment protection schemes generally have a positive impact on the labour market, for both workers and employers. The temporary regular income support provided by these schemes, particularly unemployment insurance, enables unemployed workers to take a more positive approach to finding a job that is suitable while avoiding financial difficulties. These schemes also increase the chances of unemployed workers obtaining employment through training and retraining mechanisms. For that purpose, active labour market policies can provide the unemployed with additional assistance to compete in the labour market and successfully find and keep suitable jobs according to their experience and skills and at appropriate wages.

Not only the unemployed but also employers benefit from unemployment protection schemes, because they reduce the need for job-seekers to accept any job they can obtain quickly in times of increased unemployment. As a result, it is easier for employers to hire candidates with the right skills and capabilities for the job, which helps enhance productivity.

Over the past two decades, social security programmes have expanded remarkably, not only quantitatively but also qualitatively, in many of the newly industrializing and newly democratizing countries in Asia (Asami, 2010). Asian social security programmes were initially developed to deal with individual risks, such as worker injury or death, retirement, and so forth, but have expanded and been enhanced to include industry-wide risks of large-scale layoffs, such as those caused by external economic shocks. Democratization processes in many Asian countries also created demands for the provision of programmes and benefits for workers in both the formal and the informal sector. The main types of unemployment protection schemes in Asia include mandatory unemployment insurance schemes, unemployment savings schemes, severance pay (retrenchment) programmes, non-contributory programmes, and social assistance and programmes provided by non-governmental organizations (NGOs).

As of the time of writing, mandatory unemployment insurance schemes were established in 73 countries worldwide, including the most recent —Viet Nam— in 2009. Most countries in Asia with unemployment insurance have established them in the past few decades, with the exception of Japan and China. Japan and the Republic of Korea also prefer to use the term “employment insurance” to reflect a more proactive approach to the scheme in assisting the unemployed find and keep suitable employment. Unemployment insurance schemes in Asia are characterized by low contribution and benefit levels, because of low unemployment rates. They require workers to make contributions for between 4 and 24 months over a

reference period of between 15 and 24 months. Benefit rates most commonly range from 50% to 60% of workers' contributory earnings. Unemployment insurance schemes can be accompanied by active labour market policies, which are government programmes to help unemployed workers find work.

Unemployment savings schemes, also known as unemployment insurance savings accounts (UISAs), also provide a diversity of features to be considered by governments and stakeholders in the implementation of an unemployment protection programme. Many experts feel that unemployment savings schemes resolve the potential moral hazard created by conventional unemployment insurance schemes, insofar as unemployed workers have an incentive to get back to work as soon as possible to avoid depleting their savings. However, the high contributions required and the low protection provided by unemployment savings schemes are major issues that need to be addressed. In Asia, Jordan is the only country to run an unemployment savings scheme. Jordan's scheme has only a savings component, but it also allows individuals to receive loans from a government ministry if they have insufficient contributions, although this benefit is limited to Jordanian nationals.

Severance pay programmes, which are called retrenchment benefits in much of Asia, have existed for a long time around the world and in most countries. They provide lump-sum cash payments to workers who involuntarily or voluntarily terminate their contract with their employer. In some cases, however, employers with financial difficulties renege on their commitment to pay severance in cases of plant closures or moving out of the country. Severance payments and unemployment insurance are distinguished by the fact that the former falls under employment law and is not pre-funded, while the latter rests, in most countries, on social insurance law and is guaranteed by the State. Overall, the reliability and effectiveness of severance payments is questioned.

Non-contributory unemployment protection schemes also play an important role in providing women and men of working age with income support. Programmes such as conditional cash transfers (CCTs) provide assistance to the unemployed who do not qualify for benefits through unemployment insurance or unemployment insurance savings accounts (UISAs). Also, public employment programmes (PEPs) help the unemployed entering the labour force after a lengthy period away from the labour market or the long-term unemployed. One of the most successful employment guarantee schemes is the Mahatma Gandhi National Rural Employment Guarantee Program in India, under which adult household members living in rural areas are provided with up to one hundred days of employment per annum at minimum wage.

Social assistance and NGO programmes provide some assistance to disadvantaged groups in most Asian countries. Social assistance schemes

are frequently administered by local or regional authorities and financed by general tax revenues. NGOs also provide cash or in-kind assistance to the disadvantaged, especially during periods of crisis or recession. In the case of Myanmar, an assessment-based national dialogue recommended that these programmes be better coordinated.

The rest of the chapter is organized as follows. Sections A to D review four types of unemployment protection schemes existing in Asia: mandatory unemployment insurance, unemployment savings schemes, severance payments and non-contributory programmes. Section E discusses the advantages and disadvantages of each scheme, section F offers an overview of reforms of existing unemployment protection schemes, and section G provides information on new unemployment protection schemes in the region.

A. Mandatory unemployment insurance schemes

Mandatory unemployment insurance schemes most commonly take the form of social or unemployment insurance. They are financed by contributions paid by employers or shared between employers and workers, although in some cases governments also contribute, and they usually cover workers in formal employment. Worldwide, the overwhelming majority of unemployment schemes —86% or those of 73 countries— that are anchored in national legislation and pay regular cash benefits are based on this model.

In Asia, with the exception of Japan, which industrialized early, most countries were slow to achieve development compared to their Western counterparts. As a result, unemployment insurance schemes have been adopted only in Japan (1947), China (1986), the Republic of South Korea (1995), Mongolia (1997), Taiwan Province of China (1999); Thailand (2004), Bahrain (2006) and Viet Nam (2009) (Deok Soon, 2013).

The adoption or revision of unemployment insurance schemes in Asia was often influenced by a regional or international crisis. The expansion of the Korean Employment Insurance scheme in 1998 was partly a response to the Asian financial crisis of 1997. Thailand, having recovered from that crisis around 2001, launched its unemployment insurance scheme in 2004. At different dates, China, Mongolia and Viet Nam perceived the need for unemployment protection to cope with inevitable labour market implications of moving from a socialist planned economy to a market-economy.

Most Asian countries pay unemployment insurance benefits when someone loses their employment involuntarily, and refuse benefits in cases where a person has resigned voluntarily. In other situations, where a person has resigned without just cause, benefits are paid only after a lengthy waiting period (for example, after an extra three months in Japan). In Thailand, benefits

to those who leave employment voluntarily are not deferred but are paid at a lower rate (30% of earnings instead of 60%) and for a shorter duration (up to three months instead of up to six months). Table III.1 contains details of the characteristics of the existing unemployment insurance schemes in Asia.

Table III.1
Key elements of mandatory unemployment insurance schemes in Asia

Element	Details
Coverage	<p>Unemployment insurance schemes traditionally cover wage workers in the private sector. Exclusions still exist, for example government employees in some countries (Japan, Republic of Korea, Taiwan Province of China and Thailand), and groups of workers with unique working conditions or only a loose attachment to the labour force.</p> <p>Virtually all migrant workers (foreign nationals) are covered for the purposes of contributions, except in Viet Nam, but they are often unable to collect benefits owing to end-of-employment visa requirements (or are paid a lump sum when leaving the country).</p>
Financing	<p>Bipartite cost-sharing exists in the following countries: China, Republic of Korea, Taiwan Province of China, Mongolia and Viet Nam (revised legislation in 2015). Bahrain and Thailand have tripartite arrangements, with employers, workers and the government sharing costs.</p> <p>Most Asian countries with unemployment insurance schemes collect contributions from employers and workers (and, in some cases, governments), amounting to between 1% and 2% of the worker's average monthly salary. The total contribution rates are: China (3%), Bahrain (3%), Viet Nam (2%), Republic of Korea (1.75%), Japan (1.55%), Thailand (1.25%), Mongolia (1%) and Taiwan Province of China (0.9%).</p>
Qualifying conditions	<p>There are four main qualifying conditions for an unemployed person to be entitled to receive unemployment insurance benefits:</p> <p>(i) An unemployed person must usually register as a job-seeker as soon as possible after termination of employment.</p> <p>(ii) Workers are required to have a minimum amount of contributions.</p> <p>(iii) Termination of employment must be involuntary (including forced resignations with "just cause").</p> <p>(iv) Unemployed persons must be capable of work, available and actively seeking it.</p> <p>Employment departments are closely aligned to ensure that the unemployed person is provided with assistance and support to find as quickly as possible and keep it. Most countries in Asia provide basic assistance, such as job matching, workshops on resume writing and conducting interviews with employers, and the provision of labour market information. The unemployed person is expected to report to the respective employment office on a monthly basis to ensure that he or she is continuing to actively look for work.</p> <p>Minimum amount of contributions: Japan, the Republic of Korea and Thailand require 6 months of prior contributions. China, Taiwan Province of China and Viet Nam require 12 months. Bahrain calls for 12 continuous months of prior contributions for first time compensation, but also allows first-time job-seekers to qualify. Mongolia has the highest requirement, with 24 months of contributions, the last 9 of them continuous.</p> <p>Reason for separation: Most Asian countries with an unemployment insurance scheme allow benefits to be paid to unemployed persons who lose their job through no fault of their own. Some countries disqualify entirely those who resign voluntarily or are dismissed because of their own actions, while others lengthen the waiting period or reduce the amount or duration of benefits in these cases. All these different types of design may be considered reasonable.</p> <p>The situation is more complex in the event of "forced" resignation, when the worker has no other alternative. This occurs, for example, in the event of unpaid wages, harassment, dangerous working conditions or illegal employer actions. In discussing unemployment insurance sanctions and exclusions, OECD observed that: "all countries recognize that serious misbehavior by the employer can justify a quit" (OECD, 2001).</p>

Table III.1 (concluded)

Element	Details
Types of benefit	Under mandatory insurance schemes, unemployment benefits are available to those who lose their employment for involuntary reasons (layoff, shortage of work, end of contract, for example). Also, unemployment insurance has unique features in many Asian countries: for example, Bahrain provides "aid benefits" to first-time job-seekers who have graduated from university and entered the labour market seeking work.
Amount of benefits	Rates most commonly range from 50% to 60% of previous contributory earnings. This is the case in Bahrain, the Republic of Korea, Taiwan Province of China, Thailand (for involuntary job loss) and Viet Nam. Japan provides higher rates for job-seekers with low incomes (up to 75% and 80%, respectively).
Duration of benefits	Benefits can last from 3 to 12 months in most countries. In other countries, the range is higher, up to 24 months. In Taiwan Province of China, Thailand (involuntary loss of employment) and Bahrain, a maximum of 6 months of benefits is payable. In Mongolia, unemployed workers can receive 76 days of benefit.
Continuation of claim	Once unemployed workers establish a valid claim for benefits they must maintain their status in order to receive benefits on a continuing basis. Usually, the beneficiary is required to report to the local employment office once a month to discuss their job-seeking activities.

Source: Prepared by the author.

With respect to operating modalities, countries usually establish an unemployment insurance fund board when such a scheme is initially implemented. The board is responsible for managing the financial and administrative provisions of the related legislation. It usually comprises representatives of government ministries, employers' groups, workers' groups, other departments involved (in job matching and training, for example), and other stakeholders such as members of academia and social insurance experts.

The three main functions of unemployment insurance programmes are collection of contributions, receiving and processing of applications and the payment of benefits. Generally, tax authorities or social insurance bodies are responsible for defining coverage and collecting contributions (some are involved in the payment of benefits too, as in the case of Bahrain and Viet Nam up to 2015). Ministries of social insurance or labour are responsible for receiving and processing claims for benefits. In some countries, such as the Republic of Korea and Viet Nam since 2015, ministries of social insurance or labour are also involved in the payment of benefits.

The main goal of benefits is to provide temporary partial income replacement to insured workers who have lost their job involuntarily while they seek new gainful employment. However, past experiences with countries implementing a mandatory unemployment insurance scheme have demonstrated the effectiveness of providing cash benefits along with active labour market policies to assist beneficiaries in finding suitable employment as quickly as possible.

There are advantages to linking an effective unemployment insurance system to active labour market policies. Services such as skills-building for

job search, resume writing and interviews have generally been found to be the most cost-effective. Many countries use a job-matching portal to link unemployed workers with vacant positions, with effective results. These job-matching services are available in the public and private domains. Most countries with unemployment insurance programmes offer unemployed workers training or retraining for skills development while they are receiving benefits. However, such programmes must be managed with careful regard to their costs, effectiveness and targeting.

Active labour market policies are desirable in principle to support both workers and employers and are highly recommended for developing Asian countries. OECD has commended the virtues of such policies in activating and motivating the unemployed worker to find gainful employment quickly (OECD 2007b). An interesting option for Asian countries to consider is a special active labour market programme described as “work-sharing” in Canada or “short-time allowance” in Germany, for which employers may apply in the event of significant reduction in business activity. Employers facing a temporary business slowdown will be allowed to put their workforce on reduced work hours while the unemployment insurance system compensates those workers through partial unemployment insurance benefits. This allows employers to resume full operations as soon as their business picks up, without having to recruit and train new staff.

B. Unemployment savings schemes or unemployment insurance savings accounts

At one time, non-compliance by employers with severance pay provisions increased worker resistance to leaving employment in many countries in Latin America. The need to pay severance tends to arise when financial resources are lacking because the enterprise is experiencing difficulties, so that the resources may not be available. As a result, in 1990, Colombia and other countries in Latin America reformed their severance pay provisions and moved toward a prefunded system under individual savings accounts.

Employers were required to deposit a percentage of wages in guaranteed individual accounts that would be made available to workers in the event of job separation. The reform reduced labour market distortions and promoted job creation. Employers shifted most of the cost of severance payments onto wages, but workers’ total compensation (wages plus deposits to their savings accounts) rose. In addition, because the reforms removed the discretionary nature of severance payments, both job separations and hiring increased.

One of the main principles of UISAs, by comparison with unemployment insurance, is deterrence of the moral hazard of the insured unemployed not

doing enough to search for a job or lacking motivation and turning down job offers. This rationale holds that unemployed persons using up their savings will be motivated to find work as quickly as possible and will return to employment faster than they might under unemployment insurance schemes.

Other unemployment insurance savings accounts (UISAs) commenced with savings components, one in Latin America (Chile, in 2002) and the other in Asia (Jordan, in 2011). In the case of Chile, UISAs are based on accumulated savings in individual accounts, which provide for a stream of income in case of unemployment. They are complemented by a solidarity fund which supplies additional income in specific cases.² Malaysia considered the option of the Chilean model but it was rejected by the Tripartite Committee (TPC) comprised of Malaysian stakeholders and the government.

Jordan has a unique and experimental unemployment benefits scheme, which differs from both the usual insurance schemes and the Chilean hybrid model. The Jordanian scheme may be described as a pure savings scheme, though it also allows for individuals (Jordanian nationals only) to receive loans from the public Social Security Corporation if they have insufficient contributions. Unlike the Chilean model, which has an insurance component in addition to a savings base, Jordan's model does not have a supplementary insurance scheme to pool the risk of unemployment. More than three years after it began, Jordan's model has not reached a significant portion of the unemployed and is unlikely to do so or to represent an effective model of income protection.

C. Severance pay programmes

Severance pay programmes (called retrenchment benefits in much of Asia) have existed for a long time around the world and in most countries. They typically provide lump-sum cash payments to workers who involuntarily or voluntarily terminate their contract with their employer (through collective agreements or as part of a firm's own policy). The size of the payment is related to the time worked and the last wage in the job. Even before they were required by law, many employers saw benefits in providing severance payments on their own initiative in order to keep highly valued employees.

In Asia, situations range from no severance payment provisions (as in the case of Bahrain, the Republic of Korea, Japan and Singapore) to severance pay paid along with redundancy payments (for example, in the Philippines and Thailand). In Viet Nam, since 2009, the years during which unemployment insurance contributions are paid for an employee are not counted for the calculation of severance pay.

² See chapter II on unemployment protection in Latin America.

D. Non-contributory unemployment protection schemes

Two main types of non-contributory benefit programmes —conditional cash transfers and public employment programmes— are discussed below.

1. Conditional cash transfers (CCTs)

According to Fiszbein and Schady (2009), market-driven economic growth is likely to be the main driver of poverty reduction in most countries. However, the development of effective public policy also plays a crucial role in providing public goods and in correcting market failures. Good social policy both impacts on economic growth and influences the effects of that growth on poverty reduction. One route for this is direct redistribution of resources by the State to poor households. In the case of CCTs, governments and aid organizations make payments to poor households, which are conditional on meeting certain requirements or conditions. The government (or a charity) transfers the money only to those who meet certain criteria. These criteria may include enrolling children into public schools, taking them for regular medical check-ups and vaccinations, and the like. CCTs are unique in seeking to help the generation currently in poverty, as well as breaking the cycle of poverty through the development of human capital.

According to Fitzgerald (2013), a main benefit of CCTs is their versatility, as they can be tailored to fit the needs of a particular country. “In designing conditional cash transfer programs, governments and aid organizations need to first evaluate the health care and educational infrastructure of the country in which they wish to implement their program. If, as is often the case in many low-income and developing countries, these underlying systems are not providing high quality services, perhaps initial investments to improve them would lead to enhanced impacts on the overall health of the country in the long-run.”

Non-conditional cash transfers also exist in many Asian countries. These transfers place no conditions on receipt of benefits and there has been much discussion on the merits of non-conditional versus conditional cash payments. Social and unemployment protection in Asian countries usually combines the two types of cash benefits. Myanmar, much like Thailand, Cambodia, Laos and Viet Nam, has focused its array of conditional and non-conditional cash benefits on the large informal sector involved in agriculture.

Myanmar is one of the biggest countries in South East Asia. However, it is also one of the poorest, with per capita GDP estimated at US\$ 1,420 in 2015 (IMF, 2014), and a poverty rate of 26% of the population (WFP, 2015). In 2014, in collaboration with various stakeholders in Myanmar, ILO produced

an Assessment Based National Dialogue (ABND) report outlining various existing social protection and, in particular, unemployment protection schemes (ILO, 2014).

In Myanmar, the social protection system consists basically of one contributory social protection programme and a number of scattered non-contributory programmes which aim to provide some social assistance. Coverage for the working-age population is limited, but the formal sector (a small section of the population) is covered by a social security scheme. In addition, some benefits exist for civil servants and political personnel. The scheme covers workers at companies with five or more workers (excluding government personnel, international organizations, seasonal farming and fishery, non-profit organizations and domestic workers). Benefits under the contributory social security scheme include: medical care, funeral grant, sickness cash benefit, maternity cash benefit, paternity cash benefit and worker injury. These are referred to as active schemes, and plans are under way to increase the amount of cash benefits for sickness, maternity and paternity benefits.

Myanmar also has a number of “inactive schemes”, where legislative provisions have been passed but no implementation has occurred to date. These include family benefit, disability benefit, old-age pension, survivor’s benefit, housing fund and unemployment benefits.

2. Public employment programmes

Public employment programmes —schemes involving direct employment creation by the government— are popular instruments for delivering social and unemployment protection in developing countries. According to OECD, these programmes can play a key role complementing life-cycle based social protection instruments such as cash transfers (OECD, 2009). OECD goes on to say that such programmes “are seen as a way to help address poverty, providing support in context of both chronic as well as temporary distress, arising from seasonal food shortages, harvest failures or other natural disasters. They are often preferred to cash transfers because people have to work for their entitlements, and are perceived as ‘self-targeting’ – as the work requirement helps to prevent the benefits being captured by the better-off. [...] [They] may also conserve natural resources. Hence [they] have the potential to address both poverty and the need for the provision of assets and productive infrastructure simultaneously, thereby promoting pro-poor growth.”

Public employment programmes are very flexible and can contribute to several development objectives through the different functions they perform:

- Employment function: emphasis on job creation, with the State acting as the employer of last resort.

- Social protection function: emphasis on income security and transfers in cash or in kind.
- Labour-based investment function: emphasis on the quality and nature of infrastructure constructed or the services provided.

Among the broad variety of public employment programmes, most fall into two major categories: (i) public works programmes, which offer cash payments or food for work; traditionally, this instrument has been used as a temporary response to specific shocks and crisis but may also have a longer-term vision; (ii) employment guarantee schemes, which involve long-term rights-based programmes in which some level of entitlement to work is provided.

Public works programmes are an effective way to make direct grants to the poor through cash transfers or food stamps and may help avoid the dependency culture that characterizes direct grants. It is possible that they could create dependence on the State to provide work, but they can also be an effective tool while developing a sense of achievement, increasing self-esteem and promoting skill enhancement.

In the case of those who are unable to work because they are too young, too old, sick, injured or otherwise unable to enter the labour force, subsidies that are not conditional on participation in work-related programmes may continue to be offered. For those who can work, a number of public work schemes have been suggested and implemented throughout Asia.

The most prevalent form of public works programmes in Asia are those offering short-term employment in the context of a temporary labour market disruption, such as in the case of a natural disaster (flooding, drought or earthquake), when incomes need to be provided for the poor at a time of disruption in normal wages, and damaged infrastructure needs to be repaired.

The largest and most well-known form of public employment programme are the mass employment guarantee schemes, which offer participants a number of days of employment on demand each year in response to cyclical fluctuations in the labour market. They often provide income during the lean agricultural season, prior to the harvest. The Mahatma Gandhi National Rural Employment Guarantee Scheme, implemented in accordance with the recent National Rural Employment Guarantee Act in India and the Maharashtra Employment Guarantee Scheme, implemented in one Indian state for more than 40 years, offer this form of public works.

These programmes are intended to provide physical infrastructure such as roads, irrigation systems and assets promoting environmental protection, and in this way contribute to livelihoods and growth even after the period of employment has been completed. In such programmes the primary objective

is the provision of social protection to help the chronically poor at times of vulnerability by providing a form of income insurance (OECD, 2009).

Under the Mahatma Gandhi National Rural Employment Guarantee Scheme, adult household members living in rural areas are provided with up to 100 days of employment per year at the minimum wage. Workers register with the municipality to participate in the programme and are given job cards, which they use when requesting work. If they are not given work within 15 days the state government must pay out the unemployment allowance. The wage is set at the level of the minimum wage, and most of the work involves physical labour entailing water conservation, land development, plantation and afforestation, and road construction, in that order of priority together with any other labour-intensive work proposed by state governments (OECD, 2009).

According to an article in *The Economic Times* (2013), the World Bank described the National Rural Employment Guarantee Act in positive terms after previously labelling it a failure. The *World Development Report 2014* (World Bank, 2014) described the Mahatma Gandhi National Rural Employment Guarantee Act as a “stellar example of rural development”. At the heart of the World Bank’s endorsement is the direct cash transfer (to bank and postal savings accounts) component of the rural employment programme.

E. Advantages and disadvantages of various unemployment protection schemes

All unemployment protection schemes contribute positively to the health and well-being of unemployed workers. In a letter to member of the United States Congress, Norman B. Anderson, the Chief Executive Officer of the American Psychological Association, noted that unemployed workers have worse mental health, less marital or family satisfaction, and poorer physical health than those with stable employment (Anderson, 2014). Employers benefit from unemployment protection schemes because employment termination is made easier for workers to accept, giving employers increased flexibility to adjust to technological changes. Unemployment insurance benefits, in particular, facilitate a firm’s recourse to temporary layoffs by making it more likely that its workers would still be available when normal business activity resumes, thus avoiding the need to hire and train new staff.³ Governments benefit from unemployment protection schemes because they afford economic

³ An even better arrangement available in some countries allows employers to put their workforce on temporarily reduced hours and wages during a period of reduced demand, with unemployment insurance work-sharing benefits picking up part of their workers’ lost income. This arrangement allows employers to maintain all their staff on active payroll. For the case of Germany, see Federal Employment Agency (2010).

stabilization during recessions, as well as higher tax revenues, and society gains as a result of social stability, helping to reduce unrest, protests and crime.

While there is consensus about the desirability of unemployment protection schemes, determining which scheme is most appropriate is no simple task. A World Bank/IZA report notes that although unemployment insurance schemes can help individuals find better jobs than they might find in the absence of such insurance, and can increase income redistribution and improve worker protection, they can also reduce incentives to search for work, thus increasing both the length of unemployment spells and the rate of unemployment (Robalino, 2015).

The report also notes that unemployment insurance savings accounts (UISAs) can improve incentives to expedite the job search, because savings that are not used to finance unemployment benefits can be used to finance investments or higher incomes. Savings accounts also seem to be a particularly attractive alternative for developing countries, because of their typically large informal sector and lack of administrative capacity to effectively implement a standard unemployment insurance system. In particular, they may lack the capabilities needed to check continuing eligibility conditions, requiring monitoring of job-search behaviours and of labour market status.

However, UISAs have potential downsides:

- They may not provide sufficient protection to workers, particularly those with low levels of human capital, who face a higher probability of unemployment.
- They can reduce incentives to keep jobs when the mandated savings rate is too high or the interest rate on savings is not competitive.
- They may require high rates of contributions in order to finance meaningful benefits.

Another potential drawback of some UISAs is that they provide benefits similar to pre-funded severance pay, where contributions are paid by employers and not guaranteed by the State. This type of UISA provides a lump-sum payment which is viewed negatively by some actuaries as opposed to periodic payments. In sum, in terms of worker protection, UISAs appears to provide less protection to workers than unemployment insurance schemes, particularly for low-skilled workers who tend to contribute less, have more frequent periods of unemployment and, therefore, possibly fail to accumulate adequate savings.

Asian countries have a long history of providing workers with lump-sum severance (retrenchment) payments to protect their income in case of job loss, but these schemes have a number of negative effects. The most problematic aspect of severance payments is that they need to be paid by

employers at times of recession, when their cash flows are most likely to be negative. This creates an incentive for employers not only to retain their workers during recessions but also to avoid hiring too many in times of economic expansion. This results in higher job stability, but also a longer duration of unemployment and difficulties for youth in finding a first job.⁴

The lump-sum feature of severance payments may also encourage imprudent financial decisions by employed workers if they know they will receive a severance payment in case of job loss. But because firms need to pay severance at a time of cash-flow difficulties or even bankruptcy, they may renege on severance payments, leading to delays and potential litigation. Workers therefore face the risk of not having financial resources available if they become unemployed. In addition, severance payments are not conditional upon the recipient seeking or accepting employment, so play no part in encouraging an active search for suitable employment.

Public employment programmes act as a stabilizer in the economy and the labour market, by providing unemployed workers with work experience and secure income to cover necessities and avoid poverty. They provide governments with higher tax revenues and economic gains, and maintain social security by reducing unrest, delinquency and crime. However, in these schemes the government acts as the employer of last resort and the chance remains that unemployed workers will tend to rely on the government as the source of work.

F. Options to improve existing schemes

It has been demonstrated that unemployment insurance protection schemes have beneficial returns for employers, workers and society as a whole. These returns overshadow the minimum costs associated with unemployment insurance, which play multiple roles in guaranteeing income security for unemployed workers while also supporting the structural transformation of national economies and mitigating demand shocks. Some countries lack effective unemployment insurance schemes or provide only limited coverage. It will be important for developing countries to introduce measures to enhance the effectiveness of unemployment insurance schemes and to strengthen their links with programmes that support entry or re-entry into employment, skills upgrading and other active labour market policies. For example, in Viet Nam and other Asian countries, employment centres organize monthly job fairs to bring together job-seekers and employers. Some job fairs specialize in specific sectors, while others cover all segments of the labour force.

⁴ See also Nagler (2013).

Both developed and developing countries frequently review their unemployment insurance schemes in light of changes in government priorities, as well as economic and social factors. They seek ways to improve worker protection and facilitate the mechanisms of the labour market. There is a wide variety of unemployment insurance protection instruments available which provide governments with options to enhance their schemes.

For example, in Viet Nam, the government commenced paying unemployment insurance benefits in 2010 and conducted two separate evaluations, within two years of implementation. The evaluations focused on improvements to the unemployment insurance programme, including legal instruments, financial, institutional and operational issues.

As a result of the reviews, major legislative changes came into effect on 1 January 2015 to enhance the programme. These amendments, supported by an actuarial review, represented significant improvements over the original provisions. Particularly significant were, on the one hand, removal of the lump-sum provision, an overall reduction in benefit duration and suspension of government contributions (which could however be reinstated depending on the balance in the unemployment insurance fund). Equally importantly, the improved protection followed the planned increase of worker coverage and the expanded definition of insured earnings.

ILO also conducted a “lessons learned” project after implementation of unemployment insurance in Viet Nam and the development of a proposal for an unemployment insurance system in Malaysia. It concluded that some of the elements to consider for enhancing an existing or proposed scheme are:

- Communication with employers and workers: many workers and employers complain about the lack of information on new or existing unemployment insurance schemes. Campaigns should therefore be conducted at regular intervals to raise awareness, including through employer workshops and advertising.
- Institutional collaboration: it is very important to work collaboratively, not in silos, in order to ensure effective administration of unemployment insurance benefits. Information-sharing is critical for determining entitlement to benefits and avoiding fraud and abuse.
- Linking computerized systems: departmental computer systems must be made compatible in order to support information-sharing and collaboration on enhancing all social programmes.
- Establishment of an investigation and control unit: this sort of unit would be mandated to prevent abuse and fraud of the unemployment insurance fund. Its priority would be to initiate

preventative and detection measures, using computerized matching systems to identify potential fraud or abuse cases both externally (workers, employers or others) and internally (staff).

- Expansion of unemployment insurance coverage to include all workers (no exceptions to number of employees per employer), public servants, military personnel, temporary and seasonal workers, and domestic and foreign workers.
- Amendment of inflexible rules on insured periods of work, i.e. eliminate the requirement for workers to have a certain number of continuous months of work to qualify.
- Consideration of entire monetary remuneration: for contributory wages, many unemployment insurance schemes do not take into account an employee's full monetary remuneration. All wages should be taken into account for contribution purposes, including payments in respect of leave, holidays, overtime, extra work on holidays, travel allowance, gratuities payable on discharge or retirement and annual bonuses.
- Review of legal requirements to ensure that the law is precise and the provisions have no legal loopholes.

It must be recalled that unemployment benefits have not functioned alone in protecting incomes, promoting employment and enabling a quick recovery during a global crisis. Active labour market policies are also essential instruments for assisting vulnerable groups such as women, youths, older persons and persons with disabilities. In relation to this last group, in the Republic of Korea, employment insurance has an employment stabilization component which provides loans to enterprises for upgrading their facilities to encourage the recruitment of job-seekers with disabilities (and older job seekers).

Countries with existing or proposed unemployment insurance schemes could give consideration to an effective instrument within Bahrain's unemployment insurance program, which assists youths graduating from university and entering the labour force for the first time. A significant number of youths, in Bahrain and the rest of Asia, experience lengthy delays in finding suitable work after graduation. Bahrain provides graduate first-time job-seekers (Bahraini citizens only) a flat benefit rate to look for suitable employment, in spite of having no contributions.

OECD (2007) looked at activation policies for assisting the unemployed to find and keep work and concluded that developing countries should review their existing schemes and identify areas for improvement. The main findings of the report are:

- Countries seem to be increasing the number and variety of instruments used to “activate” job-seekers, centering on intensive interviews, verification of job search, establishing individual action plans and referrals to active labour market programmes after a period of unsuccessful job search.
- Registration for employment services is a precondition for receiving benefits.
- Many recent evaluations have shown that job-search assistance and monitoring can have a sizeable impact on re-employment rates.
- It is obligatory for unemployed workers to report to local office on a regular basis.
- Referring job-seekers to vacancies not only helps reduce the risk of prolonged unemployment but also serves as “an actively seeking work” test.
- Compulsory participation in active labour market programmes after a period of unsuccessful job search can help reduce the risk of either long-term unemployment or labour market exit.

In addition to this list, countries may find it useful to devise a job search statement, in which unemployed workers list all contacts made in a two-week period, including the name, telephone number and address of prospective employers and results of the job search. The local office could use this statement as a basis for discussion with the unemployed to determine the effectiveness of their search efforts and genuineness of their efforts to find work.

Many public employment schemes provide essential safeguards to the poor, including through conditional cash transfers and public works programmes.

Deok Soon Hwang (2013) of the Korea Labour Institute found that while unemployment insurance is effective for providing income security to unemployed workers, alone “it might not be sufficient to provide social security for the unemployed as a whole given the sizeable population in some Asian countries who are excluded from unemployment insurance (e.g. the self-employed and agricultural workers). To compensate for the potential shortfall, the Republic of Korea launched public works projects in the Asian financial crisis in the late 1990s and the global financial crisis of 2008 as a way to provide temporary expansion of social protection for the unemployed”.

Public employment schemes, in the form of either public works or guaranteed employment programmes, can exist alongside (or even substitute) unemployment insurance and enhance the social income of all

workers. India's Mahatma Gandhi National Rural Employment Guarantee Programme is a prime example of an effective instrument for unemployment protection without the need for unemployment insurance at this time. Eventually, the need for unemployment insurance will grow along with developing industrialization.

In countries with high levels of informality, wider non-contributory social assistance programmes combining employment and social protection policies have been developed to provide some income security for unemployed and underemployed workers. These include employment guarantee schemes and other public employment programmes, as well as programmes that combine cash transfers with support for skills development and creation of employment and entrepreneurship opportunities (ILO, 2015).

G. New and proposed schemes

1. Non-contributory protection schemes

By means of an assessment-based national dialogue programme, Myanmar has identified significant problems with lack of effective coordination among institutions responsible for conditional cash transfers and public work programmes, including NGOs. Coverage for the active working age is limited. A social security scheme covers employees in public and private formal companies, but this is only a small part of the population (2%). In addition, some benefits are in place for civil servants, military and political personnel. The unemployment insurance law has been passed by the government but is considered an inactive programme until an implementation date has been set. There are also shortcomings in the unemployment insurance law that need to be addressed.

In Thailand, many NGOs raise funds to develop welfare facilities for those in disadvantaged situations, including persons with disabilities. Another example is the *Saibokji-kongdong-mokeumhoi* ("Community Chest of Korea") which provides social assistance to the poor and persons with disabilities.

2. Unemployment insurance savings accounts

Ferrer and Riddell (2009) highlighted in their research paper on unemployment insurance savings accounts (UISAs) that these schemes provide an alternative to traditional systems of unemployment insurance from the perspective of both the worker and the firm, with a major caveat: "it is not yet well understood whether or not these programs offer adequate income protection. Evidence suggests that this form of income protection for the unemployed should be

complemented with additional forms of insurance". The study's main conclusion is that UISAs seem particularly well suited for developing economies and economies in transition, but on the understanding that assessment of their effects ought to be supported by country-specific research studies, especially given the range of UISA programmes implemented in Latin America. Many research papers providing information on UISAs highlight the need for further research into the effects of this unemployment protection scheme.

The ILO (2012) feasibility report for Malaysia found that the main areas for concern for UISAs were their high cost and the low protection they provide to unemployed workers.

3. Mandatory unemployment insurance schemes

As noted earlier, many countries continue to periodically review their existing unemployment insurance scheme with a view to responding to the needs of workers and employers and government priorities. For example, improvements can be made to unemployment insurance protection schemes by removing restrictions which prevent many workers from qualifying for benefits, such as the requirement for the employer to have a particular number of employees. Other restrictions include limiting coverage for domestic workers as well as temporary or seasonal workers. Some countries (such as Canada) have extended coverage to these categories of workers under their unemployment insurance programmes.

The Government of Malaysia embarked on a plan to transform Malaysia into a high-income economy by 2020 by means of the New Economic Model (NEM) announced in 2010. One of the pillars of the model is the development of human capital, which includes flexible hiring and firing rules for employers while also enhancing the safety net for workers through the introduction of unemployment insurance along with integrated employment services.

One of the project's main objectives was consensus-building, by facilitating a national dialogue on the suitability of unemployment insurance for Malaysia. A Tripartite Project Committee was established to coordinate the unemployment insurance project and comprised senior officials from key ministries as well as employer and worker groups. Employers were mainly concerned about the costs of an unemployment insurance system in Malaysia, but hoped that its design would improve their competitive position as well as their capacity to adjust to fast-moving economic and technological changes. Workers, on the other hand, supported the idea of an unemployment insurance system but felt that retrenchment benefits should continue in parallel with any such system, or that at least an acknowledgement of tenure (years of service) within the enterprise should be paid for once the system is established.

Initially, four scenarios were recommended to the government for implementation. After rejecting two of the recommendations (scenario 1, unemployment insurance benefits only, and scenario 4, a UISA), a more in-depth study was recommended for the final two scenarios. These were: unemployment insurance benefits and complementary active labour market programmes with (scenario 3) or without (scenario 2) an additional savings account for recognition of tenure.

The actuarial report for unemployment insurance implementation in Malaysia recommended scenario 2 as the most viable option for the country. A further study was then conducted to explore the enhancement of scenario 2 with strengthened employment measures. The hybrid model presented to the government in early 2015, on which no final decision has yet been made, contains elements of scenario 2 (unemployment insurance benefits and complementary active labour market programmes) including mandatory coverage for all Malaysian employees. In this model the unemployed would need to have accumulated 12 months of contributions within a 24-month period in order to qualify for benefits, but would not qualify in the case of voluntary resignation or the completion of a fixed-term contract. The proposed contribution would be 0.5% of wages, with half coming each from employers and workers. The benefits would consist of a job-seeking allowance (the unemployment insurance component) at a sliding rate of 80% to 30% for between three and six month, and an early re-employment incentive, consisting of 25% of the balance remaining of the job-seeking allowance. Accordingly, the structure of the proposed scheme offers incentives for finding suitable work quickly.

In September 2014, Myanmar developed a draft assessment matrix within the assessment-based national dialogue instrument (ILO, 2014). It listed and described the existing social protection schemes along the life cycle, identified policy gaps and implementation issues, and provided policy recommendations for further design and implementation of social protection provisions with a view to closing the gaps in the social protection floor. The matrix highlighted a number of social protection priorities for the working-age group including: (i) developing unemployment protection mechanisms against seasonal underemployment for the rural informal population; (ii) creating linkages with vocational training opportunities; (iii) extending maternity protection to all pregnant women; and (iv) creating a social protection scheme for adults with permanent disabilities who cannot earn sufficient income. Finally, there is a need to develop unemployment protection and extend employment placement services to make them accessible to all job-seekers (in both the formal and informal economy).

The legislation for an unemployment insurance scheme passed, though not yet implemented, in Myanmar is based on contributions from

employers and workers and includes a number of unique provisions. One is the stipulation that a person must be in good health initially, in order to collect benefits later. This raises questions such as: How will this be determined and what proof will be required by the insurance officer? What measurement will be used to determine good health? How will the requirement impact on consideration of job refusals concerning “suitable employment”?

A second unique element is the legal provision for a lump-sum payment of cash benefits in the event that contributions were paid for less than 12 months. In traditional unemployment insurance schemes, cash benefits are paid in monthly (sometimes bi-weekly) installments, in order to allow people to budget their resources and avoid falling into poverty.

Finally, the legislation allows employers to recover 25% of their contributions plus interest once the worker’s claim for benefit has been allowed. The same percentage can be reclaimed in the event that a worker is granted a disability benefit under the Social Security Law of 2012. These types of rebates are unprecedented in the world of unemployment insurance and could raise sustainability issues, which will require closer scrutiny from an actuarial perspective.

H. Concluding remarks

While various unemployment protection schemes have been implemented in Asian countries, many women and men of working age are still without adequate coverage to stabilize their incomes in the event of unemployment.

According to the *World Social Protection Report* (ILO, 2015), only 17% of the labour force in Asia and the Pacific are potentially eligible for benefits (contributory or non-contributory) under existing legislation should they become unemployed. This is well below the worldwide average of 28%. By region, the figure is 80% in Europe, 38% in Latin America, 21% in the Middle East and 8% in Africa. Effective coverage —i.e. the percentage of unemployed workers actually receiving unemployment benefits— is just over 7% for Asia and the Pacific and only 12% worldwide.

All unemployment insurance schemes are unique and have different characteristics in the design of diverse elements. There is a wide selection of features to be considered before implementing an unemployment insurance scheme. The stakeholders in each country must develop their own design based on national priorities, the national economy, the labour market and unemployment.

For developing countries in Asia, the most appropriate strategy for developing unemployment protection plans is to build a combination of instruments based on their country-specific needs. A key element in the

development of unemployment protection programmes is collaboration and consensus-building among key stakeholders, in order to identify the key instruments to affording working-age women and men protection against unemployment.

It is strongly recommended that developing countries with existing unemployment insurance schemes conduct regular actuarial evaluations to measure the effectiveness and efficiency of their respective schemes and identify any deficiencies. For developing countries planning to introduce an unemployment insurance scheme, an actuarial evaluation is essential to ensure the design and development of a system that is sound, effective and meets the needs of the workers and employers alike.

In closing, Asami (2010) provides words of advice to those considering an unemployment insurance scheme. He argues that, “if properly designed and properly managed, [unemployment insurance] schemes can maintain their financial sustainability and alleviate the plight of the unemployed even in newly industrializing economies.” But he also warns that “unemployment insurance might become financially unsustainable and might not mitigate the sufferings of the unemployed much if improperly designed and/or improperly managed.” In those circumstances, the public could lose their confidence in such schemes, and both employers and employees would be more likely to evade payments of their contributions. He concludes that the introduction of unemployment insurance “is a once-and-for-all chance. If a proper unemployment insurance scheme is successfully installed, it will do a lot of good things. But if not, it may do more harm than good.”

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Chapter IV

Unemployment protection in Colombia: a proposal for reforming the layoff protection mechanism

Mario D. Velásquez Pinto

Introduction

One of the major problems in the Colombian labour market is the lack of effective protection in situations of job loss. Although the country has three mechanisms for paying cash benefits in such contingencies, their actual provision and sufficiency are not necessarily assured.

Of these three, severance pay only operates in cases of unfair dismissal; and, even then, it does not provide incomes to effectively cover a period out of work. The second mechanism, layoff support, is widely used for legally specified consumption purposes, which reduces its scope and sufficiency; and the more recent Layoff Protection Mechanism (MPC) is greatly underused.

The Layoff Protection Mechanism provides a cash transfer to the unemployed worker, finances minimal contributions to the pension and health systems and, above all, provides job placement and vocational training services. Nonetheless, it is significantly underused, since less than half of the total available funds were executed in November 2015, and under 30% in the component intended to finance cash benefits.

The main reason for the low rate of use of MPC is that it does not provide sufficient cash benefits to compensate for the loss of income caused by layoff. In that scheme, the existence of cash benefits to underpin a certain level of consumption in the event of unemployment depends on the worker's willingness to use his or her own layoff support funds, with complementary contributions as incentives. Nonetheless, layoff support has largely morphed into a thirteenth monthly wage, and its use has been diverted to finance consumption expenses.

With the explicit aim of providing an income to cope with periods of unemployment, a layoff insurance scheme is proposed, mainly financed by reassigning resources currently held in the Solidarity Fund for Employment Promotion and Protection against Unemployment (FOSFEC), which would partially alter the voluntary use of layoff support funds. A key feature of the proposed scheme is its integration with active employment and job training policies, with the aim of targeting the results on helping laid-off workers find new jobs.

The first section of this chapter analyses the characteristics of the institutional framework in Colombia. The second discusses elements that are considered necessary for moving towards a complete unemployment protection scheme, based on the proposal to create an unemployment insurance mechanism. The key characteristics of such a mechanism are described; and a set of parameters for the Colombian labour market are used to project its main flows, estimate the break-even contribution rate, and identify funding sources, given current MPC resource constraints.

The third section reviews the role of employment services in job placement and a number of modalities that would make it possible to expand the scope of protection provided to own-account and informal workers, through active policies. The last section makes general comments on the proposal developed; and it identifies design areas that would need to be analysed to ensure efficient resource use, and its effectiveness in providing a system that provides monetary and non-monetary benefits, to cope with the contingency of layoff.

A. Unemployment protection in Colombia

As noted in the introduction, the instruments available in Colombia to provide protection to individuals who lose their jobs consists of three mechanisms that aim to compensate for the loss of income caused by layoff: (i) severance pay; (ii) layoff support; and (iii) the Layoff Protection Mechanism (MPC), which includes active policies. Those instruments are analysed in the following paragraphs.

1. Severance pay

Severance pay is regulated by article 64 of the Substantive Labour Code, which establishes that, in the event of unilateral termination of an employment contract by the employer, without just and proven cause, or the unilateral termination by the worker for any of the just causes considered in the law, the employer must pay the worker compensation, which is defined according to the type of contract involved:

- (i) In the case of a fixed-term contract, the amount of severance pay is defined as the value of the wages that would be payable during the time remaining in the stipulated contract period, or in the duration of the work or task contracted. Nonetheless, the compensation paid will not be less than 15 days' wages.
- (ii) In the case of indefinite contracts, severance pay will depend on the wage level and time of service in the job. For workers who earn less than 10 times the legal minimum monthly wage, 30 days' wages will be paid when the worker has been in the job for up to one year. If the worker has more than one year of continuous service, 20 days' wages will be paid for each subsequent year of service, and proportionally for any fraction thereof, in addition to the 30 days' payable for the first year.
- (iii) In the case of workers who earn 10 times the legal monthly minimum wage or more, 20 days' wages will be paid when the worker has been in the job for up to one year. If he or she has been continuously employed in the job for more than one year, 15 additional days' wages will be paid for each subsequent year of service, and proportionally for any fraction thereof, on top of the 20 days' wages corresponding to the first year.

2. Layoff support funds

This forced saving mechanism was set up as a form of self-insurance through individual accounts. It is a social benefit that the employer must pay to the worker at the end of the employment contract. It is equivalent to one month's wage for every year of service provided, and proportionately for any fraction of a year. It accrues from the first until the last day of work.

Originally, layoff support funds were retained by the employer throughout the period of the employment relationship; it was paid on the basis of the last wage accrued and was applicable to all workers hired before 1 January 1991. Law 50 of 1990 created the Special Layoff Regime, which, unlike its traditional predecessor, established that layoff support funds

would remain in the possession of the employer for no longer than one year, because, by 14 February each year, they must be paid into the Pension and Unemployment Fund Management Company chosen by the worker.

Irrespective of the layoff regimes indicated, Article 253 (1) of the Substantive Labour Code provides that “the payment of layoff support is based on the last monthly wage accrued by the worker, provided that this has not changed in the last three months. Otherwise, and in the case of variable wages, the payment will be based on the average wage accrued over the last year of service, or throughout the time of service if this is less than one year”.

Article 99 of that law provides that on 31 December each year, the amount of layoff support will be calculated, for the year or corresponding fraction thereof, even though payment may have to be made on a different date owing to the termination of the employment contract. The law also requires the employer to pay the worker legal interest of 12% per year, or proportionally for any fraction thereof. Lastly, the worker is entitled to transfer his or her balance from one layoff fund to another, managed by specialized fund management companies.

As an exception to the general rule of settlement and payment of the layoff support at the end of the employment contract, labour law allows for layoff support funds to be partly withdrawn to purchase a home in an individual land plot, or an unbuilt land plot, or else for the construction, expansion, repair, or improvement of a home owned by the worker or his or her spouse. It can also be used to pay off mortgage charges, or purchase claims on employer or worker home building plans, contracted with official or private entities (Article 2, Decree 2076 of 1967).

The aforementioned Law 50 of 1990 (paragraph 3) established that withdrawals could also be made from layoff funds to enable the worker, his or her spouse, or permanent partner and their children, to enroll in government-recognized higher education entities. Lastly, Decree 2555 of 2010 allowed for the payment of “exceptional expenses”, namely the installments paid on family home rental contracts.

On this point, Reina (2013) reports that, of the total amount of withdrawals from layoff support funds, 55.9% were used for housing purposes and 5.8% for education. This left 38.3% of the funds to be withdrawn at the end of the employment contract. The Colombian Association of Pension and Retirement Fund Managers (Asofondos, 2016) reported that, in 2015, 35.7% of layoff funds were used in response to job loss; 26.5% were used for home improvement, 25% for home purchase; 9.3% were used to finance studies by the affiliate or his or her family, and the remaining 3.6% were used for other purposes authorized by the employer.

3. Layoff protection mechanism¹

The Layoff Protection Mechanism (MPC) protects workers who lose their job by maintaining their entitlement to health services, pension saving, and a cash transfer, while also providing job placement and training services through the National Apprenticeship Service, and the Family Welfare Funds (*Cajas de Compensación Familiar* – CCFs). MPC affiliation is mandatory for all employees belonging to the CCFs, except for workers who receive an integrated wage package (*salario integral*) (equivalent to 13 times the legal minimum wage, at least), and self-employed workers, for whom affiliation is voluntary.

Laid-off workers who satisfy the requirements will be registered by the FOSFEC solidarity fund for payment of their contribution to the Social Security in Health and Pensions System, and also the cash transfer (*cuota monetaria*) if applicable.² They will be referred to one of the authorized operators of the employment services network, to launch the advisory process in respect of job search, occupational counselling and training.

Employees or own-account workers who fulfil the CCF contributions requirement, will receive a benefit, funded by FOSFEC, consisting of contributions to the health and pensions system, calculated on the basis of one legal monthly minimum wage (SMMLV). Laid-off workers will also be able to use their own funds to pay into the pension system over and above that amount. They will also have access to the family subsidy cash transfer, under the conditions established in current legislation, as regulated by the national government, and illustrated in diagram IV.1.

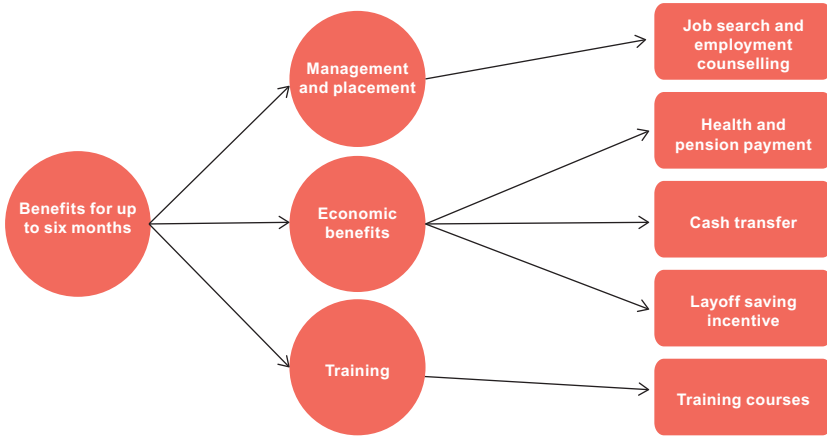
The eligibility conditions require the employment relation to have been terminated for any reason; or, in the case of own-account workers, that their contract has fulfilled the duration agreed upon, and there is no other contract or source of income. The beneficiaries must also have made one year of contributions, whether continuous or discontinuous, to a CCF over the course of the last three years if they are employees and two years, continuous or otherwise, if they are self-employed.

They must also register in one of the authorized employment services of the Employment Services Network, and follow the job search and job training programmes path. The beneficiary must attend the job placement services of the Public Employment Service (SPE) to participate in selection processes for the existing vacancies.

¹ Created under Law 1636, of 18 June 2013.

² The *cuota monetaria* is a monthly social benefit paid to workers for each person in their care, subject to entitlement.

Diagram IV.1
Benefits recognized in Law 1636 of 2013



Source: Ministry of Labour of Colombia, “Mecanismo de Protección al Cesante. Revisión general del marco general”, Bogota, Vice-Ministry of Employment and Pensions, 2015.

Beneficiaries must also not turn down employment offered by the SPE, provided the job offer pays at least 80% of the last wage they earned in their previous job, under the same or better conditions.

Apart from the benefits that are granted through the compulsory or voluntary affiliation mentioned, MPC establishes a voluntary saving system to cope with a layoff situation. Specifically, it stipulates that employees or self-employed workers who voluntarily save for MPC will receive a proportional cash bonus (calculated on the basis of the saving period and the wage level) which will be activated when they become laid off, charged against FOSFEC. To gain entitlement to the aforementioned incentive, those earning up to twice the SMMLV must have saved from their layoff fund the equivalent of at least 10% of their average monthly wage in the last year. For workers earning more than twice the SMMLV, the minimum amount will be 25%. Nonetheless, the creation of the Layoff Protection Mechanism does not affect the worker’s right to make withdrawals from his or her layoff fund for the other uses specified above.

MPC benefits cease to be paid to the eligible laid-off worker either after six months, or when the beneficiary finds a new job if earlier, or if he or she fails to fulfil the obligations contracted for gaining access to the FOSFEC benefits. In any event, these benefits will be incompatible with any gainful activity or the payment of any type of pension. Lastly, the affiliation of self-employed workers to MPC will always require prior affiliation to the social security and health and pension system.

The available information shows that MPC significantly underexecutes FOSFEC resources, because, as of November 2015, the execution rate was just 44.13% (Ministry of Labour, 2016). This has justified the need to review the functioning of the system and explore ways to reform it.

B. A proposal to reform the layoff protection mechanism

Colombia's current situation in terms of the components of unemployment protection is very similar to that of other Latin American countries (Velásquez, 2014). In the region, that form of protection has featured a variety of instruments through time, often overlapping and, sometimes with little relation between them. All countries have severance pay schemes; and individual unemployment saving accounts are relatively widespread. In contrast, unemployment insurance schemes are present in fewer countries; and, as in other parts of the world, they have been among the last components of social security systems to be implemented.

These components also have weaknesses. For example, the cash benefits are not necessarily assured in the event of job loss (severance payments that depend on the cause of layoff). In situations giving entitlement to severance pay, there is no guarantee that the amount involved will be sufficient to finance the duration of unemployment (individual saving accounts). In cases where there is an unemployment insurance, this objective is generally safeguarded more effectively.

The context in which those protection components operate is also characterized by a high proportion of informal employment. On average, informality accounts for nearly 50% of nonagricultural employment in the region; and it poses a formidable challenge for defining an optimal protection strategy for individuals who lose their jobs and have to find new ones. This illustrates the complexity involved in designing an effective unemployment protection system.

Severance pay in Colombia adopts the traditional scheme, with the strengths and weaknesses that have already been mentioned. Layoff support, on the other hand, operates as a type of forced saving, with a traditional design involving individual accounts. In practice, however, it functions as an additional component of pay, since it has been established that workers can choose to withdraw the funds accumulated each year (for a range of uses pre-established by law); and most people activate that right each year to cash in their savings.

Thus, none of the instruments guarantees compensation for income loss during layoff periods; nor does the most recently created MPC fulfil that requirement, as analysed below.

1. Reforms of the layoff protection mechanism

The Layoff Protection Mechanism currently has operational difficulties that are reflected in a weak take-up of the available resources to finance its various components, as shown in table IV.1. In fact, the main underexecution occurs in the economic benefits component, and it reaches just 28.47% of the beneficiaries.

Table IV.1
Execution of the Layoff Protection Mechanism, by component and total
(Percentages)

Components	Degree of execution
Economic benefits	28.47
Training	70.87
Management and placement	66.72
Administration expenses	80.39
Information systems	82.39
Total MPC execution	44.13

Source: Ministry of Labour of Colombia, 2016.

The Layoff Protection Mechanism provides a benefits package, including the financing of health and pension contributions for up to 6 months; a cash transfer in respect of family allowances; along with information and job placement services and vocational training. Nonetheless, it does not include an explicitly defined cash benefit to compensate for the income loss caused by unemployment. This is its fundamental design flaw.

The design of MPC has placed a high value on future benefits (pensions) or health services (often already insured with the subsidized pillar), rather than compensating for the loss of income caused by the termination of the employment contract.

Its design makes the entitlement to receive a significant monetary benefit conditional on the worker's willingness to save part of his or her layoff funds in exchange for a complementary and proportional benefit, financed through FOSFEC. This alternative is allowed despite evidence showing that the funds in question tend to be used for other expenses unrelated to layoff status.

Moreover, there is no information that ensures that laid-off workers have savings or assets that enable them to compensate for income loss. Instead, the loss of a formal job without a mechanism to finance the laid-off period increases the likelihood of moving into informal employment; and this makes MPC a suboptimal protection solution.

2. Layoff insurance: a preliminary design

To remedy this weakness, it is proposed to create a layoff insurance mechanism that guarantees significant cash benefits for the worker during the out-of-work period, and also provides active policy services that support the beneficiary's job search and re-engagement in productive occupations. Its chief characteristics are described below.

(a) Design of the fund

A pay-as-you-go fund to which all employees, as currently defined in MPC, contribute each month. That option is more efficient than the other alternatives (individual accounts, for example), because it makes it possible to pool the different layoff risks of formal wage earners and would operate on the basis of cross-subsidies, which results in a relatively lower financing cost.

(b) Benefits

A structure of defined benefits that decline as a proportion of the average wage of the last 12 months before layoff, lasting up to six months (see table IV.2).

Table IV.2
Benefits of layoff insurance
(Percentages)

Duration of layoff	Percentage of average wage of the last 12 months
Month 1	65
Month 2	60
Month 3	55
Month 4	50
Month 5	45
Month 6	40

Source: Prepared by the author.

(i) Beneficiaries and eligibility conditions

All employees, as currently defined in Law 1636 creating the Layoff Protection Mechanism, would be covered.

(ii) Administration

In this area, the use of existing institutions is prioritized to avoid generating additional costs, provided background information is available that shows this to be the best available option. In that case, the system should be run by layoff fund management companies, which would have to keep up-to-date and duly individualized records of the employer's contributions for each worker, in addition to paying the benefits on time, having previously verified the eligibility conditions.

(c) Contribution rate

The data provided by the Large-scale Integrated Household Survey (DANE, 2015) for October-December 2015, make it possible to determine the total number of laid-off workers who are eligible. The beneficiaries are wage earners in the private and public sectors, as defined in MPC, with an indefinite employment contract. To project the beneficiaries base, the composition of the openly unemployed was used (excluding the hidden unemployed, since this category is thought to represent inactive workers who have not tried to find a new job). The data in question have been obtained from a projection of open unemployment rates, based on an assumption regarding the cyclical behaviour of the economy over the next 10 years (assuming three-year cycles), with maximum and minimum unemployment rates (15% and 9.11%, respectively), estimated from the behaviour observed over the last 10 years.

Thus, given the labour force projection provided by the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC (CELADE, 2016), the annual number of persons unemployed is obtained by applying the respective layoff rates. The projection is performed on a monthly basis and the corresponding values have been estimated from monthly linear projections for each year considered.

Table IV.3 shows the distribution of the estimated number of eligible unemployed over the first six months of the first year of the projection, as an example. The beneficiaries are distributed through time according to the average length of time they have been out of work; and each month the flow of newly laid-off workers is added in. The benefits expense is obtained by multiplying the number of beneficiaries by their value, according to the length of time they have been out of work. For that purpose, the average wage of 2015 is applied, and a monthly growth rate of 0.1% is assumed.

The total amount of contributions is obtained by estimating a contribution rate applied to the total wage bill of system affiliates, which fulfils the condition of financing all estimated expenses relative to beneficiary payments.

Table IV.3
Estimation of beneficiary laid-off workers in the first six months of the projection
(Number of persons and pesos at current prices)

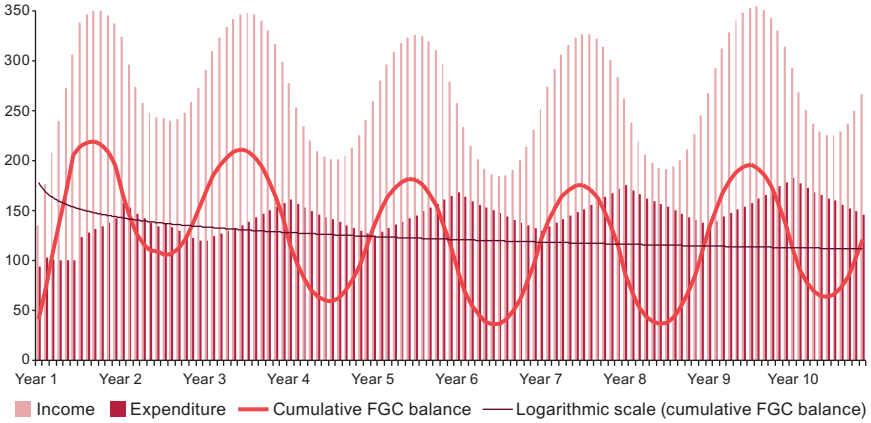
Duration of unemployment						
Month	Weeks	Percentage of total				
1	4.29	89.78				
2	8.57	80.60				
3	12.86	72.36				
4	17.14	64.96				
5	21.43	58.32				
6	25.71	52.36				
Year 1	January	February	March	April	May	June
Total number of eligible laid-off workers	108 899	114 000	119 340	124 931	130 783	136 924
Month 1	97 770	26 228	19 401	19 574	20 420	21 373
Month 2		87 773	21 139	15 638	15 776	16 462
Month 3			78 800	18 978	14 039	14 166
Month 4				70 741	17 037	12 605
Month 5					63 510	15 297
Month 6						57 020

Source: Prepared by the author, on the basis of National Administrative Department of Statistics (DANE), "Gran Encuesta Integrada de Hogares. Total nacional. Serie trimestre móvil 01-15", Bogota, 2015.

The total number of affiliates is obtained by calculating the total employment in each year based on the difference between the labour force, as projected by CELADE (2016) and the total number of openly unemployed workers. The rate of growth of employment is applied to the number of formal private and public sector wage earners each year, and through a linear projection with respect to each month of the years considered. The break-even contribution rate is thus finally obtained, which is estimated as equivalent to 1.4% of the average monthly wage.

This simulation assumes that the Colombian economy will face a rising layoff rate in the first few years, after which the unemployment rate is expected to fluctuate between a low of 9.1% and a high of 15.5% during the projected period. The system's income and expenditure flows are projected in figure IV.1, along with the cumulative balance of the Complementary Guarantees Fund (FGC).

Figure IV.1
Layoff insurance: ten-year simulation
(Billions of Colombian pesos at each year's prices)



Source: Prepared by the author.

(d) Financing

The fact that the current financing scheme draws on para-fiscal resources makes this the basic budget constraint on which MPC is built; and this remains the case under this proposal. The financing strategy is therefore based on three components:

- (i) **Reassignment of cash benefits.** The current benefits cash transfer (*cuota monetaria*) and food subsidy are eliminated, because they become redundant under the proposed scheme.³ Table IV.4 shows that the total amount obtained from the cash transfer is the largest component of the financing structure. The calculation included the total number of MPC beneficiaries, along with their dependents, and the value of the cash transfer in 2015.

The possibility has also been considered of reassigning the permanent expense destined for the provision of the food subsidy, implemented in 2016 (but only in the case of the newly laid-off workers who are incorporated each year). For that purpose, it is calculated that 13% of the resources estimated for 2016 would satisfy that condition.

³ In April 2016, the government created a food subsidy to complement the support provided to unemployed persons through the layoff protection mechanism, under its regulatory decree (No. 582 of 2016). The subsidies are provided through the employment agencies of the Family Welfare Funds, for up to six months, and for an amount equivalent to 1.5 SMMLV divided into six equal monthly instalments.

Table IV.4
Reform proposal: sources of financing of the layoff insurance
and layoff protection mechanism, base year 2015
(In thousands of Colombian pesos)

Income from affiliates	126 188 380
Financing	126 188 380
Cash transfer (100%)	59 782 547
Mandatory layoff funds (40% of total)	44 877 765
FOSFEC contribution (22% of the saving of laid-off workers)	9 873 108
Permanent food subsidy (1%)	11 654 959
Addendum	
Value of the 2015 cash transfer (pesos)	26.9
Value of the 2016 cash transfer (pesos)	28.3
Beneficiaries of economic support	90.9
Dependents and beneficiaries (number of times)	2.04
Average length of service (months)	21.7
Minimum wage (pesos)	644 350
Average wage/minimum wage (number of times)	2.0
FOSFEC contribution for layoff fund saving	22%
Estimation of 2016 food subsidy (pesos)	90 363 531

Source: Prepared by the author.

(ii) **Partial change in the voluntary nature of layoff support saving.**

The additional financing needed would be obtained by reassigning 40% of the funds in question for that purpose; in other words, the equivalent of 0.27% of the monthly wage over 12 months to gain entitlement to up to 3.2 months' wages in the event of layoff. It should also be remembered that the complementary FOSFEC contribution is activated, estimated as equivalent of 22% of the aforementioned mandatory layoff saving, with which the current criterion is applied to one average wage, equivalent to twice the minimum wage, taking 21.7 months as the average time for which a formal wage earner is in his/her job.⁴

(iii) **Other reassignments.** Although the illustrative exercise performed does not include other expenditure items as potential sources of reassignment, it should be remembered that a total of 40% of FOSFEC MPC expenses is currently used to finance the information system (0.5%), management and placement (13.5%) and training (26%). It would be useful to have evaluations on the efficient

⁴ This is a proportional cash incentive received by workers who save part or all of their layoff funds for the MPC. The benefit is subject to the period of saving, the worker's income, and the amount of saving accumulated. The incentive can range from 10% to 22% of the amount of savings accumulated by the laid off worker.

use of those resources.⁵ For example, impact assessments show that job placement services are cost effective (Card, Kluve and Weber, 2010). An increase in public funding for those purposes would make it possible to substantially expand the coverage of these programmes. Nonetheless, it is also necessary to ensure that the investments effectively facilitate placement in a formal job.

(e) Integration with active policies

The beneficiaries of layoff insurance would be entitled to inclusion in the employment and vocational training programmes and services. As part of this proposal, the payment of cash benefits would be conditional on active participation by laid-off workers in the plans and programmes of the National Employment Service and the Family Welfare Funds.

C. Employment services and protection for self-employed and informal workers

The following paragraphs analyse the role of employment services in job placement, based on the most recent experience in the region. They also consider different ways to extend protection to self-employed and informal workers through active policies.

1. Employment services

Alaimo and others (2015) stress that the traditional role of job placement policies consists in connecting individuals who want to improve their employment status (generally the underemployed and unemployed) to job vacancies (mostly in private firms in the formal sector), by assisting with job search and providing guidance and support for firms in selecting candidates. In the most developed countries, these policies also include links with training programmes, unemployment insurance and social programmes (Mazza, 2011).

These policies should be viewed as a system that includes public employment services (SPEs), private job placement services (such as private employment exchanges or temporary employment agencies), and civil society organisations that carry out job placement tasks (ILO, 2012). From that standpoint, a new and important role of the SPEs involves articulating different providers, although debate continues on who should benefit and

⁵ The 60% of the current FOSFEC MPC budget assigned to benefits includes the payment of social security contributions (based on one minimum wage) to maintain health protection and pension entitlements. On this point, it is considered necessary to provide special treatment to contributions to the pension system pay-as-you-go regime. As this affects the final pension amount, it would serve as an additional disincentive for using the MPC in its current structure.

whether the government should supply services directly or outsource to private providers or other civil society organisations.

The SPEs are very incipient in the region, and that is one of the reasons why they are little used.⁶ Just 30% of job-seekers use formal channels, which include public employment services. Moreover, apart from Mexico (Flores Lima, 2010), Latin American countries generally do not have monitoring or management systems that make it possible to gauge their performance and generate information for evidence-based decision making. Nor have impact assessments been developed to determine whether a programme is functioning well, identify the causes of potential problems, and improve its efficiency and effectiveness.

Alaimo and others (2015) argue that employment services should help job-seekers to find opportunities offering higher levels of pay, productivity and well-being. Their study states that the main policies targeting that objective (improving human capital reserves, supporting workers in unemployment periods, smoothing the loss of consumption capacity and helping them to find a new job, and establishing regulations aimed at improving the employment conditions of workers without affecting incentives for formal hiring), would also include those aimed at making job placement policies more effective.

To improve the performance of the SPEs, the authors recommend three specific actions. Firstly, enhance institutional capacity, autonomy, flexibility, and the integration of services, to provide a flexible response that is adapted to the circumstances of each case and the conditions of the local labour market. This requires budget, staffing, and appropriate channels for providing relevant services to the people in question, and having information on the skills of job-seekers and firms' requirements.

Secondly, the forging of closer ties with employers is considered a key factor for success. High-quality services are essential for building relations with employers. The evidence shows that, to increase the number of firms using a national employment service, the emphasis should be on their needs, making greater use of information technologies and improving communication strategies.

It is also important to apply a results-driven management approach. This requires each service offered to have clearly specified objectives, with measurable indicators to monitor the attainment of performance targets. Processes should also be put in place to guarantee information on performance, and a transparent accountability mechanism would be needed.

⁶ The countries of the region have invested very little in this type of service (less than 0.04% of GDP) (Cerutti and others, 2014), compared to the public expenditure of OECD countries (0.17% of GDP) (OECD, 2011).

Lastly, studies performed by the International Labour Organization (ILO, 2015a to 2015i) in several of the region's countries (Argentina, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Nicaragua, Paraguay and Uruguay) provide abundant information on the characteristics of public employment services. These studies highlight Colombia's innovative approach in adopting a large-scale employment service provision model in which public, private and non-profit agencies all participate. They also draw attention to aspects that have been singled out as key factors in ensuring adequate processes for obtaining productive jobs in the formal sector. In particular, the need to implement a quality management system for planning, monitoring, and performance assessment is currently being developed.

Lastly, from the standpoint of having a system of unemployment protection instruments, the way MPC currently operates also warrants an early evaluation of job-training programmes. According to recent information (Ministry of Labour, 2015b), the criterion rated worst by the CCFs is the relevance of the training provided, even though it is considered to be of good quality.

2. How to protect self-employed and informal workers

A policy to protect the unemployed that extends to self-employed and informal workers can be seen as a supply of essential services and support for employability.⁷ Three fundamental criteria should be considered in this: (i) provide income and services coverage to unemployed persons who do not satisfy the requirements for the contributory insurance; (ii) support the productive labour market engagement of those who do not have jobs or else work in informal occupations; and (iii) make use of existing institutional capacities to implement active labour market policies.

The first criterion is justified by the coverage restrictions associated with the operation of a contributory-based system in a context of high levels of employment informality, as is the case in Colombia. The second follows from this, because the aim is to extend protection to those who work in informal jobs, but undertake very low productivity activities. Lastly, the third criterion aims to combine efficiency with effectiveness, since it involves using installed capacities and good practices on the subject.

A programme such as the one being suggested is an intervention model centred on recovering the work potential of unemployed and informal

⁷ The author presented a proposal of this type for the case of Paraguay (Velásquez, 2013).

workers. It would be a system with characteristics of essential employment services and, therefore, would operate on the basis of two fundamental criteria: universal coverage and the design of differentiated support paths, according to beneficiary characteristics. This means establishing interagency cooperation relations with other existing programmes; for example, conditional transfers or direct and indirect employment, with the employment offices network, or with the education and job training system.

Essential employment services should basically operate on labour supply, so their effectiveness in achieving productive job placements will largely depend on their close harmony with labour demand. The latter can be generated by firms or stem from specific labour market policies, such as direct or indirect employment programmes.

The beneficiaries are defined either by self-selection, conditional on the level of benefits, such as the labour force living in conditions of poverty and indigence; informal workers (both self-employed and wage earners); and formal workers who do not qualify for layoff insurance. These should be registered by the employment services.

In that scheme, it is crucial for employment services to develop personalized employability modalities, which would include vocational education and training services that distinguish between employed workers, or those with stronger ties to formal employment, and laid-off workers. A second level of supply would target opportunities to complete school studies, for which it would be necessary to define rules and procedures for admission into existing programmes. A third would consist of job placement services for beneficiaries, which design and apply individual employability plans. Lastly, given the heterogeneity that exists among the potential beneficiaries, steps should be taken to promote self-employment and microenterprise. Possibly, the beneficiaries could receive a cash payment to facilitate their participation in job training and counselling programmes.

Lastly, a scheme such as the one described, which combines a contributory component under the unemployment insurance modality applicable to wage earners in the formal sector, with a system of active programmes targeting self-employed and informal workers, requires a major effort to ensure the provision of cash transfers and particularly non-monetary benefits at the local level.

From that perspective, interagency coordination and public-private cooperation will be crucial for ensuring the scope of the desired protection and the supply of benefits to a heterogeneous beneficiary population. The current institutional framework should therefore be evaluated in terms of its capacity to address these challenges efficiently.

D. Final comments

Unemployment protection in Colombia is not guaranteed, despite the fact that there are three institutions that operate simultaneously (severance pay, layoff support, and MPC). This is because the system fails to ensure the provision of an income that allows the laid-off worker an acceptable level of consumption during the unemployment period.

In the context described, and given evidence that shows that MPC is substantially underused, it is concluded that the main cause is the absence of a significant cash benefit. To make up for this shortcoming, the creation of a layoff insurance scheme is proposed as a first priority.

That component would operate under the pay-as-you-go modality, which would pool the range of unemployment risks across the wage-earning population, thus making it more efficient than the other alternatives. According to estimations of the occurrence of unemployment episodes among the affiliated population, the beneficiary eligibility conditions and the set of parameters used in its preliminary prefeasibility design, a system such as the one proposed would aim to guarantee an income proportional to the wage earner's wage, with a declining structure (from 65% to 40% of the average wage) and for a period of up to six months.

A contribution rate on the order of 1.4% of the current wage would guarantee (*ceteris paribus*) financing for the benefits indicated in the medium and long terms. The required financing would come from two main sources: the reallocation of funds used to finance the current cash transfer and the food subsidy (in its permanent expense component), and the establishment of a regime of partial mandatory saving of layoff support funds on the order of 40%, together with the existing complement as a contribution from FOSFEC for that purpose.

A third potential source of funding could be obtained from better use of the resources destined for financing the information system and the MPC job placement and training actions. Nonetheless, this requires having the necessary information in advance, together with assessments of the system's performance and impact.

In any event, the details of the proposal should be analysed and the design assumptions specified, along with its relation to the functioning of the labour market, and the latter's role in the functioning of the Colombian economy. A careful analysis should also be made of administration alternatives, with the aim of choosing the most efficient. Similarly, the role of employment services in job placement processes would need to be evaluated, along with those of active policies, to extend the coverage of protection to include own-account and informal workers.

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Chapter V

Unemployment protection: a general layoff assistance fund for the Dominican Republic

Mario D. Velásquez Pinto

Introduction

This chapter analyses the Dominican Republic's unemployment protection system in the light of the characteristics of the country's labour market; and it develops a proposal for improving the current layoff assistance mechanism.

The background to the reform proposal includes a consideration of the characteristics and functioning of the labour market over the last few years, which is analysed in section A. Section B reviews the main features of layoff assistance in terms of the effectiveness of the protection provided to the unemployed worker, which serves as a basis for identifying the central content of the proposal.

Section C identifies the optimal features needed for a complete instrument of unemployment protection; and it provides an in-depth discussion of the proposal to create a General Layoff Assistance Fund (FGAC). In addition to setting out its general characteristics, based on a set of parameters relating to the Dominican labour market, the main flows are projected for a 10-year period, and the break-even contribution rate is provisionally estimated.

Lastly, section D comments on the need to move towards complete unemployment protection. It also identifies key issues that require additional evaluations to improve the proposed design of FGAC, and provide for its periodic monitoring and evaluation.

A. Labour market and unemployment

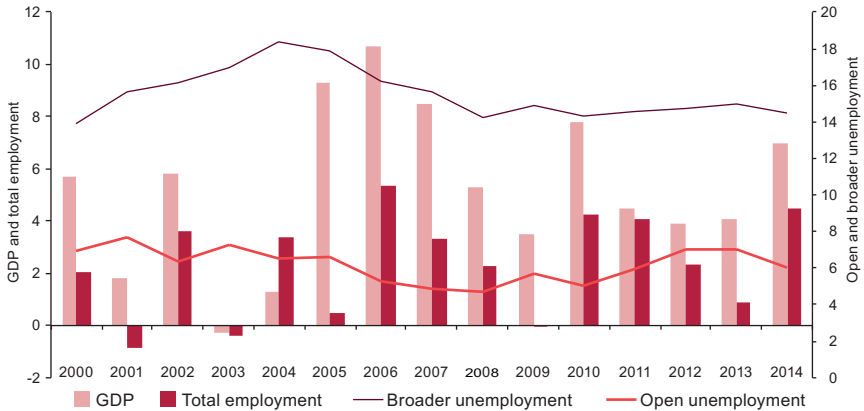
Over the last few years, the Dominican economy has posted relatively high growth rates, averaging 6% per year, driven by vigorous activity in the mining, financial services and communications sectors. The international financial crisis of the end of the last decade did not interrupt that expansion, but only lowered the growth rate.

This dynamism generated new jobs at an average rate of 2.8% per year in 2004-2014, albeit with wide year-on-year fluctuations. Moreover, as shown in figure V.1, economic growth allowed for successively lower unemployment rates up to 2008, whether measured by open unemployment or more broadly defined joblessness, which includes hidden unemployment.¹ Since then, both indicators have tended to stabilize around averages of 14.6% and 5.9% of the labour force, respectively.

The effect on employment in the productive sectors driving that growth has been only partly reflected in changes in the structure of total employment. As figure V.2 shows, the productive sectors that have seen their share in total employment grow have been non-financial services, transport and communications, followed by hotels and restaurants, and financial services. This occurred because the highest growth was concentrated in sectors —such as mining— that do not create many direct jobs, whereas those that are relatively more labour-intensive —such as manufacturing, agriculture and commerce— grew more slowly. These effects seem to have conspired to prevent steeper falls in the unemployment rate.

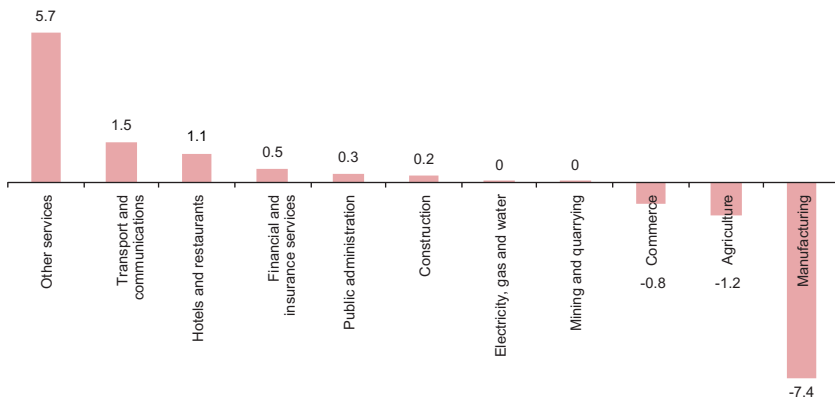
¹ Two comments can be made on the unemployment indicators mentioned. The first is that, to avoid including persons who are economically inactive among the hidden unemployed, it is advisable to control for the market wage level at which those questioned are willing to work. This is particularly relevant in this case because, under this definition, the proportion of unemployed people who are first-time job seekers increases significantly, and could be explained by young people who are inactive, and probably would not express the intention of being employed at a wage level consistent with their productivity and employment experience. The second is that, for the purposes of comparative analysis, it is advisable to use the open unemployment rate, since that corresponds to an international standard. This rate makes it possible to state that unemployment in the Dominican Republic is on a smaller scale than the regional average and provides limited information on the situation of a labour market operating with a relatively persistent and high level of informal employment. Moreover, the low open unemployment rate can also be explained by the weak protection instruments available for those who lose their job and need to find another one.

Figure V.1
Dominican Republic: GDP, total employment and open and broader unemployment rates, 2000-2014
(Annual percentage variations and percentages of the labour force)



Source: Prepared by the author on the basis of Central Bank of the Dominican Republic, “Sector real”, Estadísticas económicas, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/real/ and “Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores”, Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

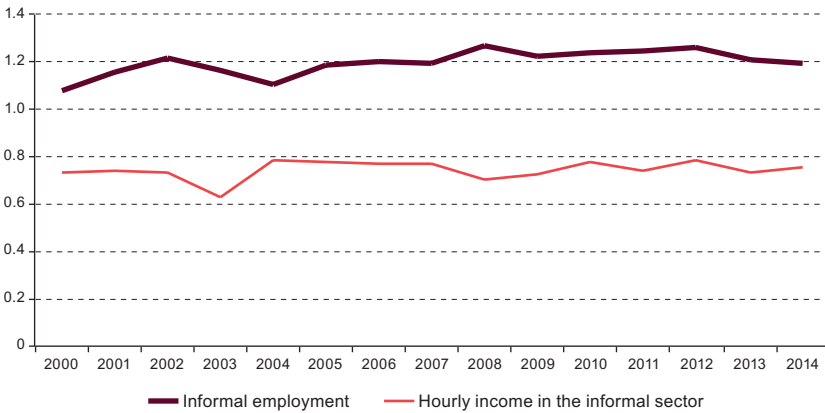
Figure V.2
Dominican Republic: changes in sector shares in employment, 2000 and 2014
(Percentage variations)



Source: Prepared by the author on the basis of Central Bank of the Dominican Republic, “Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores”, Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

Informal activity accounted for 55.6% of total employment in the Dominican Republic in 2014 (Central Bank of the Dominican Republic, 2015b). This is a trend that has persisted over time, although it did slacken somewhat between 2005 and 2010 (FORLAC, 2014), mainly thanks to the implementation of the contributory health-care regime.² As shown in figure V.3, informal employment has been systematically about 20% higher than formal employment in recent years.

Figure V.3
Dominican Republic: informal employment and hourly income
in the informal sector, 2000-2014
(Number of times the same variable in the formal sector)



Source: Prepared by the author on the basis of Central Bank of the Dominican Republic, “Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores”, Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

The persistence of informal activities in phases of rapid economic growth suggests that these may complement formal production, and that informal activities have played an important role in adjustment processes, by cushioning job cuts in recessionary periods and by leading the recovery phases.

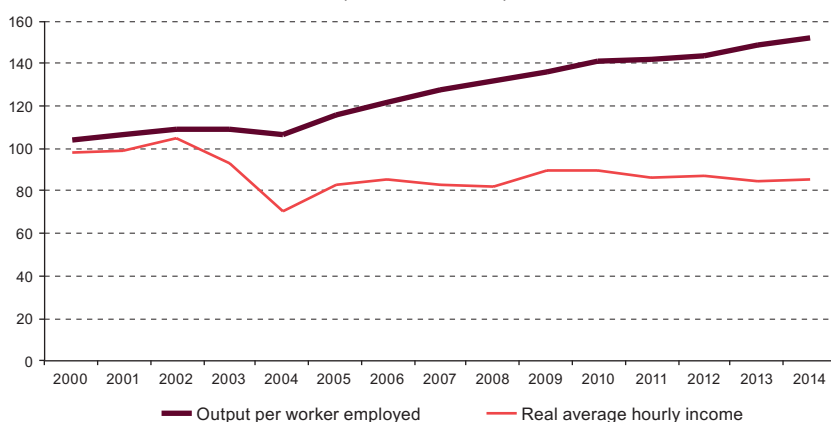
Average hourly income in informal jobs has trended around 75% of the rate paid in formal ones during the period analysed. This suggests that, on average, the incomes reported by informal jobs are below those paid by formal sector firms, which coincides with the expected productivity differential between those sectors.

² The FORLAC (2014) report describes how informal employment declined from 58.6% in 2005 to 47.9% in 2010, as a proportion of total non-farm employment, particularly as a result of the reforms made to the social security system, which extended the coverage of the health system. Nonetheless, it should be noted that in addition to the estimations of informal employment mentioned, different operational definitions are used.

In 2014, workers in the formal sector earned 32.9% more per hour on average than their peers in the informal sector; but the gaps widened to 168.6% in the case of self-employed workers, 80.5% among private sector wage earners and 129.3% in the case of employers (Central Bank of the Dominican Republic, 2015b). The smaller income gap between formal and informal sector workers, compared with the gaps for each of the occupation categories, is explained by the composition of employment in the two groups, as the hourly income of own-account workers, the vast majority of whom work in the informal sector, is similar to that of private sector wage earners, who, in turn, make up a large of formal workers. These figures are complemented by those obtained by the Ministry of Economy, Planning and Development, the Central Bank of the Dominican Republic and the World Bank (2007), which show that formal sector employees work longer per week, receive higher hourly income, and are more likely to be employed in secondary activities than their informal counterparts.

Lastly, if one also considers the trend of real hourly income in the economy and the corresponding annual GDP relative to the total number of workers employed in each year (see figure V.4), measured through indices with a base year of 1999, it can be seen that between 1999 and 2014 income dropped by an average of 15 percentage points from its level in the initial year, while output per employed worker grew by about 50% in the same period. This reveals the absence of any mechanism making it possible to pass on part of the additional value added generated in the country over the last 15 years, through higher real wages—for an average worker at least.

Figure V.4
Dominican Republic: trend of average real hourly income and output
per worker employed, 2000-2014
(Index 1999=100)



Source: Prepared by the author on the basis of Central Bank of the Dominican Republic, “Sector real”, Estadísticas económicas, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/real/; “Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores”, Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

These results are supported by another study (Fundación Bosch/Fundación Sol, 2015), which estimated a 27% deterioration in the real income of wage earners over the last 10 years, together with a substantial reduction in the share of wages in GDP (from 47.2% in 2000 to just 24.3% in 2013).

The data analysed shows that the Dominican economy has posted high growth rates over the last three five-year periods, while output per worker grew by 50%. Nonetheless, economic growth has tended to be concentrated in a few less labour-intensive sectors, such as mining, and has declined relatively in others that have greater capacity to create jobs, such as manufacturing and agriculture.

Some structural features of the labour market do not seem to have changed substantially, since low open unemployment prevails with a large and persistent informal sector. This has occurred in a context characterized by a deterioration in real average wages per hour worked, with significant losses for the share of wages in output.

B. Protection through layoff assistance

Layoff assistance is the instrument available in the Dominican Republic to protect against job loss; it takes the form of a cash payment to compensate for dismissal “without just cause” or layoff owing to the “needs of the firm”.³

Article 75 of the Labour Code of the Dominican Republic defines severance as the act whereby one of the parties, by giving prior notice to the other and without stating a reason, exercises the right to terminate an indefinite contract; and article 80 states that the employer who triggers severance must pay the worker compensation for layoff in an amount to be set according to the following rules:

- Following continuous service in the job of at least three and no more than six months, six days’ ordinary pay.
- Following continuous service in the job of at least six months and no more than one year, 13 days’ ordinary wages.
- Following continuous service in the job of at least one year and no more than five, 21 days’ ordinary wages, for each year of service.

³ This refers to situations that cause contract termination with no blame attached to the worker. The category also includes other situations that result in the extinction of the contract, such as force majeure, justified complaint by the worker, bankruptcy of the firm, and entrepreneurial incapacity. These causes are ultimately against the wishes of the worker. In contrast, a “justified” cause stems from inappropriate conduct by the worker, or a decision by him or her to quit the job. Such cases do not give benefit entitlement. For a detailed analysis of the characteristics of these instruments, see Velásquez (2014).

- Following continuous service in the job of at least five years, 23 days' ordinary wages for each year of service. Each fraction of a year longer than three months must be paid according to the first two rules of this article.

It also provides that the layoff assistance corresponding to the period of the worker's contract that preceded the promulgation of this Code will be calculated as 15 days' ordinary wages for each year of service.

In terms of its application, the available data show that the population with potential to benefit from layoff assistance consists of wage earners with indefinite employment contracts working in private firms or in a set of public enterprises.⁴ On this point, the lack of a written contract is frequent in the Dominican economy (it affects 51% of all wage earners) and is more common among private firms and in rural zones.

The predominant type of contract is of indefinite duration (81.2% of all contracts in the private sector); and the average length of service in wage-earning employment is 3.4 years in the private sector and five years in the public sector.

Laid-off workers are predominantly wage earners (82.6% of the total); and they mainly find themselves in that situation for reasons of dismissal: if the causes for which the entitlement to layoff assistance are considered, dismissal applies to 48.8% of all workers who lose their jobs.

As shown in table V.1, 53.7% of all workers dismissed while holding an indefinite contract received layoff assistance; and 4.1% of the cases generated payment disputes which ended up in the courts. On average, litigation lasts an estimated 16 months, with the court cases taking over 5 ½ months to resolve; and in 50% of the cases the ruling is in the worker's favour.

Table V.1
Dominican Republic: laid-off wage earners entitled to layoff assistance, 2014
(Number of persons and percentage of all wage earners with entitlement)

Receipt of the benefit	Number of persons	Percentages of the total
Received	71 277	53.7
Did not receive	56 078	42.2
In dispute	5 425	4.1
Total	132 780	100

Source: Central Bank of the Dominican Republic, "Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores", Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/, data processing with the software Retrieval of data for small areas by microcomputer (REDATAM+SP).

⁴ Information processed by the 2014 Labour Force Survey, according to the Central Bank (2015b).

The data reviewed suggest that the law is poorly enforced, so this arrangement is not very effective in protecting the unemployed. This can be explained as follows:

- As the benefit entitlement is conditional on dismissal without just cause or the closure of the firm, there are incentives for employers and workers to agree on a smaller amount before the end of the employment relationship, without invoking the cause that generates the entitlement to layoff assistance. This practice would enable the employer to reduce the layoff assistance payment and will also save the worker the costs in time and resources required to show effectively that he or she is being dismissed for a reason that gives entitlement to that benefit.
- Despite the potential effect indicated, the coverage of layoff assistance beneficiaries, relative to total private sector wage earners with entitlement, in practice is limited because the law is not observed (in fact, 42.2% of those entitled did not receive it in 2014).
- Moreover, about 7.6% of cases in which layoff assistance was not paid, are “in dispute”. This situation generates uncertainty for the workers, because payment is in doubt; and it also entails large costs, because the worker has no income during the dispute period, which may be lengthy. This also can also impose high costs on the employer (with a probability of 50%), since a finding in favour of the worker means multiplying the amount of the benefit by the time for which the dispute lasted.
- The average amount of layoff assistance rises with the wage and with the length of time in the job; and the chance of receiving payment is greater among workers on higher pay. Thus, this mechanism does not provide beneficiaries with financing for an adequate job search, and it tends to discriminate against lower-paid workers and those with less time of service, who are those most likely to move into informal occupations.

The features of layoff assistance described above are generally present in similar systems in the other countries of the region. This severance pay model operates on the basis of a formal wage-earning employment relationship, and it assumes that the worker has relative stability in his or her job —basically when there is an employment contract of indefinite duration. Thus, the protection provided by this instrument is only partial,

since it does not seek to cover a defined unemployment period and it is not linked to active labour market policies.⁵

The coverage restrictions are even stronger in the case of women and young people, even though these groups have a higher risk of unemployment than men and adults, respectively. The high rate of labour turnover that characterizes the region, together with the concentration of short-term jobs and transitions into inactivity and informality, undermines the capacity of these groups to satisfy the eligibility requirements that the system generally defines (particularly length of time in the job).

Lastly, while mechanisms such as layoff assistance serve as a restraint on unfair dismissal, their main weaknesses stem from the fact that payment is conditional on a single cause, they do not require real provisions or reserves to be set up to finance them, and their potential cost rises the longer the worker is in the job, which increases the probability of non-compliance. In addition, by operating in economies with high levels of informal employment, potential coverage is limited to formal sector wage earners with indefinite contracts; and it is not designed to complement active labour market policies.

C. Towards a general layoff assistance fund

As discussed above, layoff assistance has several shortcomings in terms of providing complete protection to workers who lose their job, and helping them to find a new one. These deficiencies can also explain the low level of open unemployment in the economy, because that situation could only be endured by individuals able to finance it from their own resources, whereas for the vast majority of individuals who lose their job it would be more a brief transition into informal occupations, with slim chances of returning to formal activity.

One way to overcome the weaknesses indicated is to consider a new design that encompasses the current severance pay mechanism with an unemployment insurance scheme and active labour market policies.

A less complex alternative—which provides only a partial protection solution—is to reform the current mechanism of financing layoff assistance with the explicit purpose of attaining two key objectives: ensuring financing for all who are entitled to receive it and reducing uncertainty in the costs associated with litigation over the causes of dismissal. This is the alternative

⁵ To be complete, a protection system should address two dimensions associated with unemployment risk: providing an income that makes up for the loss of wages among workers while they are laid-off, and supporting them with active labour market policies to find a new job. See Velásquez (2014).

described below, in which it is proposed to set up a general layoff assistance fund (fondo general de auxilio de cesantía, FGAC).

1. Key characteristics

The aim in creating a fund of this type is to set up a mechanism to finance the current layoff assistance benefits and thus ensure that they are paid on time to all unemployed workers who fulfil the eligibility conditions established by the law.

(a) Design of the fund

This is a pay-as-you-go fund that receives monthly contributions from all employers who are required to pay layoff assistance. From the funding standpoint, this alternative is more efficient than a fund consisting of individual accounts, since it makes it possible to pool the layoff risks of formal wage earners across all firms in the economy.

(b) Size of benefits

Those currently in force for layoff assistance.

(c) Beneficiaries and eligibility conditions

Those currently in force for layoff assistance.

(d) Administration

The Fund will be operated by the Salud Segura labour market risks management company (*Administradora de Riesgos Laborales Salud Segura, ARL*), which must keep up-to-date and duly individualized records of employers' contributions for each worker, and verify the beneficiary worker's fulfilment of the eligibility conditions. In addition, the Social Security Treasury (TSS) is tasked with collecting the monthly contributions from the employers and making the corresponding payments.

(e) Integration with active policies

The FGAC beneficiaries will be entitled to benefit from programmes and actions relating to employment services and job training created by the specialized services attached to the Ministry of Labour, and other accredited institutions.

2. Parameters used and estimation of the contribution rate for 2014

(a) Beneficiaries of the General Layoff Assistance Fund

Using information obtained from the Labour Force Survey (EFT) for 2014, it is possible to calculate the total number of laid-off workers who are

entitled to layoff assistance and thus obtain a measure of the size of the FGAC beneficiary population (see table V.2).

Table V.2
Dominican Republic: labour force and layoff assistance beneficiaries, 2014
(Number of persons and percentage of the total is indicated)

Occupational category	Economically active population	Employed	Openly unemployed		
			Total	Unemployed	New
Total	4 485 477	4 217 576	286 474	205 845	80 629
Employer or active partner	156 894	156 603	210	210	0
Own account	1 745 647	1 725 605	22 527	22 527	0
Government employee	561 622	551 516	13 346	13 346	0
Private sector employee	1 875 248	1 718 656	168 939	168 939	0
Unpaid family member	65 828	65 196	823	823	0
First-time job-seeker	80 238	0	80 629	0	80 629
Indicators					
Open unemployment rate (percentage of the labour force)	6.4				
Open layoff rate (percentage of the labour force)	4.6				
Total number of formal wage earners laid off	182 285				
With entitlement to layoff assistance	132 780				
Memorandum					
Unemployed with entitlement to layoff assistance	132 780	(Percentage of total)			
Received it	71 277	53.7			
Did not receive it	56 078	42.2			
In dispute	5 425	4.1			
Percentages of total wage earners laid off in the formal sector	72.8	100.0			

Source: Prepared by the author on the basis of information from the Central Bank of the Dominican Republic, "Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores", Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

Layoff assistance is applicable to wage earners in the private sector and in public enterprises working under a non-time-limited labour contract. The number of workers in this category is estimated from the total number of formal wage earners who are laid off (both the private and State sectors), who represent 72.8% of all laid-off workers. In addition, it is reported that just 53.7% of workers who are entitled to the benefit actually received it in 2014; and 4.1% of the total were involved in litigation over the benefit in employment tribunals.

(b) Amount of the benefits

Estimating the amount of the benefits firstly requires knowing the average monthly amount paid by the employers. As the amount of layoff assistance is defined in terms of the number of days' pay, which increases with the length of time the laid-off worker was in the job, it is also necessary to know the distribution of length of service of the laid-off workers entitled to the benefit.

Table V.3 estimates the average size of the benefit as 43.5 days' pay. As the distribution of the laid-off workers in each of the length-of-service brackets is unknown, the midpoint (class score) has been used to obtain the estimated number of effective days. In the case of the highest bracket (more than five years) the average is assumed to be six years. Lastly, the average benefit is calculated as the total number of days estimated, weighted by the distribution of length of service in the job among the laid-off.⁶

Table V.3
Dominican Republic: estimation of average unemployment assistance benefit

Length of service brackets	Amount of the benefit		Length of service of the unemployed (percentages)	Average benefit (days' pay)
	Days' pay according to the law	Estimated effective days		
> 1 and < 3 months	0	0	15.0	0.0
> 3 and < 6 months	6.0	6.0	15.0	0.9
> 6 months and < 1 year	13	13.0	30.0	3.9
> 1 and < 5 years	21 for each year	63.0	22.0	13.9
> 5 years	23 for each year	138.0	18.0	24.8
Average benefit				43.5

Source: Central Bank of the Dominican Republic, "Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores", Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/, data processing with the software Retrieval of data for small areas by microcomputer (REDATAM+SP).

(c) Contributions to the Fund

To ascertain the income obtained from the employers' periodic contributions to FGAC, it is necessary to know the total number of wage earners for whom layoff assistance is applicable. As shown in table V.4, a total of 1,233,045 wage earners has been estimated for 2014 (including those in the formal private sector and those working in public enterprises), for whom the employers are required to contribute to the Fund. Moreover, to estimate average pay, wages in public enterprises are assumed to be

⁶ As information on the length of service in the job is available only for laid-off workers in the "up to one year of service" bracket, the distribution shown in table V.3 was assumed for the three sub-brackets.

25% higher than the average pay of workers in the formal private sector. Lastly, the data described are used to estimate the annual payroll, which represents the total wage expense for all workers covered by layoff assistance.

Table V.4
Dominican Republic: contributions base of the General Layoff Assistance Fund
(Number of persons and Dominican pesos at 2014 prices)

Wage earners (number of persons)		
Formal private sector wage earners	1 193 045	
Public enterprise wage earners	40 000	
Total	1 233 045	
Average wages (Dominican pesos)		
Formal private sector wage earners	16 520	
Public enterprise employees	20 650	25%
Annual payroll (millions of Dominican pesos)	246 025	

Source: Central Bank of the Dominican Republic, "Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores", Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

(d) Break-even contribution rate (2014)

Lastly, a break-even contribution rate is estimated (see table V.5) as that which makes it possible to finance all layoff assistance expenses, based on the assumptions and magnitudes indicated above.

Table V.5
Dominican Republic: estimation of the break-even contribution rate of the General Layoff Assistance Fund, 2014

Income base for contributions	
Formal private sector wage earners (number of persons)	1 193 045
Public enterprise wage earners (number of persons)	40 000
Total wage earners	1 233 045
Private sector average wage (Dominican pesos)	16 520
Public enterprise average wage (Dominican pesos)	20 650
Annual payroll (millions of Dominican pesos)	246 421
Benefit expenses	
Annual beneficiaries (number of persons)	132 780
Amount of unemployment assistance (Dominican pesos, monthly average)	30 401
Average benefit amount (days)	43.5
Days of work per month	23.83
Total annual benefit payments (Dominican pesos)	4 036 601 214
Contribution rate (percentage of annual payroll)	1.64%

Source: Central Bank of the Dominican Republic, "Población de 15 años y más por condición de actividad según género y categoría ocupacional, año 2014 y otros indicadores", Encuesta de Fuerza de Trabajo, 2015 [online] http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/.

The estimated contribution rate is equivalent to 1.64% of the basic monthly wage for each worker contracted under the modality that grants the right to layoff assistance and only attains break-even for the base year of 2014. Section C.3 estimates the break-even rate required to finance the system through time.

3. Projections of the General Layoff Assistance Fund and calculation of the break-even contribution rate

To determine the break-even contribution rate that guarantees the financing of layoff assistance benefits through time, a simple projections model has been developed, based on the variables identified in section C.2.

A base scenario has been constructed from the behaviour of the Dominican labour market between 2000 and 2014; and, in particular, the layoff rate (obtained from the open unemployment rate published by the Central Bank), which records average open unemployment of 6.2%, ranging between a maximum of 7.7% and a minimum of 4.7%. It is assumed that the economy will experience two-year business cycles, over which open unemployment will vary between those parameters.

This scenario has been modified for the projections, maintaining the minimum open unemployment rate at 4.7% and raising the maximum rate to 14%, to create a more pessimistic context than that of the recent past. This decision aims to test the “resilience” of FGAC to adverse scenarios and avoid underestimating the system cost, while incorporating the likely effect of a greater relative use of layoff assistance in a guaranteed-payment context. The simulation also assumes that there will be an initial unemployment shock in its first year of operation (the first peak will be attained after 12 months) and its evolution is projected for 120 months (10 years).

The beneficiaries are obtained by applying the open unemployment rates to the monthly labour force estimations, which themselves were determined by applying the annual rates of change of the Economic Commission for Latin America and the Caribbean (ECLAC) for 2014. Monthly data were also established by interpolating the variations between the annual values. Once the total number of openly unemployed was obtained, the total number of unemployed persons entitled to layoff assistance is calculated using the proportions indicated in table V.3.

The amount of the benefit—in other words the average number of days’ pay that each laid-off worker will receive—was estimated from the average benefit shown in table V.3. This is applied to the respective average pay of private sector and public enterprise wage earners, respectively. Average wage growth of 0.1% per month is also assumed.

Once income from contributions and the expenses incurred in the payment of layoff assistance have been estimated, the monthly balance of FGAC is obtained in each month of the projection period. Using the methodology presented in table V.5, a break-even contribution rate of 2.14% of the firm's payroll is recorded.

The results obtained show that the estimated contribution rate of 2.14% makes it possible to finance the benefits in a hypothetical context of high levels of layoff among wage earners; and it duplicates those that have prevailed in recent years. Although the projection exercise makes it possible to modify a set of parameters, it can be significantly improved by incorporating modules of economic activity and its cyclical behaviour, or for coping with shocks, or the labour market (using distributions of time of service and unemployment and wages, for example, where possible), or the incorporation of options that can better represent the behaviour of the agents involved and their track records into and out of unemployment and employment (whether formal or informal).

D. Final comments

The information analysed on the characteristics of unemployment protection in the Dominican Republic, which is based on layoff assistance, show that it is conditional on the cause of the termination of the employment relationship; and it only partly compensates the laid-off worker for income loss and gives limited support for his or her search for a new job. Complete protection would pay sufficient cash benefits to cover an adequate job-search period, and there would be services to support the worker's efforts to find new employment.

Although this is a general feature of severance pay schemes in the region, there is no evidence that there is a fund guaranteeing their financing, like the one being proposed here. The case of Chile is the closest, because, although the severance pay system for unfair dismissal (one month's wages per year of service, up to a maximum of 11 months) continues to operate, it is partially integrated with unemployment insurance. The employer's contribution, which is deposited in individual accounts (1.8% of the worker's taxable pay), is earmarked for the payment of such compensation; and, although the employer's contributions become reserves held outside the firm, there is no evidence suggesting greater use of this mechanism or that it has tended to push up layoff rates.

Greater protection can be achieved by combining cash benefits with labour market engagement and productive support services. When this integration coexists with unemployment insurance, for example, the payment of cash benefits is generally conditional on the beneficiary having undertaken job search or training actions. The main difference stems from

the fact that those cases represent a programme of benefits over a specified time rather than a single payment, as analysed in this study. The proposed FGAC only seeks to guarantee the effective payment of the compensatory cash benefits indicated.

Nonetheless, it is crucial to move towards protection systems like those indicated, particularly in the region's economies (IDB, 2015), because the absence of protection and support in seeking a new job forces many workers to engage in informal activities to survive. Under these conditions, it is no surprise that open unemployment rates are low, but they also are unreflective of the conditions under which labour markets in Latin America and the Caribbean operate.

With regard to the characteristics outlined for the creation of FGAC, there are several design features that warrant definition and development in a feasibility analysis stage. First, by operating as a pay-as-you-go fund, all employers must make periodic contributions for each worker contracted, for the purpose of financing the benefit for those who fulfil the eligibility conditions. For design reasons, some firms will make greater use of it than others, so there will be different frequencies of use. Accordingly, the idea of incorporating a variable component in the general contribution rate should not be ruled out, for this could be increased on the basis of the frequency of dismissals from a firm, so as to discourage the use of FGAC beyond what is really justified.

Moreover, the entity that manages the Fund must maintain an up-to-date record of affiliated workers and the mandatory contributions made; and sanctions must be established for non-compliance or failure to pay the contributions on time. Making sure that FGAC contributions are duly paid is essential for achieving two simultaneous effects: financing the unemployment assistance benefits and minimizing situations of litigation over the recognition and payment of these rights, which will benefit both employers and workers.

The simulation exercise shows that financing requirements decline after the first five years of system operation, so monitoring and evaluation need to be constant from the moment at which the system starts to operate. The option of establishing a maximum number of contributions per worker is also worth considering.

Lastly, there is a need to assess the viability of reallocating part of the current employer contribution rate to the Labour Risks Insurance to FGAC, if those resources are shown to be underutilized.

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Chapter VI

Unemployment protection in the Philippines

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A. Background and rationale

Unemployment, of the involuntary type, results from changes in labour demand structure or from cyclical fluctuations in the economy. Structural changes often come about as a natural consequence of economic growth where the sources of growth shift from low-productivity to high-productivity sectors. They can also be caused by a sudden shock affecting one or more sectors, for instance, through terms-of-trade changes in relevant inputs and outputs. Cyclical factors can stem from changes in domestic or external aggregate demand. Finally, unemployment can also result from changes at the individual level that affect workers' ability to work. Regardless of the reason, individuals who become unemployed should still be able to live decent lives.

The objective of establishing unemployment protection schemes is to protect working individuals against loss of income arising from loss of employment. Other countries also consider the needs of the families of the individuals who become unemployed. Typical schemes combine income security and employability enhancement.

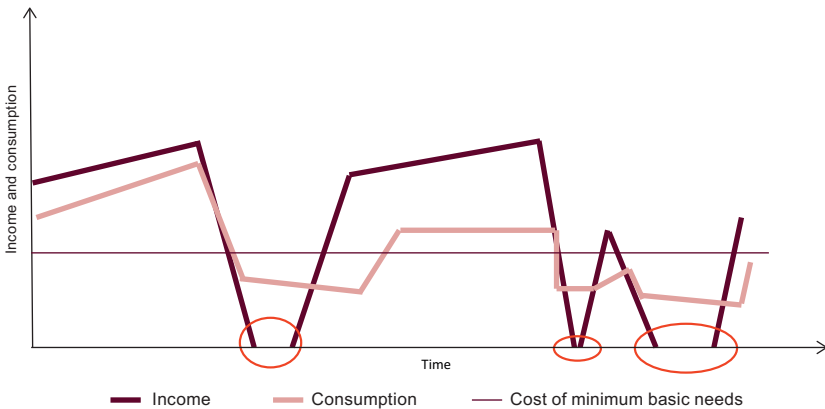
This chapter describes the unemployment protection schemes in the Philippines. Section B simulates the employment episodes of a typical individual and describes what can be done to protect him or her against the adverse effects of unemployment.

Sections C and D discuss the existing and proposed unemployment protection schemes, respectively. In section E, the proposed schemes are analysed using the parameters set forth in the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168). Section F discusses an empirical model and presents data that can be used to improve unemployment protection schemes. The last section contains concluding remarks.

B. Conceptual model of (un)employment

Figure VI.1 illustrates the time trend of an individual’s income, consumption and the cost of minimum basic needs. Income, as expected, depends on whether the individual is employed or unemployed. The lines are drawn starting from the first time that the individual is employed. If the individual becomes unemployed, current income drops to zero. In that case, consumption will have to be reduced as well, possibly falling below the amount of his or her minimum basic needs, but never reaching zero. To compensate for the lack of income, the individual uses savings or borrows.

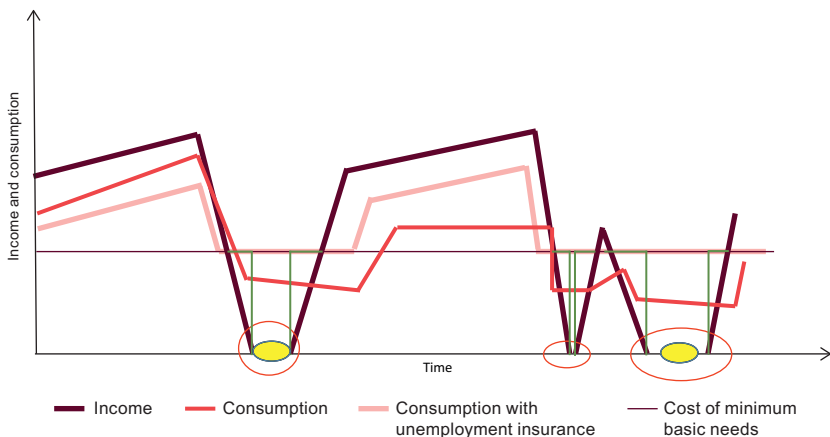
Figure VI.1
Time trend of income, consumption and minimum basic needs without unemployment protection



Source: Prepared by the authors.

The main objective of unemployment protection is to ensure that the individual can maintain a consumption level of at least the minimum basic needs, even if he or she is unemployed. Figure VI.2 illustrates the potential impact of different mechanisms under unemployment protection: (1) strategies to reduce the occurrence of unemployment; (2) strategies to shorten the duration of unemployment; and (3) an insurance mechanism (that is, unemployment insurance). In the case of unemployment insurance, premium payments are collected during times that the individual is employed and earning above minimum wage, while assistance is provided during periods of unemployment. In addition, there could be a minimum wage law to ensure that the individual can afford at least the minimum basic needs when he or she is employed.

Figure VI.2
Time trend of income, consumption and minimum basic needs
with unemployment protection



Source: Prepared by the authors.

C. Existing unemployment protection schemes

1. Government Service Insurance System (GSIS) unemployment benefit

Of the social security programmes available to employed individuals, only the Government Service Insurance System (GSIS) provides unemployment benefit to its members. Section 22 of Republic Act (RA) 8291 stipulates the conditions and provisions of this benefit.

(a) Access conditions

This benefit is accessible only to permanent government employees who were involuntarily dismissed from service due to the abolition of their office or position resulting from reorganization. Likewise, qualified members must have paid the required premium contributions¹ for at least one year but not more than 15 years prior to separation.

(b) Amount, duration and payment

The benefit is given as monthly cash payments equivalent to 50% of the average monthly compensation; the duration of the benefit depends on the length of service of the individual (see table VI.1).

Table VI.1
Government Service Insurance System schedule of unemployment benefit

Contributions made	Duration of benefit (months)
1 ≤ years < 3	2
3 ≤ years < 6	3
6 ≤ years < 9	4
9 ≤ years < 11	5
11 ≤ years < 15	6

Source: Prepared by the authors.

(c) Repayment scheme

Assuming reemployment,² the accumulated unemployment benefit paid to the member will be deducted without interest from the individual's separation or retirement benefits, depending on the nature of the termination of the membership.

Given the low incidence of reorganization in the bureaucracy, the utilization rate is assumed to be very low if not nil. In fact, a generous separation package usually accompanies reorganization in government.

¹ The contribution rate (as a percentage of monthly compensation) is 9% for the employee and 12% for the government. The premium is the compulsory contribution accrued to the GSIS membership.

² Regardless of the sector (public or private), as long as the beneficiary is a member of either the GSIS or the social security system on reemployment (pursuant to Section 3 of RA 7699 or the Portability Law).

2. Security of tenure

During martial law in 1974, President Ferdinand Marcos enacted the Labour Code of the Philippines (Presidential Decree 442). The law decrees a separation payment for employed persons who lose their jobs owing to the installation of labour-saving devices, redundancy or retrenchment to prevent losses, closures, or other events not due to serious business losses or financial reverses. If terminated due to redundancy or the installation of labour-saving devices, the employee is entitled to a one-time separation payment equivalent to at least one month's salary. If the termination is due to business closures or cessation of operations to avoid losses, the severance amounts to one month's salary or a half month's salary for every year of service, whichever is higher.

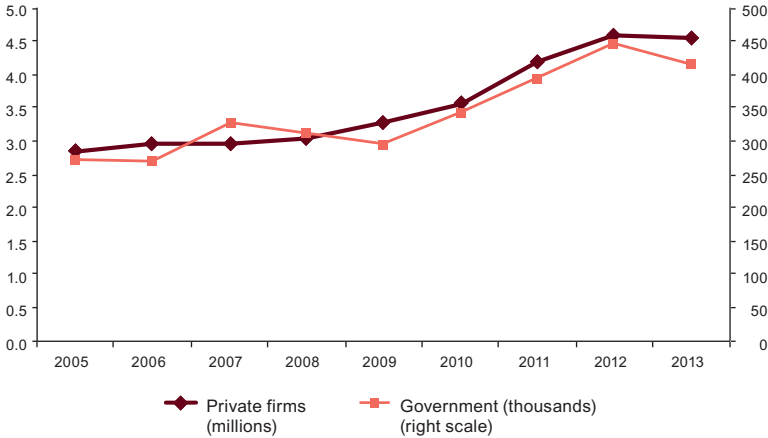
This law effectively limits the occurrence of unemployment (strategy 1 above) by making it costly for an employer to dismiss an employee. In cases where downsizing is unavoidable, the one-time severance pay serves as an income buffer for an involuntarily unemployed worker.

In theory, since the law is applicable to all, it should effectively provide protection against the unwanted effects of unemployment. It is not able to shorten the duration of unemployment, however, nor does it consider whether the one-time severance pay will be adequate for meeting the minimum basic needs of the dismissed worker.

In addition, the law resulted in unwanted repercussions. The high cost of termination is a burden on employers. A recent study by the Department of Labour and Employment (DOLE, 2014) of the Philippines estimates the cost of dismissal to be 4.65 months' pay for every year of service rendered. To circumvent these firing rigidities, employers resort to short-term contracts (less than six months) and subcontracting arrangements. Consequently, the short-term contracts offered to workers are limited to the minimum mandatory benefits under the social security system.

Estimates from the Labour Force Survey show evidence of this contractual phenomenon. Between 2005 and 2013, the number of contractual employees grew at an average annual rate of about 6.2% among private establishments and 6.0% in government. This is at least twice the growth rate of permanent workers in these formal sectors (3.2% in private establishments and 2.1% in government). However, the ratio of permanent employees is still higher than contractual employees (three to one in private establishments and six to one in government).

Figure VI.3
Number of contractual employees in the formal sector, 2005-2013
(Number of employees)



Source: Prepared by the authors, on the basis of Philippine Statistics Authority, Labour Force Survey, October rounds, 2005-2013.

3. Other unemployment protection programmes

(a) The Public Employment Services Office (PESO)

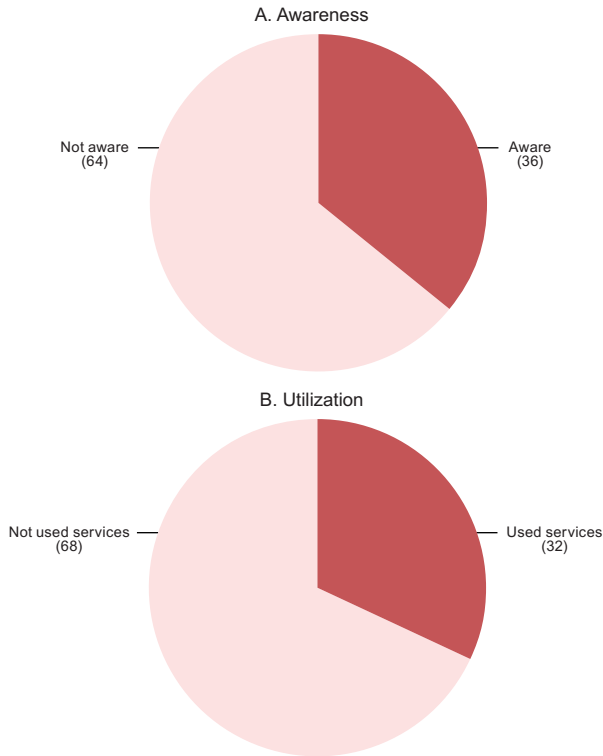
In 1999, a law was passed to strengthen and expand the government’s existing employment facilitation services at the local level. The objective of Republic Act 8759 is to achieve full employment and equal employment opportunities for all. This led to the establishment of a Public Employment Services Office (PESO) in all provincial capitals, key cities and other strategic areas. These community-based offices are maintained by the local government unit and supported by non-government organizations, community-based organizations and state universities and colleges. PESOs are linked to their respective DOLE regional office for coordination and technical supervision and to the DOLE central office, which coordinates the national employment service network.

To date, there are 1,397 operational PESOs around the country.³ However, activities vary among offices depending on where the PESO is located. PESOs in highly urbanized areas where job-seekers abound are busier than their counterparts in less developed areas.

Awareness and utilization of these offices is dismal. Results from a Labour Market Survey in 2008 commissioned by the Asian Development Bank show that only a third of the respondents are aware of the government-operated employment service. About the same percentage said that they have used the services.

³ The total number of established PESOs is 1,925, of which 528 are non-operational.

Figure VI.4
Awareness and utilization of public employment services, 2008
(Percentages of survey respondents)



Source: Asian Development Bank (ADB), Labour Market Survey of Philippine Workers, 2008.

(b) PHIL-Jobnet

An automated job and applicant matching system called PHIL-JobNet is currently maintained by the Bureau of Labour and Employment (BLE) of the DOLE. This online system aims to fast-track searching for both job-seekers and employers. It also features career guidance and employment coaching.

(c) DOLE-QRT

This programme is specifically for displaced workers. A Quick Response Team (QRT) is found in every DOLE regional office to provide an integrated package of assistance to qualified beneficiaries. Assistance includes the following:

- Facilitation of payment of separation benefits.
- Employment services: job matching, employment counselling, skills retraining and livelihood/entrepreneurship development.

- Emergency employment and other subsidies to marginalized and less competitive displaced workers and their dependants.

(d) TVET programmes

The employment facilitation programmes discussed above are complemented by the various technical and vocational education and training (TVET) programmes provided by the Technical Education and Skills Development Authority (TESDA). Displaced workers who are willing to go through skills retraining are linked to these programmes.

(e) *Pantawid Pamilyang Pilipino* Programme (4Ps)

The 4Ps is a conditional cash transfer programme that invests in the health and education of children (aged 0–18 years) of poor households. Cash grants are given to qualified poor households provided that specific conditions are met (including school attendance, vaccinations and regular check-ups with trained health professionals). As of 2015, there were about 4.3 million household beneficiaries. The constant stream of these transfers helps protect poor households from adverse effects of income shocks.

D. Proposals on unemployment insurance

As described the previous section, there is no unemployment insurance scheme provided even for employed individuals in the private sector. Efforts have been made, however, to legislate unemployment insurance.

1. Proposals by the legislative body

The first attempt to institute unemployment insurance was when the Social Security System (SSS) of the Philippines was passed into law in 1954. In addition to other benefits, the SSS was also supposed to provide unemployment benefits in the form of unemployment insurance (Republic Act 1161). However, the implementation was postponed by then-President Ramon Magsaysay due to criticisms from labour and industry and concerns that the provision of unemployment insurance would financially compromise the other SSS benefits due to a probable occurrence of heavy unemployment in the country. The implementation for unemployment insurance was further postponed under President Ferdinand Marcos because the scheme was considered detrimental to the economy when the Philippines was in the early stages of industrial development.

Unemployment provisions were also absent from the Labour Code enacted under martial law in 1974. Given the state of the economy compounded

by the international oil crisis, any proposed unemployment insurance scheme was perceived as an undue burden on employers (SSS, 2009).

Attempts to legislate unemployment insurance increased after the end of martial law and the return of democracy in 1986. Senate Bill Number (SBN) 1121 was one of the first bills to be filed, which placed the burden of the whole unemployment scheme on employers. It was later modified to SBN 1123, which shifted the funding of unemployment benefits to SSS retirement funds instead of employers. The senate bill was prioritized under President Fidel Ramos and reached the second reading. However, for reasons that are not indicated in the Senate transcripts, the bill was deferred and was not considered again till the Tenth Congress resumed in 1995 (Cainghog, 2010).

The Ninth Congress (1992–1995) made the greatest push to legislate unemployment insurance. The Philippine economy was still facing uncertainties due to the adverse effects of the Philippine peso appreciation on the export sector. Contributions to the unemployment insurance scheme were therefore considered an excessive burden on employers, given that they were already making compulsory contributions to the Pag-IBIG fund. Nevertheless, a number of bills were filed in this period in the hope of finally legislating a benefit scheme. These bills were consolidated into House Bill Number (HBN) 14618. Although the bill was supported by 123 members of the House of Representatives, it never got beyond inclusion in the order of business, as Congress went into recess due to the approaching 1995 midterm elections (Cainghog, 2010).

From 1995 to 2010 Congress became increasingly reluctant to pass an unemployment benefit scheme. The Omnibus GSIS Act (Republic Act 8291), passed in 1997, only covered permanent government employees. A mere six bills for unemployment insurance were filed during the Tenth to Fourteenth Congresses. The bills did not go beyond the committee level because of doubts on the sustainability of an unemployment benefit scheme.

Recently, interest in legislating unemployment insurance has surged. A total of five bills were filed during the Fifteenth and Sixteenth Congresses (2010 to 2016), although these bills are still pending for approval. Most of the bills filed in this period do not have concrete funding specifications, as a result of opposition to the legislation based on funding and sustainability issues. The Fifteenth and Sixteenth Congresses also saw the inclusion of overseas Filipino workers (OFWs) as beneficiaries of the proposed unemployment insurance scheme (HBN 02670 and HBN 00316). Table VI.2 compares the conditions and provisions proposed by each bill.

**Table VI.2
Legislative bills on unemployment insurance**

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Eighth Congress					
SBN 1121 (E. Herrera)	Monthly benefit to be determined by the Social Security System (SSS)/ Government Service Insurance System (GSIS)	To be determined by SSS/GSIS	Any employee who was dismissed or separated or whose employment was terminated	Monthly premiums to be borne wholly by employer	No specified repayment scheme
HBN 24737 (N. Montfort)	Allowance equivalent to 40% of daily compensation rate plus 5% for every dependant (shall not exceed 60% of daily compensation rate)	Until reemployment, but not more than 90 days in a calendar year	Any employee who is: (a) Covered as a member of SSS/GSIS and has rendered service for and received compensation from an employer covered under the Social Security Act for 26 weeks; (b) 4 weeks of which must immediately precede the unemployment episode	(a) Private sector: SSS unemployment fund, consisting of 2% of monthly compensation borne by employers (b) Public sector: GSIS unemployment fund, consisting of 2% of monthly compensation borne by employers	No specified repayment scheme
Ninth Congress					
SBN 1123 (E. Herrera and co-authors)	Monthly benefit will be 70% of the highest monthly salary credit in the last 12-month period prior to the semester of unemployment but not greater than 1,000 pesos	120 days maximum	Any employee who was: (a) Dismissed or separated or whose employment was terminated (b) Member of SSS for at least 5 years and for whom 60 monthly contributions have been made prior to the semester of unemployment	SSS reserves for retirement benefits with government guarantee	50% to be repaid within 5 years of reemployment
HBN 3547 (L. Bakunwa)	Monthly benefit is 50% of monthly compensation	Until reemployment, but not more than one year	Any employee covered by GSIS or SSS who: (a) Rendered at least 3 years of continuous service (b) Paid at least 30 monthly contributions; (c) Separated from service other than for cause	2% of employees' monthly compensation, to be paid by employers	No specified repayment scheme

Table VI.2 (continued)

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Ninth Congress					
HBN 9095 (R. Jabar)	Monthly benefit is equivalent to current basic salary per month	Until reemployment, but not more than 6 months	Any employee covered by GSIS or SSS who: (a) Has been a member for at least 5 years (c) Paid at least 60 monthly contributions (d) Unemployment must be reported by the employer to GSIS/SSS	No specified funding	No specified repayment scheme
HBN 9289 (M. Isidro)	Monthly benefit is 75% of monthly salary	3 months	Any employee covered by SSS who: (a) Paid at least 36 monthly contributions (b) Are capable and available for work as certified by the Department of Labour and Employment (DOLE) (c) Are wholly unemployed	Monthly SSS contributions	No specified repayment scheme
HBN 11977 (R. Diaz)	Monthly benefit is 70% of the highest monthly salary credit but not more than 1,000 pesos	Until reemployment, but not more than 120 days	Any employee covered by SSS	(a) SSS reserve fund (b) Payment from beneficiaries	50% of the amount used by the employee to be repaid within 5 years of reemployment
HBN 14618 – consolidation of HBN 3547, 9095, 9289, 11977	Monthly benefit is 1,000 pesos	Until reemployment, but not more than 3 months	Any employee who was: (a) Separated from employment not for cause or was laid off for a period of 6 months (b) A member of SSS/GSIS who has paid at least 30 monthly contributions, the last 6 of which must have been paid consecutively and immediately prior to the semester of separation (c) Not a seasonal or project employee	(a) Loans of 500 million Philippine pesos each from the SSS and the State insurance fund (b) 1 billion pesos annual subsidies from the national government for private sector employees (c) 500 million pesos from existing GSIS funds for public sector employees	50% of the amount used to be repaid within 2 years of reemployment, with 8% interest per year, through compulsory salary deduction

Table VI.2 (continued)

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Tenth Congress HBN 5634 (T. Dejon)	Monthly benefit of 1,000 pesos	Until reemployment, but not more than 4 months	Any employee who was: (a) Separated from employment without cause or was laid off for at least 6 months (b) A member of SSS/GSIS who has paid 30 monthly contributions, of which the last 6 must have been paid consecutively and immediately prior to the semester of unemployment	(a) Unemployment assistance fund with initial funding from loans of 500 million Philippine pesos each from the SSS and State insurance fund for the private sector and from existing GSIS funds for the public sector (b) Annual subsidy from the national government as determined by Congress on recommendation of the President	50% of the amount used to be repaid within 2 years of reemployment, with 5% interest per year, through compulsory salary deduction
HBN 4081 (A.Veloso)	Monthly benefit of 1,000 pesos	Until reemployment, but not more than 3 months	Any employee who was: (a) Separated from employment without cause or was laid off for a period of 6 months (b) A member of SSS/GSIS who has paid at least 30 monthly contributions, of which the last 6 must have been paid consecutively and immediately prior to the semester of separation (c) Not a seasonal or project employee	(a) Loans of 500 million Philippine pesos each from the SSS and State insurance fund for the private sector and 500 million pesos from GSIS existing funds for the public sector (b) Annual subsidy from the national government as determined by Congress on recommendation of the President	50% of the amount used is to be repaid within 2 years of reemployment, with 8% interest per year, through compulsory salary deduction
Eleventh Congress HBN 6305 (J. Hizon)	Allowance equivalent to 40% of daily compensation rate plus 5% for every dependant (shall not exceed 50% of daily compensation rate)	Until reemployment, but not more than 6 months	Any employee who is: (a) Covered as a member of SSS/GSIS and has rendered service for and received compensation from an employer covered under the Social Security Act for 26 weeks (b) 4 weeks of which must immediately precede his unemployment	(a) Private sector: SSS unemployment fund, consisting of 2% of monthly compensation borne by employers (b) Public sector: FSIS unemployment fund, consisting of 2% of monthly compensation borne by employers	No specified repayment scheme

Table VI.2 (continued)

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Twelfth Congress					
SBN 408 (N. de Castro)	Monthly benefit of 70% of the highest monthly salary credit in the last 12-month period prior to the semester of unemployment, but not less than 1,000 pesos nor greater than 3,000 pesos	180 days maximum (can be used once every 5 years)	Members of SSS who worked for at least 4 weeks preceding unemployment	SSS funds	Unemployment benefits received will be deducted from death/disability benefits if the employee dies within 5 years from the last date when the last allowance was due and payable
Thirteenth Congress					
SBN 383 (S. Osmeña, III)	Monthly benefit of 70% of the highest monthly salary credit in the last 12-month period prior to the semester of unemployment, but not less than 1,000 pesos nor greater than 3,000 pesos	180 days maximum (can be used once every 5 years)	Any employee whose employment is terminated and who has been a member of SSS/GSIS for at least 5 years and for whom 60 monthly contributions have been paid prior to the semester of unemployment	SSS or GSIS fund for retirement benefits	Will be repaid by employee within 5 years of reemployment; any benefit will be deducted from any back wages the employee receives if he/she is reinstated to the former position within 1 year of separation
Fourteenth Congress					
HBN 5928 (E. N. Josen)	Monthly benefit will be 50% of average monthly compensation	2 to 6 months (with criteria)	Any permanent or regular employee who: (a) Was involuntarily separated from service due to the abolition of his/her position (usually resulting from reorganization) or otherwise laid off from work due to retrenchment or other similar business decisions (b) Paid integrated contributions for at least 6 months the year prior to separation	SSS funds	All accumulated unemployment benefits will be deducted from voluntary separation benefits

Table VI.2 (continued)

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Fifteenth Congress					
HBN 02670 (G. Arroyo)	(a) For regular, monthly but not specified (b) For overseas Filipino workers (OFWs), 10% of 1% of the total OFW remittance of immediate preceding year	Maximum of 12 months (once every 7 years)	Any employee who is: (a) A regular, paying SSS member of at least 7 years, including OFWs (b) Actively looking for work at least 30 days before filing claim	No specified funding	No specified repayment scheme
HBN 04977 (G. Quisumbing)	Monthly benefit will be 50% of the employee's average monthly compensation	2 to 6 months depending on how long the employee has been contributing to SSS (at least 6 months of contributions)	Any permanent or regular employee who was involuntarily separated from service due to the abolition of his/her position (usually resulting from reorganization) or otherwise laid off from work due to retrenchment or other similar business decisions	No specified funding	All unemployment benefits received will be deducted from the employee's SSS voluntary separation benefits
HBN 02866 (D. Fernandez)	Monthly benefit will be 50% of the employee's average monthly compensation	(a) 1 to 7 months depending on how long the employee has been contributing to SSS (at least 6 months of contributions) (b) Plus one month for every month in excess of 15 years of contributions	Any employee who was: (a) Involuntarily separated from employment and who had contributed to SSS/GSIS for at least 6 months before unemployment (b) Was willing and able to work at time of separation (c) Was not discharged due to grave misconduct or other similar causes	An additional 0.5% of monthly employee compensation as mandatory share to SSS or GSIS from employer	All accumulated unemployment benefits received will be deducted from retirement or separation benefits
Sixteenth Congress					
SBN 450 (R. Recto)	Monthly cash support equivalent to existing monthly minimum wage	2 to 6 months depending on how long the employee has been contributing to SSS (at least 1 year of contributions)	Any permanent employee who was involuntarily unemployed and has been contributing to SSS for at least 1 year prior to unemployment	No specified funding	No specified repayment scheme

Table VI.2 (concluded)

Bill (author)	Benefit	Duration	Access condition	Funding source	Repayment scheme
Sixteenth Congress					
HBN 04668 (R. Mendoza)	Monthly cash support equivalent to existing monthly minimum wage	1 to 6 months depending on how long the employee has been contributing to SSS (at least 6 months of contributions)	Any formal or informal sector worker who is separated from service or has lost means of livelihood due to economic shocks or natural calamities	No specified funding	No specified repayment scheme
HBN 00316 (G. Arroyo)	(a) For regular workers: unspecified monthly benefit (b) For OFWs: 10% of 1% of the total OFW remittance of the immediately preceding year	Maximum of 12 months (once every 7 years)	Any employee who is: (a) A regular, paying SSS member for at least 7 years, including OFWs (b) Actively looking for work, at least 30 days before filing claim	No specified funding	No specified repayment scheme
HBN 05144 (G. Quisumbing)	Monthly benefit will be 50% of the employee's average monthly compensation	2 to 6 months depending on how long the employee has been contributing to SSS (at least 6 months of contributions)	Any permanent or regular employee who was involuntarily separated from service due to the abolition of his/her position (usually resulting from reorganization) or otherwise laid off from work due to retrenchment or other similar business decisions	No specified funding	All unemployment benefits received will be deducted from the employee's SSS voluntary separation benefits

Source: Prepared by the authors.

2. Proposals by the executive branch

The executive branch of the government has issued pronouncements and initiatives supporting the institutionalization of an unemployment insurance scheme. In the Philippine Labour and Employment Plan 2011–2016, establishing unemployment insurance was mentioned twice as a strategic response to (1) strengthen compliance with the constitutional mandate to protect the rights of workers and (2) to ensure universal coverage, expanded benefits, access to social protection and worker safety.

The Tripartite Industrial Peace Council⁴ issued Resolution No. 6 to organize a group to review recommendations on the possibility of setting up an unemployment scheme.

The DOLE Tripartite Labour Code Reforms Project, which aims to review the Labour Code, has also included unemployment insurance in its agenda.

DOLE also implemented the Regulatory Impact Assessment Project,⁵ which reviewed key labour regulations and drafted a regulatory impact statement on employment insurance. The document presented four options for an unemployment benefit scheme with links to active labour market policies to provide training, as well as livelihood and employment facilitation (strategy 1 above).

Option 1 is the provision of separation pay linked to active labour market policies. The link is through an existing policy that requires companies to report to DOLE on all displaced workers, whether for economic or non-economic reasons, 30 days prior to their termination or displacement. On notification, DOLE requires employers to register their terminated or displaced workers with the Public Employment Services Offices (PESOs).

⁴ The council is the main consultative and advisory mechanism within DOLE. This tripartite group, which comprises representatives of organized labour, employers and the government, is responsible for processing major proclamations or guidelines affecting labour, employment and related concerns.

⁵ The following areas also went through the regulatory review: security of tenure; Article 40—positive list; apprenticeship; private recruitment and placement for local employment (PRPA); Public Employment Service Offices (PESO); Special Programme for the Employment of Students (SPES); Magna Carta of Filipino Seafarers; and overseas employment. This project was implemented in 2012–2014 as part of the technical assistance programme “Strengthening Institutions for an Improved Investment Climate” by the Asian Development Bank. DOLE and the Department of Tourism were the two pilot agencies for the regulatory impact assessment.

Option 2 is a job search insurance linked to active labour market policies. Registration with a PESO is a precondition for receipt of the job search allowance and access to active labour market policies.

Option 3 is an unemployment insurance savings account linked to active labour market policies. Both worker and employer would contribute to the savings account and the government also contributes a fixed amount. In this option, active labour market policies are linked to the account through a mandatory registration system for terminated or displaced workers.

Option 4 is a proposal to institutionalize an employment insurance system through amendments of Article 283 (authorized causes for dismissal) of the Labour Code and the Social Security law. It also includes the transformation of the separation pay benefit under the authorized cause for dismissals into an income support or unemployment benefit under an employment insurance fund. This would require an amendment of Article 283 of the Labour Code. This option seeks to prevent or minimize the employer's dismissal costs by spreading them as premium payments over the period that the worker is employed. This contrasts with the current scheme, in which the employer makes a one-time payment upon termination of employment.

Table VI.3 shows the different options proposed.

3. Proposals by the International Labour Organization

The International Labour Organization (ILO) provided technical assistance for an unemployment insurance feasibility study for the Philippines. The study, conducted in 2009, analysed the situation of unemployed workers in the Philippines and concluded that there are gaps in the country's social protection programmes.

Using ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) as a framework, the study encouraged the introduction of an unemployment insurance that is financed by contributions from employers and employees (starting at 1% of the worker's salary, for each party) to provide basic protection in case of unemployment. This proposal is considered a feasible and responsible solution for both employers and employees. The study also recommended that the proposed scheme be administered by SSS/GSIS for financing and cash benefits, the Public Employment Services Offices (PESOs) for registration and job facilitation and the Technical Education and Skills Development Authority (TESDA) for possible training services. Table VI.4 highlights the provisions of the proposal.

Table VI.3
Options proposed by the Department of Labour and Employment (DOLE)

Option	Cash benefit/benefit	Administrative structure	Cost attribution
Option 1. Separation pay linked to active labour market policies (enhancement of existing unemployment benefit programme)	Income support		
	Severance pay (one-time payment)	Private company	Employer cost
	Active labour market policies		
	<ol style="list-style-type: none"> 1. Employment services to facilitate return to employment 2. Livelihood/entrepreneurial training based on need evaluation, to serve as income support 3. Skills training based on need evaluation, to upgrade skills and capabilities for better employability 	Administered by the Public Employment Services Office (PESO), DOLE, Technical Education and Skills Development Authority (TESDA) and other government agencies	<p>Cost of establishing and maintaining a PESO one-stop-shop structure</p> <p>Government cost for administering livelihood/ entrepreneurial programmes</p> <p>Employer and government cost for skills training</p>
Option 2. Job search insurance linked to active labour market policies (three-dimensional strategy)	Income support		
	Periodical job search allowance	Administered by government through the Social Security System (SSS)	Employer-employee shared contribution
	Active labour market policies		SSS administration cost
	<ol style="list-style-type: none"> 1. Employment services to facilitate return to employment 2. Livelihood/entrepreneurial training based on need evaluation, to serve as income support 3. Skills training based on need evaluation, to upgrade skills and capabilities for better employability 	Same as option 1	Same as option 1

Table VI.3 (concluded)

Option	Cash benefit/benefit	Administrative structure	Cost attribution
Option 3. Unemployment insurance savings account linked to active labour market policies	Income support		
	Withdrawal from the savings account	Private establishment to manage the savings account	Both worker and employer contribute to an individual savings account for the benefit of the worker Government also contributes a direct, predetermined amount established by law
Option 4 Gradual building of employment insurance using existing DOLE and TESDA programmes	Active labour market policies		
	<ol style="list-style-type: none"> 1. Employment services to facilitate return to employment 2. Livelihood/entrepreneurial training based on need evaluation, to serve as income support 3. Skills training based on need evaluation, to upgrade skills and capabilities for better employability 	Same as option 1	Same as option 1
Option 4 Gradual building of employment insurance using existing DOLE and TESDA programmes	Income support		
	Transformation of the separation pay under current law to an income support benefit under an integrated employment insurance system	A fund manager would manage the employment insurance fund. In the discussions by the employment insurance task team, the SSS was identified as a potential fund manager	Employer cost (approximately equal to separation pay cost)
Option 4 Gradual building of employment insurance using existing DOLE and TESDA programmes	Active labour market policies		
	Programme integration (existing programmes on livelihood, training and entrepreneurship), designed to assist workers during spells of unemployment	DOLE and TESDA for the existing programmes; PESO and PHIL-JobNet as the backbone of programme integration (reporting system)	DOLE, TESDA PESO

Source: Prepared by the authors.

Table VI.4
Proposal by the International Labour Organization (ILO)

Author	Benefit	Duration	Access condition	Funding source	Repayment scheme
ILO Feasibility Study	(a) 50% (alternatively 60%) of the last average monthly salary credit (b) Training opportunities and aid for job search	Maximum period of 10 months	Members of the Social Security System (SSS) or Government Service Insurance System (GSIS)	Contributions from employers and employees in equal shares	No specified repayment scheme

Source: Prepared by the authors, on the basis of A. Weber, “Social Protection in the case of Unemployment in the Philippines. Draft for Discussion”, ILO Feasibility Study, International Labour Organization (ILO), 2010.

The proposed scheme initially covers enterprises with 10 or more employees who are already SSS or GSIS members, but the objective is to include all employees in the Philippines.

E. An analysis of the proposed schemes

This section analyses the proposed schemes outlined above in accordance with ILO Conventions No. 102 and No. 168. The relevant parameters for evaluation are coverage, funding, access to benefits and the duration and size of benefits.

1. Coverage

ILO Convention No. 102 establishes that not less than 50% of all employees should be covered, while the required coverage is higher under ILO Convention No. 168, at not less than 85%, including public employees and apprentices.

Common to the proposed bills is the coverage of employees in the formal sector, since those covered are members of either SSS or GSIS. This would meet the standards set by either of the Conventions. SSS reports a membership of 23.7 million employees as of March 2015, which is close to the estimate of 22.6 million wage and salary workers recorded in the April 2015 Labour Force Survey.⁶ The more stringent bills (HBN 5928, SB 450 and HBN 01544) limit the coverage to permanent or regular employees.

2. Funding

Employees’ contributions should not exceed 50% of the financial resources allocated. This is consistent with the fact that social protection is a basic

⁶ The latest estimate published by PSA excludes Leyte Island (about 600,000 wage and salary workers, based on earlier estimates).

human right, such that the primary duty-bearer is the State. ILO Convention No. 102 further stipulates that rate-setting should be determined by actuarial studies and calculations.

The main identified source of funding among the proposed bills is SSS (and GSIS for the public sector). The bills filed before the Thirteenth Congress had more details on additional funding sources. HB 14618 proposed a 1 billion peso subsidy from the national government on top of 500 million pesos each from the SSS and the State insurance fund for private sector employees and 500 million pesos from existing GSIS funds for public sector employees. HBN 5634 proposed a 500 million peso loan each from SSS, the State insurance fund and GSIS to establish the unemployment assistance fund. In addition, it would require an annual subsidy from the national government.

A number of suggestions were given among those that mentioned contributions. SBN 1121, HBN 3547, HBN 6305 and HBN 2866 proposed a certain percentage (0.2% to 0.5%) of monthly employee compensation as a premium, to be borne solely by the employer. On the other hand, two of the options presented in the DOLE Regulatory Impact Assessment on unemployment insurance involved cost sharing between the employer and employee.

This particular provision is the most contentious issue that has impeded the process towards instituting an unemployment benefit scheme. Furthermore, information is lacking regarding the financial viability and sustainability of the proposed schemes.

3. Conditions of access to benefits

Both Conventions require a qualifying period to prevent abuse of the benefit. Under ILO Convention No. 168, employees who were laid off owing to misconduct or who were voluntarily terminated without cause are excluded. Additional provisions on the failure to use facilities for vocational training or employment facilitation may be used as grounds for refusal of the benefit.

The specified access conditions in the various proposals discussed above comply with the ILO standards. A qualifying period is required as a precautionary measure. Qualifying the nature of employment termination is also consistently defined across proposals. Of those that identified SSS or GSIS as a funding source, continuous payment of the premium is also set as a condition.

None of the proposed bills linked the benefit schemes to active labour market policies or programmes. In contrast, this was clearly specified in all the options presented by DOLE. There is, however, the prerequisite of registration with a PESO. This might prove problematic in local government units that do not have a PESO. Moreover, there must be provisions to prevent rent-seeking on the part of the PESO.

4. Duration and size of benefits

Both Conventions prescribe temporary, periodical benefit payments. Under ILO Convention No. 102, the proposed benefit should be at least 45% of wage and have a duration of 13 weeks over any 12-month period. The provisions under ILO Convention No. 168 are more generous, with a prescribed benefit of at least 50% of the last wage and a duration of up to 26 weeks per period of unemployment or 39 weeks over any period of 24-month period.

With respect to the size of the benefit, all the proposals are within the prescribed amount except for HBN 9289. A unique scheme mentioned in one of the DOLE options is the transformation of the separation pay into unemployment benefits.

Except for HBN 3547 and HBN 00316, the proposed duration of the benefits meets ILO standards. The common proposed duration is from three to six months.

5. Organizational structure

The proposed unemployment insurance will be administered by SSS or GSIS, since the proposed benefit is in addition to the benefits available to those already covered by these two agencies.

One of the options presented by DOLE is for PESOs to administer the registration of qualified beneficiaries.

F. Empirical data on the transient unemployed

1. Profile of the unemployed

A better understanding of the characteristics of the unemployed is necessary for designing an appropriate benefit scheme. Panel data were therefore gathered using several rounds of the Labour Force Survey to profile the unemployed. The Labour Force Survey provides a quantitative framework for the preparation of plans and the formulation of policies affecting the labour market. It is designed to provide statistics on levels and trends of employment, unemployment and underemployment for the country as a whole and for each of the administrative regions. The Labour Force Survey is conducted on a quarterly basis, in the first month of the quarter.

The July 2012 and January 2013 Labour Force Survey rounds were used to create a panel data set showing unemployment trends in the country. Household identification number, age, sex and relationship to household head were used as merging variables to come up with 88,684 unique household member observations (41,833,823 cases when using weights).

The labour force can be categorized into four groups: the persistently employed, the transiently employed, the transiently unemployed and the persistently unemployed. The operational definition of the four categories is given in table VI.5.

Table VI.5
Employment categories

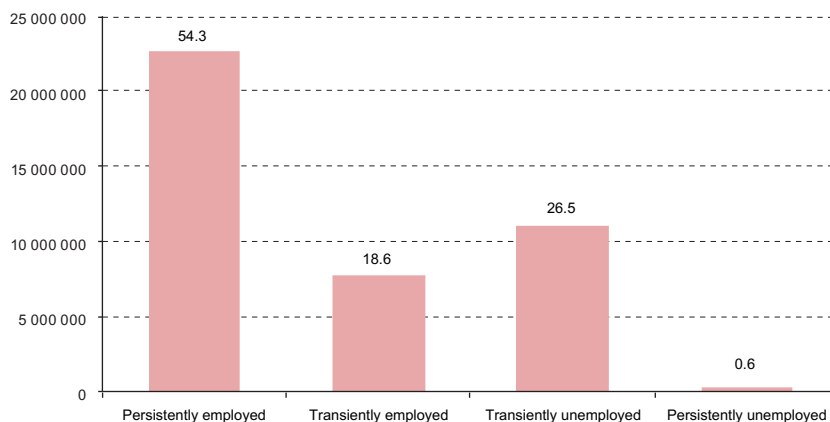
Definition	Quarter previous to July 2012	July 2012	Quarter previous to January 2013	January 2013
Persistent employment (employed in all periods)	Employed	Employed	Employed	Employed
Transient employment (at least one period of being not in the labour force, but employed in other periods)	Employed	Not in labour force	Employed	Employed
Transient unemployment (at least one period of being unemployed, but employed or not in the labour force in other periods)	Unemployed	Employed	Not in labour force	Unemployed
Persistent unemployment (unemployed in all periods)	Unemployed	Unemployed	Unemployed	Unemployed

Source: Prepared by the authors, on the basis of Philippine Statistics Authority, Labour Force Surveys, various rounds.

The data show that 26.5% of the labour force is transiently unemployed (see figure VI.5). Among these transiently unemployed, 48.7% experienced being unemployed once, 47.1% experienced unemployment twice, and only 4.2% experienced unemployment three times. The transiently unemployed would probably need job search assistance more than training, while the persistently unemployed would need both.

With regard to demographic profiles, two of every three persistently unemployed workers are males, while 69% of the transiently unemployed are females (see table VI.6). A significant share of both persistently and transiently unemployed persons are aged 25 to 49 years and have only high school education. A significant proportion of transiently unemployed persons also have a business or are unpaid family workers.

Figure VI.5
Labour force categories, July 2012 to January 2013
(Absolute numbers and percentages)



Source: Prepared by the authors, on the basis of Philippine Statistics Authority, Labour Force Surveys, various rounds.

Table VI.6
Characteristics of the employed and unemployed, July 2012 to January 2013
(Percentages)

Characteristic	Persistent employment	Transient employment	Transient unemployment	Persistent unemployment
Gender				
Male	63.3	40.8	30.9	68.5
Female	36.7	59.2	69.1	31.5
Age				
15-19 years	5.0	53.6	12.0	8.5
20-24 years	9.0	13.3	15.1	33.5
25-49 years	64.0	26.6	50.6	49.5
50 years or over	22.1	6.5	22.3	8.5
Educational attainment				
Less than high school	32.1	15.2	24.9	10.0
High school	40.8	51.9	48.2	48.7
College	27.1	32.9	26.9	41.3
Class of worker				
Wage and salary worker				
Private household	4.1	6.3	6.9	n/a
Private firm	45.2	37.3	46.9	n/a
Government	9.4	3.7	3.4	n/a
Paid family worker (business)	0.3	0.5	0.4	n/a
Own account				
Self-employed	28.4	25.7	26.4	n/a
Employer	4.2	2.8	2.1	n/a
Unpaid family worker	8.5	23.7	14.0	n/a
Sector				
Industry	18.4	2.0	3.7	n/a
Service	67.5	96.7	94.0	n/a
Agriculture	14.1	1.3	2.3	n/a

Table VI.6 (concluded)

Characteristic	Persistent employment	Transient employment	Transient unemployment	Persistent unemployment
Nature of employment				
Permanent job/business/unpaid family work	77.3	48.3	47.3	n/a
Short-term/seasonal/casual	18.7	46.3	48.3	n/a
Self-employed without employees	4.0	5.3	4.5	n/a

Source: Prepared by the authors, on the basis of Philippine Statistics Authority, Labour Force Surveys, various rounds.

Note: The characteristics are based on the initial period. Certain characteristics are not applicable (n/a) to persistently unemployed individuals.

2. Factors affecting employment

A multinomial logistic regression (Mlogit) analysis was used to identify the factors that affect employment and to determine who is at risk of unemployment. The model used sex, age, education, type of worker and sector as determinants. The Mlogit model shows the relative risk ratios of each determinant for the employment categories (see table VI.7).

Table VI.7
Multinomial logit model for employment

Characteristic	exp(B)	Standard error	P value
Persistently employed (Base category)			
Transiently unemployed			
Men	0.441	0.014	0.000
Age group			
15 to 19 years		(base)	
20 to 24 years	0.691	0.043	0.000
25 to 49 years	0.293	0.016	0.000
50 to 65 years	0.353	0.021	0.000
Education			
< High school		(base)	
High school	1.227	0.046	0.000
College	0.858	0.040	0.001
Type of worker			
Wage workers		(base)	
Self-employed/employer	1.024	0.038	0.529
Unpaid family workers	1.297	0.068	0.000
Sector			
Agriculture		(base)	
Industry	1.398	0.080	0.000
Services	1.410	0.077	0.000
No. observations	55,265		
Pseudo R ²	0.0544		

Source: Prepared by the authors.

On average, men are less likely to be transiently unemployed than permanently employed in comparison with women. Compared with workers aged 15 to 19 years, older age groups are less likely to be transiently unemployed than permanently employed. More educated workers are more likely to be transiently unemployed than permanently employed, compared with those who have not completed high school. Compared with wage or salary workers, unpaid family workers are more likely to be transiently unemployed than permanently employed. Lastly, those who work in the industry and services sectors are more likely to be transiently unemployed than permanently employed in comparison with agricultural sector workers.

In summary, women are more vulnerable to being transiently unemployed, as are younger age groups (15 to 19 years) and those with only a high school education. Finally, services sector workers also have a higher risk of being transiently unemployed.

The above empirical model shows that there are different employment time trends depending on sex, level of schooling and sector of employment. With regard to women, further study is needed to determine if these transient unemployment episodes coincide with maternity.

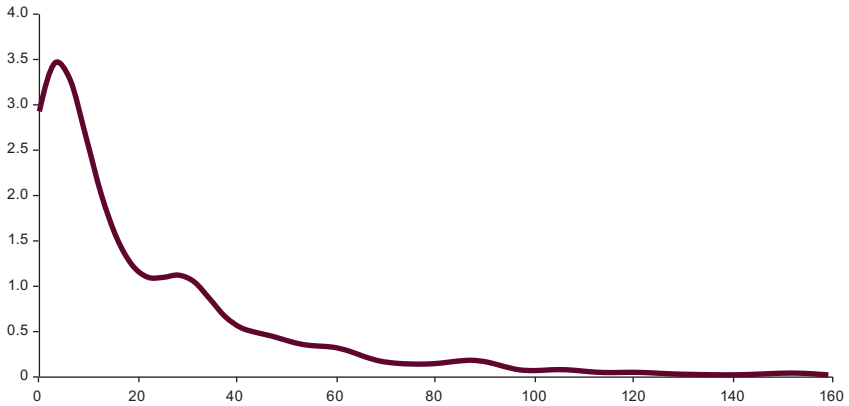
With regard to education, scholarships for tertiary education should be accessible to unemployed workers with only a high school education. Skills development is necessary for these groups to facilitate their return to employment. Continuing education would also improve their chances of securing better-quality jobs.

Finally, industry and services sector workers are more likely to be subject to short-term or casual employment. Enforcing tenure policies in these sectors can help increase the incidence of permanent employment.

3. Length of unemployment and time to find a job

The feasibility of unemployment insurance schemes depends on the duration of unemployment and the time it takes for an unemployed worker to find a job. The panel data used above cover only one year and are thus a poor source for this information. A labour market survey carried out by the Asian Development Bank in 2008 found that the length of unemployment ranges from 0 to 160 weeks, with an average of 10 weeks, though a significant share of workers had experienced unemployment lasting more than 20 weeks (see figure VI.6).

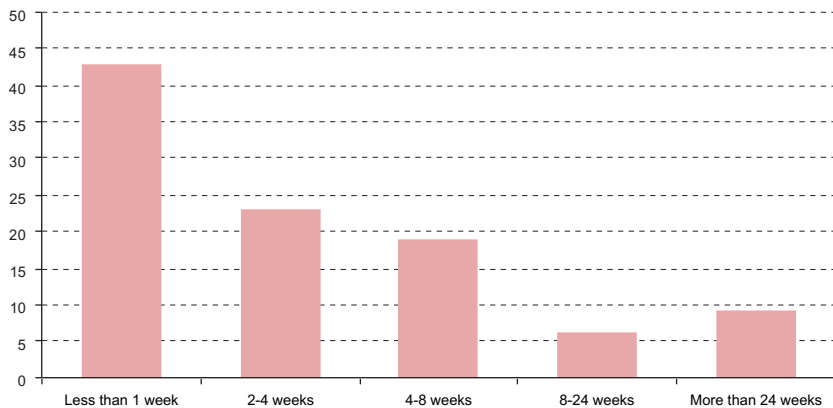
Figure VI.6
Distribution of unemployed workers by length of unemployment, 2008
(Percentages and weeks)



Source: Asian Development Bank (ADB), Labour Market Survey of Philippine Workers, 2008.

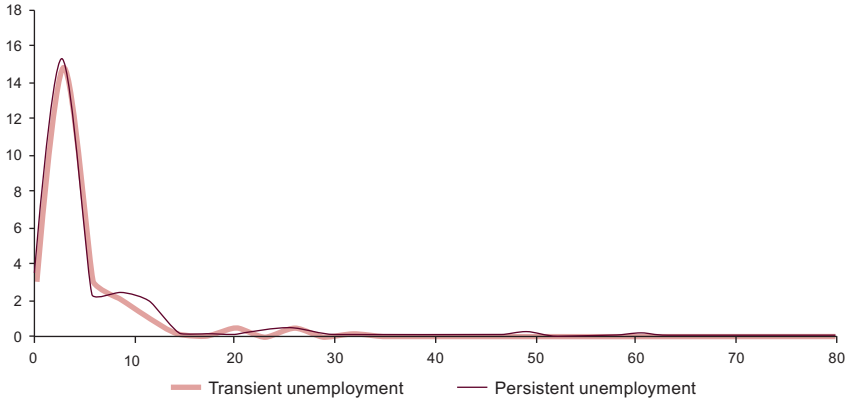
In terms of the length of the job search, the Asian Development Bank survey shows that a large proportion of private sector employees were able to find their current job in less than one week (see figure VI.7). However, more than half reported that it took from two weeks to more than 24 weeks to find their current jobs. In contrast, the Labour Force Survey panel data for 2012 to 2013 show that those who were persistently unemployed took six weeks, on average, to find a job, versus four weeks for the transiently unemployed (see figure VI.8).

Figure VI.7
Private sector employees: length of time to find current job, 2008
(Percentages and weeks)



Source: Prepared by the authors, on the basis of Asian Development Bank (ADB), Labour Market Survey of Philippine Workers, 2008.

Figure VI.8
Distribution of length of job search, 2012-2013
(Percentages and weeks)



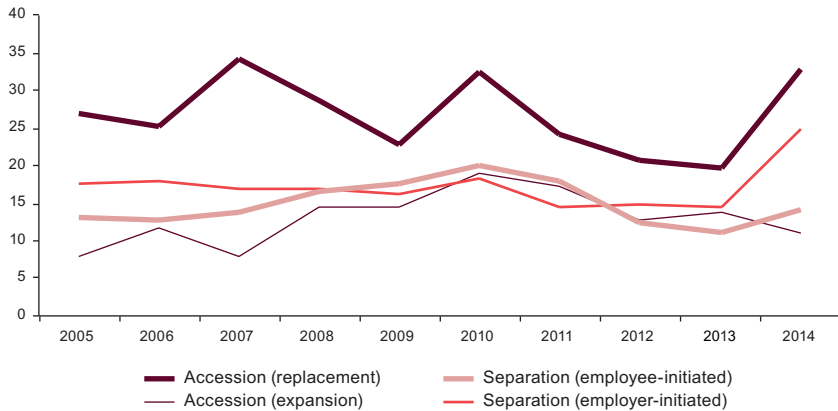
Source: Prepared by the authors, on the basis of Asian Development Bank (ADB), Labour Market Survey of Philippine Workers, 2008.

4. Demand for labour

One factor not taken into account in the empirical model is labour demand. A firm’s decision to hire is necessarily based on the country’s economic growth outlook. Figure VI.8 shows the labour turnover rate reported by large establishments in the Manila Metropolitan Area, as captured through the Labour Turnover Survey conducted quarterly by the Philippine Statistics Authority. The hiring rate due to employee replacement was high throughout the period 2005-2013 (between 20% and 34%), but a downward trend is evident starting in 2010. Turnover is especially high in the services sector, particularly in the retail trade, hotel and restaurant subsectors. At the same time, employer-initiated separation eased from 2011, after holding nearly constant in 2005-2010. Taken together, these figures suggest net growth in employment, coinciding with the economic growth of recent years.

The above findings support the thesis that sustained macroeconomic growth is needed to protect workers against unemployment. Given that shocks do not come with zero probability, unemployment insurance can provide a buffer to vulnerable segments of the workforce. At the same, past episodes of sustained growth are critical for increasing the viability of unemployment insurance.

Figure VI.9
Labour turnover rates
(Percentages)



Source: Philippine Statistics Authority, Labour Turnover Survey, various rounds.

G. Concluding remarks

This chapter has shown that an unemployment protection system requires the active coordination, integration and consolidation of different strategies to reduce the occurrence of unemployment, shorten the duration of unemployment and provide an insurance mechanism. Presently, the Philippines is implementing only the first of these strategies, with efforts focused on reducing unemployment. This has given rise to perverse incentives, however, and may have even increased the incidence of transient unemployment. There are active labour market programmes and certain unemployment insurance schemes, but the former are not implemented as part of unemployment protection and the latter have very limited coverage.

The design of unemployment protection systems must be based on empirical data. To support this process, a more substantial representation of a panel of the labour force over several years is needed. This will also help in the design of unemployment insurance schemes.

Strategy 1—that is, limiting the occurrence of unemployment—remains a critical component of the system. In view of the experience to date, legal and regulatory frameworks need to be evaluated to reduce perverse incentives. According to the panel data discussed above, the incidence of transient unemployment is more prevalent in the industry and services sectors. This may be due partly to enforcement problems or even intrinsic conditions confronting these sectors.

Strategy 2 —shortening the duration of unemployment— is another necessary component. This may include both formal education and informal training. In case of the latter, a training certification system should be developed to facilitate job matching. In some cases, the new demand for labour may require workers to relocate. Where needed, government assistance must be available and accessible to facilitate relocation, including assistance in securing the necessary work permits and clearances.

Strategy 3 —unemployment insurance— will greatly improve protection against unemployment and should be designed on the basis of an extensive actuarial study. Again, the lack of panel data is a serious obstacle to progress in this regard.

1. Financing and sustainability

The unemployment insurance proposal must include a clear and sustainable financing plan. The amount and source of the start-up fund must be clearly specified, and the issue of whether a government guarantee is necessary should be directly addressed. Finally, sustainability must be addressed in terms of who bears the financial responsibility for maintaining the system, with specific requirements for employers, employees and the government.

- For employers, should the unemployment insurance scheme replace severance pay? Or should severance pay be discounted from the unemployment benefits? There is currently strong resistance from the business sector, which is already facing high labour costs and restrictive labour regulations, including mandatory severance pay.
- For employees, is an additional contribution necessary to finance the system? Or is the current contribution sufficient? Should it be charged against other benefits?

2. Institutional capacity to administer unemployment insurance

Social insurance institutions must be equipped to manage the unemployment insurance. They must be able to deal with moral hazard and adverse selection and ensure wide coverage. The existing institutional structure must be assessed to determine whether it is capable of effectively administering the new unemployment insurance scheme, or whether new institutions need to be created. The current social insurance coverage is limited to the formal sector, and the share of workers who are paying SSS members is low (about 37% of registered employees in 2014). Consequently, the implementation of a universal unemployment insurance scheme will necessarily imply a significant expansion of social insurance infrastructure.

Underlying all these issues is the need for sustained economic growth. Economic growth leads to the creation and promotion of all forms

of productive and freely chosen employment, including small undertakings, cooperatives, self-employment and local job initiatives. It is considered the best cure to unemployment with a flexible response to change. At the same time, fiscal sustainability will also provide the funding necessary for active labour market policies and the respective government co-financing required to make unemployment insurance financially viable.

3. The way forward

This chapter has presented a discussion on unemployment protection. The momentum should be sustained by continuing the dialogue with the various stakeholders. In particular, employers should be informed of possible trade-offs, such as lowering the cost of firing by easing the security of tenure.

Furthermore, additional studies are needed to provide more concrete examples and viable options that can be presented in future stakeholder dialogues.

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Part II

**Building national technical and vocational
education and training systems**

Chapter VII

Technical and vocational education and training: a review of experience in developed countries

Gerla van Breugel

Introduction

This chapter presents models and best practices from the national systems of vocational education and training in European countries and in Australia, Canada, New Zealand and the United States. The review of available information was complicated by differences that sometimes appear in key components of technical and vocational education and training (TVET) as used by agencies such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the European Commission and the Organization for Economic Cooperation and Development (OECD). This posed the task, among other challenges, of determining which specific activities constitute vocational education and training, and which do not.

Table VII.1 summarizes some of the key components together with their working definitions, as they will be used throughout this chapter.

Table VII.1
Working definitions of key concepts relating to vocational education and training

Age	Up to 29 years	30 years and over	
Type of technical and vocational education and training (TVET)	Initial technical and vocational education and training (I-TVET)	Continuing technical and vocational education and training (C-TVET)	
Level and type of activity	Secondary level - School-based education - Dual system	Post-secondary	Vocational education Training
Objective	To prepare for first entry into the labour market	To train persons already in the labour market, through:	
		Training for a different occupation	Training for pursuing the current occupation successfully

Source: Prepared by the author.

There is a distinction to be made between initial technical and vocational education and training (I-TVET) and continuing technical and vocational education and training (C-TVET). I-TVET relates to training intended “to equip young learners with skills directly relevant to evolving labour markets” (European Commission, 2010b, cited in Cedefop, 2011). Its primary goal is to prepare young people¹ for their first entry into the labour market. A distinction can be drawn between I-TVET at the secondary education level (mainly in the last two years) and I-TVET at the higher education level.

C-TVET is aimed at adults who are already participating (or want to participate) in the labour market. It consists mainly of practical training activities, through which “adults can update their skills and competences” as needed to improve their performance in their occupation (European Commission, 2010b, cited in Cedefop, 2011). In short, it may be said that I-TVET is more focused on technical and vocational education, while C-TVET gives greater weight to practical training. In this sense, qualification for a new trade for persons who were previously trained in another occupation or trade would be classified as technical and vocational education, although it is frequently categorized as training.

The structure of this chapter follows the key concepts included in table VII.1. It begins by providing an analysis of initial occupational education and training. First, it presents I-TVET at the secondary level, distinguishing its two principal forms: school-based education and dual training. Next, it analyses I-TVET at the higher education level, and then goes on to discuss continuing technical and vocational education and training. The chapter ends with a series of conclusions. As explained above, it must be borne in mind that the distinction between the types and levels of technical and vocational education and training is not always clear, and there will be some occasional overlapping.

¹ The term “young people” refers to persons between 15 and 29 years of age (OECD, 2013).

A. Initial technical and vocational education and training at the secondary level

Initial vocational education and training, that is, the training that young people receive before entering the labour market for the first time, varies among countries in terms of its characteristics and relative importance.² I-TVET is more important in the Nordic countries and in some other countries of continental Europe (OECD, 2010; Eichhorst and others, 2012).

In the developed countries analysed in this chapter, there are two types of I-TVET at the secondary level:³ the first is school-based education, which corresponds to the I-TVET provided in a formal way within an educational establishment; the second is the dual approach, which corresponds to the I-TVET that is provided partly within an educational establishment and partly in a formal workplace (Eichhorst and others, 2012). The following section describes various aspects that are common to both types, before going on to analyse the two types in detail.

1. Common aspects

(a) Participation

Generally speaking, in the German-speaking countries (Germany, Austria and Switzerland), the Nordic countries, those of the former Eastern European bloc and Australia students begin their technical and vocational education at an early age, while in the English-speaking countries examined in this chapter and in the countries of southern Europe they wait until they have completed secondary school (OECD, 2013). The advantage of being able to start TVET at an earlier age is that it gives youngsters whose bent is more practical than academic the opportunity to pursue appropriate studies. However, it is not easy for young people to decide on their future career at this age, and the skills developed through such learning may become obsolete more quickly than those acquired in higher education (Ludwig and Pfeiffer, 2005, cited in OECD, 2010).

Unfortunately, not all students who enter I-TVET at the secondary level will graduate from it. In Canada, for example, one in three students will drop out because of financial or health problems or lack of support from

² This section draws on the information contained in OECD 2010, which compares the I-TVET systems at the secondary level in 16 OECD countries and China. Among them are 13 countries that are relevant for this study: Australia, Austria, Belgium (Flanders), the Czech republic, England, Germany, Hungary, Ireland, Norway, Sweden, Switzerland, the United States (South Carolina and Texas) and Wales. When no other source is specified, the information presented in this section comes from that study.

³ There is a third type—informal education—which covers all the I-TVET that takes place informally in the workplace (Eichhorst and others, 2012). As this type is virtually non-existent in developed countries, it falls outside the scope of this chapter.

their parents (MELS, 2008, cited in Molgat, Deschenaux and LeBlanc, 2011). According to Molgat, Deschenaux and LeBlanc (2011), some firms will hire “nearly qualified” TVET students, taking them on as trainees before they have earned their diplomas. These authors suggest that schools need to be more flexible in order to accommodate the needs of their students and that, in addition to instructors who can teach the skills and know-how of a trade itself, there is a need for professionals to provide support in the psychological, financial and other areas. It also seems essential that schools communicate with businesses on the longer-term importance of having a diploma, and discourage the hiring of “nearly qualified” young people. The government (perhaps at the subnational level) could help through funding that will let the schools hire professionals from other areas beyond the educational field, and applying a system of bonuses for firms that allow their apprentices to complete their studies (or fines, in the contrary case).

(b) Financing

Generally speaking, financing of I-TVET at the secondary level is shared by the State and the student (or his or her family), in the case of school-based education. In the case of dual TVET, the firm also contributes by paying a small wage to the trainee, along with a contribution in kind, in the form of learning facilities and the trainer’s time. When it comes to financing by the students themselves, there is a great variety among the countries examined: in some cases, the students pay nothing for their I-TVET, in others only some pay, and in Australia and the Netherlands all students pay (although only for a portion of the total cost). Some countries offer scholarships, others provide loans, and Australia and Austria offer a tax exemption for those who pursue TVET at the secondary level (Kuczera, 2010).

(c) Institutional framework

Participation by the social partners in I-TVET varies a great deal among OECD countries, in terms of the various tasks related to the process of education and training, participation in advisory boards, or the taking of decisions, and the forum in which this participation occurs: national, sectoral, or regional. For example, Denmark has a national advisory commission with representatives of government, employers, labour unions, institutes and teachers, which advises the Ministry of Education, monitors programmes and trends in the labour market, and recommends changes in qualifications. In Switzerland tasks are distributed among the different administrative levels (Confederation and cantons) and among social stakeholders. This distribution of tasks is defined by law: the Confederation is responsible for strategic planning and development, the cantons for implementation and supervision, and the social partners for defining the content of the courses and providing apprenticeships in companies. Major decisions are taken jointly, and all partners are represented at both the national and the cantonal level.

On the other hand, in Austria, Belgium (specifically Flanders) and the United Kingdom, there are sector entities that organize technical and vocational education and training. The 25 Sector Skills Councils in the United Kingdom are employer-led bodies that determine the skills and qualifications that are needed in their sector and are eligible for public funding. In Belgium (Flanders), the government and the sectors negotiate two-year protocols covering topics such as collaboration between schools and businesses, and workplace training for apprentices, jobseekers and employees. In addition, the sectors operate sector funds with contributions from companies and employees to support the training of potential employees as well as school-company collaboration, among other purposes. In the Netherlands there are 46 regional TVET centres, each of which has a supervisory board that includes representatives of the social partners. The 46 centres support all the vocational schemes financed by the Dutch government at the secondary level, and they provide adult education.

In general, the literature shows the importance of involving employers and labour unions in the development of I-TVET policies and measures, so that they will feel a commitment to the system. When it comes to the employers, it is important that their representatives should reflect the varying opinions among firms and that they should have sufficient regard to general skills and not only to specific ones. The unions, for their part, want workers to benefit from high-quality training with transferable skills, but it has also been argued that they want to protect wages against the downward pressures that could flow from greater access to specific trades (OECD, 2010). Consequently, the government needs to represent the interests of students and to balance the perspectives of employers and unions.

(d) Qualifications frameworks

Many OECD countries have introduced or are in the process of introducing qualifications frameworks, especially in Europe, where they are based on the European Qualifications Framework.⁴ These frameworks classify qualifications independently of the manner in which they were acquired, and they generally include both vocational and academic qualifications. A qualifications framework can serve to clarify how qualifications relate to each other, and it can offer a platform for collaboration among the partners involved, boost the quality of qualifications in order to obtain a certain position in the ranking and, lastly, provide information to employers on the skills levels that correspond to each qualification.

The frameworks differ in that, among other aspects, they can be comprehensive or partial, and they can be implemented from the central or

⁴ The European Qualifications Framework establishes eight levels of qualifications in terms of learning outcomes, and is intended to facilitate comparison of different forms of training in member countries of the European Union so as to foster worker mobility among them.

local level. A comprehensive framework offers greater consistency among all qualifications, while a partial framework is easier to implement and test. A centralized framework can be linked to other national policies; however, a decentralized framework is more attractive for stakeholders and has greater flexibility (Coles, 2006, cited in OECD, 2010). It is important to apply a suitable methodology that can objectively distinguish the levels of courses and programmes and that is based on programme outcomes as measured by skills instead of programme components, although this is not easy to achieve in practice.

Experience with the implementation of qualifications frameworks has shown that it is critically important for the framework and its implementation to have the support of all labour market stakeholders, as has been identified in Scotland (Coles, 2006, cited in OECD, 2010) and that the representatives of those participants must have the required technical knowledge (Young, 2005, cited in OECD, 2010). Moreover, the qualifications included in the framework must cover a broad range of market-relevant occupations and skills. However, if there are too many qualifications this will diminish the value of each qualification, and the ideal number will depend on the context in each country. Lastly, gradual implementation based on existing qualifications will be more successful than full and immediate implementation. One suggestion might be to begin in certain industries that already have homogeneous qualifications standards accepted throughout the country, and where stakeholders have a common interest in creating a national qualifications framework (Young, 2005; Raffe, Gallacher and Toman, 2007, cited in OECD, 2010).

(e) Balancing supply and demand

In the countries examined, the students are generally free to choose their career path and companies have the option of offering an apprenticeship position or not. In this context, it is not always easy to maintain a balance between supply and demand. In the academic portion of TVET, some countries leave it to supply to adapt itself to demand. Some researchers consider that competition among providers enhances cost effectiveness, improves student performance, and creates a system better tailored to students' needs (Bradley and others, 2001; Woodfield and Gunby, 2003, cited in OECD, 2010). Others argue that competition pressures can decrease student performance when there is no system of accountability (Wößmann and others, 2007, cited in OECD, 2010). Moreover, as a result of differentiated returns, there may be fewer opportunities offered for disadvantaged, hard-to-reach groups, or the quality of the training may decline (Bradley and Taylor, 2002, cited in OECD, 2010).

In the United States competitive grants are used to improve the flexibility and responsiveness of TVET institutions. For example, there is a grant available for equipment and supplies: to be eligible, schools have

to prove that the equipment has been recommended by the corresponding industry and they must describe how students will benefit from it. In Australia, some states decide which apprenticeships are eligible for their “user choice” funding programme, as a way to ration available places and ensure quality.

Experience in the countries examined indicates that collecting and analysing data on the employment outcomes of TVET students is essential for measuring the degree to which the programmes are meeting the needs of the labour market. With such data in hand, the schools could adapt their training and the public sector would have information as to which programmes and schools need support. Moreover, the information generated would help students when it comes to selecting a career, a programme or school. Such data can be collected through various means, such as a questionnaire administered directly to graduates, a labour force survey, a longitudinal study or a census.

2. School-based education

In many developed countries, secondary school offers students a choice of two streams. The first is general or academic education, and the second is practical training directed at the acquisition of knowledge and skills suited to specific occupations. In many cases, the second stream is pursued and completed within secondary school, with students following a formal curriculum that combines general and occupation-specific knowledge.⁵ Variations in types of school-based I-TVET have to do, first, with the academic level of vocational schooling, i.e. at the lower or upper secondary level and, secondly, with the places of instruction, which may be general schools, specific training centres or institutes. Another difference is reflected in the degree to which the skills acquired can be transferred from one occupation to another, and this is related with the relative proportions of general and specific subject matter in the TVET curriculum (Eichhorst and others, 2012).

(a) Some specific situations

In the countries of southern Europe, such as Spain, France, Greece, Italy and Portugal, I-TVET at the secondary level is mainly of the school-based type and does not play a very important role. The explanation offered by Eichhorst and others (2012) is that there is an apparent lack of interest on the part of employers, due to the structure of the labour market, which is strictly segmented between permanent employees and those on fixed-term contracts, meaning that only a limited portion of young people will have a stable job that would warrant investment in vocational training. Moreover,

⁵ In the United States there is an intermediate form in which, within the framework of general education, students may opt to participate in courses with vocational training content.

young people and their families have strong expectations of upward social mobility, and are therefore likely to prefer academic schooling over technical and vocational training. Lastly, the lesser importance assigned to school-based I-TVET in these countries is an indirect consequence of the subsidies that are awarded for the hiring of young people (Spain) or for temporary employment and training contracts (France and Italy).

I-TVET in the United States represents a special case for several reasons. First, there is a great variety across the country among TVET programmes, which are the prerogative of the state governments, a situation similar to that prevailing in Canada. Secondly, the goal of I-TVET in the United States is different from that of the other countries studied: it is intended to help students explore and choose among future careers rather than, as is the usual case in other countries, to prepare them for a specific occupation. In nearly all the states, high school students are free to elect a TVET programme that will lead to an industry-accredited certificate. TVET students typically develop their practical skills in workshops organized by the school or a regional TVET centre, or through work experience in companies (Forrest Cataldi, 2009, cited in OECD, 2010).

(b) Changes in the transition countries

In countries of the former East European bloc, TVET was very important, and half of all graduates came from vocational schools. Since the transition, however, technical and vocational education has been moved from companies to the general school system, with the closing of in-company schools. Moreover, TVET has been attracting fewer students, as young people have come to prefer a broader education better suited to working in a market economy. As a consequence, the links between companies and vocational schools have been weakened. However, several countries have maintained features of a dual system: this is the case in Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia (see part 3 of this section for a discussion of the dual system) (Eichhorst and others, 2012).

I-TVET systems in these countries have some shortcomings that serve to highlight the aspects of greatest importance in an I-TVET system. For one thing, specialization in a trade or occupation takes place too early, and the curriculum is too narrowly focused on skills and competences in certain subjects. In terms of administration, the provision of I-TVET is excessively decentralized across various ministries, leading to a multiplicity of structures. Moreover, training systems are inflexible and unable to adapt to new labour market needs. A final and no less important aspect is that institutional links between schools, employers and the social stakeholders are missing (Eichhorst and others, 2012).

3. Dual TVET systems

The second type of initial vocational education and training is the dual TVET approach, which combines school-based education with an apprenticeship stint in a company. The objective is to have students acquire general, transferable skills in school, and specific skills in the workplace (Eichhorst and others, 2012). It is the apprenticeship element that is given the greatest weight and is the most notable characteristic of this type of I-TVET. Dual TVET is very common in the German-speaking and Nordic countries and in some countries of the former Eastern European bloc (Eichhorst and others, 2012).

Workplace learning can take various forms as to duration, certification, formal assessment, the apprenticeship programme, the legislative framework and the wages paid, among other aspects.⁶ Dual TVET systems differ not only in the type of learning acquired in the workplace but also in the amount of time students spend there. There is a great variety of programmes and institutions, not only between countries but even within the same country, as is the case in Australia, Belgium (Flanders) and the Netherlands. In secondary-level I-TVET as practiced in the Nordic and German-speaking countries as well as in France, more than half of the programme's time is devoted to practical training instead of school-based education (see Eichhorst and others, 2012). There are also different ways of alternating between time in school and time in the company: these range from combining "school days" and "company days" within the same week (Germany and Austria) to spending two complete years in school followed by a similar period of time in firms (Norway). To choose the most appropriate approach it is important to recognize that some occupations require a great deal of theoretical (school-based) preparation before one can perform useful work as an apprentice. In these cases, it is more efficient to prolong the academic training. In the end, it is more effective to give the companies flexibility to determine the modalities best suited to them and to the apprentices (OECD, 2010).

(a) Participation

The highest rates of participation in dual VET at the secondary level are to be found in the German-speaking and Nordic countries and in some countries of the former Eastern European bloc. For young people from low-income families it can be a difficult undertaking to find an apprenticeship position and complete this stage successfully. For this reason, Denmark has established "production schools" that provide persons under 25 years with jobs in manufacturing, offering them work experience and vocational guidance. There are also partial qualification programmes where young people can obtain a certified degree after shorter period of training (Cort, 2008, cited in Eichhorst and others, 2012).

⁶ For a detailed description of the different forms see ILO (2012) and OECD (2010).

Graduation rates (and dropout rates too) vary considerably among countries, with the completion rate ranging from 31% in England to between 75% and 80% in France, although the figures are not readily comparable (West, 2004, cited in OECD, 2010). For example, it appears that some students who are recorded as dropouts in Germany have in fact switched to another company or another career path (Bessey and Backes-Gellner, 2007, cited in OECD, 2010). To prevent vulnerable students from dropping out in Flanders (Belgium) an I-TVET programme has been introduced that combines one or two days a week of schooling with three or four days in other activities, such as employment, volunteer work or workplace skills development (Flemish Ministry of Education and Training, 2010, cited in OECD, 2010). Austria has special programmes where students work in simulated companies in cases where they cannot follow a dual TVET programme for lack of an apprenticeship position (Hoeckel, 2010)

Dropping out for lack of an apprenticeship position is a problem that becomes especially acute in times of recession. One way of combating this tendency is to offer a temporary state subsidy. Yet this instrument can have adverse effects, such as when companies use apprentices as cheap labour.⁷ Other options are to create apprenticeship slots in the public sector or to arrange for apprentice sharing, whereby a state agency will hire the apprentices and second them to work in companies.⁸ If this does not work, the proportion of school-based instruction can be expanded, or students can be allowed to spend more time in general education, postponing their vocational training until later (OECD, 2010).

(b) Companies

The private sector has an important role to play in dual TVET, as it provides the apprenticeship, pays the related costs, and is also involved in developing the apprenticeship system, i.e. the design of laws, curricula and tests (OECD, 2010). Generally speaking, companies participate voluntarily, but in Germany, Austria and Switzerland they must be accredited in order to be eligible to host the apprentices (Eichhorst and others, 2012).

According to one study on the characteristics of companies that offer an apprenticeship, conducted with data for German firms between 2000 and 2011, slightly over one half of companies are accredited and can offer an apprenticeship (Federal Ministry of Education and Research, 2013). There seems to be a positive relationship between the size of the firm and the likelihood of its being accredited, due probably to the costs that every

⁷ The Swiss case shows how to avoid the exploitation of apprentices as cheap labour (Dionisius and others, 2008, cited in OECD, 2010).

⁸ A government agency hires the apprentices and transfers them as workers to the companies. This means that all administrative aspects, such as pay, insurance etc., are the responsibility of the State.

apprenticeship entails (Eichhorst and others, 2012). However, only 53.1% of accredited firms actually offered internship positions in 2011, and not all of these were taken up.

According to human capital theories (Dekker, 1993), firms have no incentive to invest in general, transferable skills through participation in dual TVET. However, there are in fact a number of advantages to participating. First, companies can learn at low cost about students' skills, and will know exactly what training they have received. Second, it is a way of ensuring an adequate supply of persons endowed with certain skills for the future (Eichhorst and others, 2012). Third, the risk of training students only to have them poached by the competition is low when the company is the only source of demand for certain skills in a given region (Lazear, 2003; Smits, 2007; Gersbach and Schmutzler, 2006, cited in Eichhorst and others, 2012). Data for Germany and Switzerland show that firms benefit from apprenticeships, especially when they are of longer duration, are well-organized, and involve more experienced students (Schweri and others, 2003; Mühleman and others, 2007; Beicht and others, 2004; Dionisius and others, 2008, cited in OECD, 2010).

(c) Management

When it comes to the management of the dual approach to technical and vocational education and training, an important aspect is to balance the needs of the students and those of the firms, as they do not always coincide. Consequently, the entities leading the process of negotiation between the two groups must identify the factors that determine the weighting of each group's needs. The first factor can be summarized as the old adage of "he who pays the piper calls the tune": this tends to bias the contents of the training toward the companies. Second, in the case of young students, they may have trouble deciding their long-term future, and it is therefore important to consider the outlook on the labour market. Third, employers' needs carry more weight when the goal of the programme is direct entry into the workforce, rather than preparation for a higher level of education. In the countries examined there are four ways of striking a balance between the needs of employers and students. In some cases, the provision of apprenticeships by companies is taken as an indicator of the programme's importance to the industry: for example, in Switzerland a programme will not begin unless there are enough firms ready to offer apprenticeships (Kuczera and others, cited in OECD, 2010). In other cases, medium and long-term forecasts of the demand for vocations or skills are prepared, and this information is used in the design of TVET policies, as well as to inform students and the social partners about the outlook for certain I-TVET programmes (Neugart and Schöman, 2002; Cedefop, 2008, cited in OECD, 2010). Yet another option is to use financial incentives to encourage training in sectors where this is in

short supply, offering scholarships to students, as is done in Hungary, or subsidies to businesses that provide apprenticeships.

Another relevant aspect of management is to encourage students and companies to come together and to regulate the type of contract that will govern their relationship. In some countries (Australia, Norway, Switzerland) there are specialized agencies devoted to this activity. These agencies may represent a group of companies or they may be independent, but with close contacts to companies. These agencies may also take responsibility for administrative aspects, while in other cases they will hire the apprentices and make them available to the companies. Part of the management of apprenticeships can be done through a contract, as is mandatory in 11 European countries. This contract will be signed by the firm and the apprentice and, in some countries by the TVET institute as well, and it may include the methodology of instruction, the apprentice's pay, the available facilities, supervision, insurance and other contents of the apprenticeship programme (Ryan, 2000, cited in OECD, 2010).

(d) Quality

There are a number of alternatives for ensuring that the dual VET system is of high quality: first, on the academic side, i.e. the schools and other providers and teachers, and second on the business side, i.e. the companies and trainers. A qualifications framework (at the national level) can also serve as support for maintaining the overall quality of the dual system.⁹

In Sweden, students are free to choose between authorized independent (private) schools and public schools, as both types are publicly funded on a per-student basis. However, in order to be authorized an independent school must follow the national programme of studies (Swedish Association of Independent Schools, 2010, cited in OECD, 2010). As to the quality of the teachers, the 12 OECD countries evaluated require different levels of preparation for the right to teach in a TVET institute, ranging from a professional diploma to a university degree. However, there is an apparent and generalized concern over the ageing of the teaching body and the need to update instructors' knowledge, in line with the pace of change in labour market requirements (Skolverket, 2007; Harris and others, 2001, cited in OECD, 2010). To resolve this situation, persons are sometimes recruited to work part-day in education and to devote the rest of the time to the industry, after having taken a short teacher training course (Rex and others, 2008, cited in OECD, 2010). In Switzerland, teachers take additional courses in a higher education institution dedicated to training TVET teachers (Federal Office for Professional Education and Technology, 2008, cited in OECD, 2010).

⁹ For further details on the qualifications frameworks, see part 1.d of this section.

Another aspect of quality has to do with the companies. In Germany, Denmark and Switzerland, in order to take on apprentices companies must obtain a permit that will be granted only if they meet certain technical and personnel requirements and have a programme of sufficiently high quality, with learning contents consistent with the needs of the occupation (Federal Office for Professional Education and Technology, 2008, cited in OECD, 2010). Experience suggests that the contract signed by the apprentice and the firm (as well as by the TVET institute) helps to maintain a good level of quality (Ryan, 2000, cited in OECD, 2010). Lastly, the use of standardized curricula and examinations could be a means of preventing students from specializing to an excessive degree while acquiring little in the way of transferable skills (Eichhorst and others, 2012). The requirements for in-company trainers also vary among countries, although a professional qualification is generally demanded as a minimum. In some cases, such as Germany and Austria, they may need to have taken a teaching course or to demonstrate teaching skills by means of a test. The topics covered in those courses are primarily related to “soft skills”, such as giving instructions and obtaining feedback, and dispute management (Flemish Ministry of Education and Training, 2009, cited in OECD, 2010), but they may also include pedagogy, legal matters, knowledge of the technical and vocational education and training system, and the problems affecting vulnerable youth (Hoeckel and others, 2009, cited in OECD, 2010). Without proper training in soft skills, it is likely that the trainers will focus solely on technical skills, as was demonstrated in studies of the United Kingdom and Europe (Evans and others, 1990; Kirpal and Tutschner, 2008, cited in OECD, 2010). To demand greater qualification on the part of trainers may be a barrier to entry, but without such qualification the quality of instruction will be diminished (and this will be expressed in higher dropout rates and a lower quality of apprentices), as experience in Germany shows.

Lastly, it is worth mentioning the innovative Finnish programme called *Telkkä*, which has the double goal of bringing teachers up to date with current trends in business, on one hand, and, on the other, of keeping trainers abreast of existing pedagogical trends, through exchanges. Under this programme, a teacher and a supervisor will work as a team for two months. In addition, there will be sessions for planning activities and explaining the programme’s objectives and expectations, including feedback and dissemination sessions (Cort and others, 2004, cited in OECD, 2010).

(e) Financing

There are various components to the financing of dual TVET. Public funding for the school-based portion represents the first component, and ranges in amount from between US\$ 7,100 and US\$ 14,100 (Netherlands) to US\$ 36,200 (Norway) per student for a full course of study. In Switzerland

and the Netherlands, governments also subsidize institutes with a tax deduction, which means that outlays per student in both countries are underestimated. In Germany, Austria and Switzerland, vocational colleges finance the school-based portion of the dual system, which covers general and occupation-specific education, while the costs per student are borne by the government (Eichhorst and others, 2012).

Workplace instruction costs constitute the second component, and are financed for the most part by companies on a voluntary basis: this is the case, for example, in Germany, Austria and Switzerland (Eichhorst and others, 2012). These costs can be divided into two types. The first is the wage that the company pays the apprentice, the amount of which covers a broad range. The second refers to the resource costs associated with the apprenticeship: these include the time of experienced employees, remuneration of training staff, teaching materials and administrative costs, mistakes by inexperienced apprentices, and wasted resources (Richardson, 2005; Rauner, 2007, cited in OECD, 2010).

The costs of training the trainers are financed in various ways: in some cases, the trainers themselves will assume the costs, with an eye to bettering their career prospects and earning a higher salary (Germany), while in other cases these are covered by the firm (Austria) (Gérard and others, 1998, cited in OECD, 2010). While having high-quality trainers requires substantial investment, it is worthwhile: the benefits include having more productive apprentices, achieving better apprenticeship outcomes, and having a pool of higher-quality potential employees (OECD, 2010).

Although companies pay the bulk of on-the-job training costs, governments have introduced various financing mechanisms intended to reduce the associated costs and thereby encourage the availability of apprenticeship positions. The most widely used instruments include subsidies and tax reductions and training levies: in the latter case the State collects a payroll tax from all firms and redistributes the proceeds to companies, primarily for developing the skills of their employees but also for training apprentices (Cort, 2008, cited in Eichhorst and others, 2012). Universal training levies may not be very effective for achieving an equitable distribution of training opportunities, as it is generally the large companies and highly skilled workers who benefit disproportionately from the levy (Gasskov, 1998; Edwards, 1997; Goux and Maurin, 1997; Lee, 2006, cited in OECD, 2010). Sectoral levies may be more attractive for companies, but evidence shows that their results are mixed (Van den Berg and others, 2006; Smith and Billett, 2005; Cedefop, 2008, cited in OECD, 2010). Flat-rate subsidies per training place offered can have drawbacks: first, the resources may be spent on training positions that would have been offered in the absence of the subsidy, and second, there

may be a substitution effect where firms cut back on other types of training that are not subsidized. The results of instruments of this kind have been mixed in Austria, Denmark and Switzerland (OECD, 2010). Another option is the one adopted by the Government of Ireland, which pays apprentices a stipend during their off-the-job training phase.

4. Comparison between school-based education and dual TVET

The dual approach to training has a greater capacity than does school-based education to adapt the practical curriculum to the needs of business, thereby avoiding the mismatch between skills acquired and skills demanded by companies. The dual system also offers a better learning environment for young people whose inclinations are more practical than academic, boosting their motivation and their participation in vocational training. Lastly, contact with firms facilitates rapid integration of young people into the labour market (Eichhorst and others, 2012). The disadvantage of the dual system, compared with the school-based system, is its dependence on the willingness of companies to participate. There is also a risk that companies may exploit young people as cheap labour during their training, especially when there are few employment alternatives (Eichhorst and others, 2012).

Generally speaking, the dual training system seems to favour the transition from school to work, as countries where this system prevails have lower rates of youth unemployment, a lower proportion of youth who are neither in employment nor in education and training (“NEET”), and less frequent youth unemployment spells (Quintini and Manfredi, 2009; Quintini, Martin and Marin, 2007, cited in Eichhorst and others, 2012). Evaluations conducted in Germany showed that between 50% and 60% of apprenticeship contracts were subsequently converted into regular employment contracts (BMBF, 2011, cited in Eichhorst and others, 2012). A study in Australia found that a type of I-TVET that includes a training stint in the workplace enhances by 14% the probability that a young person will complete secondary school with a diploma, obtain a full-time job and pursue a career, in comparison with a student whose vocational training was entirely school-based (Polidano and Tabasso, 2013). In France, again, it was found that students in the dual system have a greater likelihood of passing the final exams and continuing their studies (cited in Eichhorst and others, 2012). Nevertheless, the advantage of easier entry into the labour market for graduates of the dual training system, in comparison with those graduating from the school-based system, seemed to disappear over the long term, according to studies conducted in Germany, France and the Netherlands (Eichhorst and others, 2012).

The dual model offers the benefits of workplace training and academic learning.¹⁰ In some cases the theoretical aspects of a vocation can be mastered more effectively in the classroom. In support of this assertion, one may note the lower costs or risks, as in the case of flight simulators for pilot training, which offer students the chance to learn at a more measured pace than would be required on the job (Robertson and others, 2000, cited in OECD, 2010), and the existence of economies of scale. Lastly, it is possible that not all employers can offer the full learning required.

5. Factors for success in initial vocational education and training at the secondary level

The conclusion from the previous section reaffirms the idea that the dual system is a very effective form of initial vocational education and training at the secondary level. However, this system is not a feasible option for all countries. This section presents the factors for success of I-TVET at the secondary level, including both school-based education and dual TVET.

As noted earlier, OECD countries reveal a great variety of school-based forms of I-TVET. Moreover, it is difficult to draw comparisons among institutions in different countries. Consequently, while no single approach can be identified as the most successful, there are some key elements or factors for success in building a sound I-TVET system:

- It is essential to involve all stakeholders continuously in development of the curriculum in order to ensure its relevance. Those stakeholders are educational institutions, labour unions, employers, and the government (mainly as representative of the students).
- There must be a system of continuous feedback between the labour market and educational institutions.
- There must be adequate funding to finance the materials and the training of teachers, in order to promote a high quality education.
- Competition among the providers of vocational education and training must be encouraged through a mix of private and public funds, together with a degree of flexibility in teaching and staffing issues. However, this competition must take place within the framework of a system of accreditation and quality control, and funds must be allocated on the basis of performance, to ensure the quality of TVET centres.

¹⁰ In Germany, for example, it was found that students graduating from the dual system enjoyed better pay and stronger labour market links in comparison with persons who received only on-the-job training (Adda and others, 2011, cited in Eichhorst and others, 2012).

- The I-TVET system must work within a qualifications framework to ensure that the skills and qualifications acquired are comparable with those obtained in the academic streams. This will promote transition between the two systems and limit the risk of establishing a dead-end vocational schooling stream (Woessmann, 2008; Cedefop, 2008a and 2009a; Carrero 2006, cited in Eichhorst and others, 2012).

Because the dual training system includes a school-based portion and a practical apprenticeship portion, there are other key factors that must be observed in this stage of training:

- The teachers who provide instruction in the school-based portion must have up-to-date knowledge of the industries.
- The design of programmes must take into account the needs of employers (which change rapidly) and of students. For the latter in particular, it is important that these programmes should include basic and transferable skills so as to prepare them for various positions in the course of their career.
- Because vocational training is underappreciated in several countries examined, it is essential that the certifications obtained should be recognized as widely as possible, ideally at the national level, in order to enhance the value of those certifications.
- Good labour market outcomes of graduates should be communicated to potential students, to their families and to society as a whole in order to promote TVET as a sound alternative to a university career, and the design of vocational education and training systems should not exclude future university studies.

The factors for success that relate directly to the workplace are complemented with mechanisms to ensure a high level of quality through an assessment and quality framework that will enhance transparency and facilitate quality control. To this end, it is essential to gather data on the outcomes of workplace internships, both for the apprentice and for the company. A legal framework governing apprenticeships that spells out the status, the rights and duties of employers and apprentices is another key factor. This framework will reduce uncertainty on both sides, and hence will lower transaction costs. Moreover, the apprenticeships offered should cover a broad range of sectors, including services such as education and health, so that all students will have access to I-TVET of the dual type. This factor is even more important at times of recession, in order to retain apprenticeship positions. Lastly, training in the workplace should be supplemented with other forms, such as workshops in the schools, for those cases where there are not enough positions or where the workplace is not the most appropriate venue (OECD, 2010; ILO, 2012; Molgat, Deschenaux and LeBlanc, 2011).

B. Initial vocational education and training at the advanced level¹¹

In vocational education and training at higher qualification levels there is no clear distinction between general and vocational education, as there is in I-TVET at the secondary level. Only Germany has a dual system for I-TVET at the advanced level, while France, England and Ireland operate with a system of certification and recognition. In several countries, post-secondary I-TVET is treated as part of higher education. Norway integrates university education and vocational education, while other countries maintain a separation between these two types (Cedefop, 2011).

1. Participation

There are several options open to students who want to continue their studies after completing vocational education at the secondary level. Some will pursue the same career in I-TVET at the post-secondary level, while others will take the academic route, and a third group will continue I-TVET but in another career. In the Netherlands, for example, 25% of TVET students at the secondary level continue TVET at the advanced level (OECD, 2010). In the United States, two thirds of post-secondary students enrol in programmes classified as “career education” as opposed to “academic education” (National Center for Education Statistics, undated, cited in OECD, 2010). In Germany, in a move to encourage students to pursue tertiary education, the universities have since 2009 offered access to all those with the *Meister* (master craftsman) or *Fachwirt* (commerce) diploma¹² or those with a secondary-level TVET diploma and three years of relevant working experience (Hoeckel and Schwartz, 2010, cited in OECD, 2010).

2. Providers

In Germany, Denmark and the Netherlands, among other countries, post-secondary vocational training institutions offer I-TVET programmes at the advanced level. Since 1990, some countries of the former Eastern European bloc have reformed their higher education systems to distinguish between general education and vocational training, strengthening the latter by improving the vocational schools, by merging specialized institutions, and by establishing

¹¹ This section is based primarily on a study by the European Centre for the Development of Vocational Training (Cedefop), which analyzed 13 European countries: the Czech Republic, Denmark, England, Finland, France, Germany, Greece, Ireland, the Netherlands, Norway, Poland, Portugal and Romania. The results were obtained through documentary searches, structured interviews, and an online survey. See Cedefop (2011).

¹² These are titles awarded in vocational training, representing qualifications that place persons between skilled workers and technicians. Specifically, these titles qualify their holders to train apprentices.

private providers (Cedefop, 2011). England has an integrated system in which nearly all the tertiary institutions are universities. Generally speaking, I-TVET programmes (as well as C-TVET programmes) are offered through a university or through cooperation between a university and a “further education college”. In France, on the other hand, the higher education system is very complex and segmented, with more than 3,500 providers, public and private. Among these, the “*grandes écoles*” or advanced professional education institutions have more prestige than the universities (Cedefop, 2011). In addition to the providers belonging to the public system of general education and vocational training, there are private providers that also offer higher-level I-TVET programmes, such as the private universities and sectoral agencies of Ireland (Cedefop, 2011).

In a number of European countries, the system that differentiates general education from technical and vocational training is under pressure, as post-secondary technical and vocational training institutions take on an increasingly academic orientation, while the universities are introducing vocational activities, following the trend of some universities in the United States. As a consequence of this modernization of post-secondary technical and vocational training institutions, there is a gap between technical and vocational training at the secondary and higher levels. This has translated into the creation of “associate degrees” in the Netherlands: programmes of only two years for adults who have a secondary level vocational diploma. The initial outcomes suggest that the “associate degree” has attracted people who normally would not have enrolled (De Graaf, 2009, cited in Cedefop, 2011).

3. Programmes

In many of the countries examined, the higher vocational education institutions offer bachelor’s degree programmes and, sometimes, a Master’s degree, in all subjects or only in those that are not covered by the universities. In Ireland and Norway there are several higher vocational training institutions that offer doctoral programmes like those of the universities; however, they are more geared to a vocation and to the labour market than are the universities. In some countries, students with diplomas obtained from higher technical and vocational training institutions are not immediately eligible for the Master’s programmes in the universities. The Dutch universities, for example, require graduates from higher technical and vocational training institutions to take a pre-master’s programme. At the Master’s level, several countries are developing a “professional Master’s programme” and in Finland there is already a part-time Master’s programme for persons who have a diploma, three years of working experience, a job, approval from their employer, and a research topic related to their work. In France, the thrust is different, as the University Institutes of Technology (IUT) offer vocational Bachelor

programmes that include an apprenticeship of between 12 and 16 weeks; moreover, the professional Master's studies are directed by non-academic practitioners (Cedefop, 2011).

4. Management

Post-secondary I-TVET may come under the I-TVET regime (as in Denmark), or it may belong to the higher education regime (Portugal). Post-secondary I-TVET is generally the responsibility of a single ministry, but in France there are various ministries in charge of formulating I-TVET policies. In other countries the regional authorities are involved as well: in Germany the ministries of the federal states (*Laender*) participate. Other stakeholders with an influence on post-secondary I-TVET policies are the national agencies for vocational education and training, higher education institutions, chambers of commerce and the social partners. In order to ensure integration of post-secondary I-TVET with the labour market it is important that all stakeholders should collaborate in facilitating occupational practices, as well as in the institutional governance of TVET and in consultations, conferences and the development of programmes of study. However, the weakness of this inter-agency cooperation has been identified as an aspect that must be addressed in order to improve the performance of TVET in many countries (Cedefop, 2011).

5. Financing

National governments finance the bulk of post-secondary I-TVET, but local governments, businesses and students also contribute substantially to covering those costs. The Nordic countries examined as well as the Netherlands provide more in the way of public funding than do countries of the former Eastern European bloc. In some countries, the State is virtually the only source of funding for this type of education, while in others the main financing burden falls on the more decentralized levels of government. Post-secondary I-TVET institutions may also receive competitive funding for projects or research (Germany and Norway) or structural funds from the European Union (Greece and Portugal). Depending on the country, institutions will have more or less freedom in the way they use the State funds. Generally speaking, in the Nordic countries and in the Netherlands institutions are granted more autonomy, but at the same time the funding (or a portion thereof) will depend on their performance. The student payment regime varies between a flat registration fee, paying for specific programmes, or paying for programmes in private institutions. Students who want to study part-time may have to pay all the costs, as is the case in Ireland, while in Denmark employers pay for the complete course when they want courses adapted or targeted solely to their own employees, and in Finland they also share in the financing of education programmes, primarily the vocational ones (Cedefop, 2011).

C. Continuing vocational education and training

At the present time, due in particular to technological changes, initial vocational education and training at the secondary and higher levels is not enough to last throughout working life. It is highly likely that, on various occasions, individuals will have to acquire new training or skills, i.e. take part in continuing technical and vocational education and training (C-TVET), targeted at persons who are already working. While the purpose of vocational education is to acquire skills and capacities for a an occupation different from the one for which a person was previously trained, training or skills development is focused on maintaining and enhancing the skills and capacities needed to engage successfully in an occupation over the medium and long term. Unfortunately, the distinction between technical and vocational training and education is often not very clear, and in some cases the definitions used in the studies examined tend to confuse the two concepts.¹³ Because training is the most important aspect of C-TVET in most of the studies considered, the remainder of this section would use the word “training”, in the sense of skills development, instead of the expression C-TVET. However, it must be recalled that the term is very broad and can include aspects of education.

1. Functioning

The overall objective of training is to boost the productivity and employability of participants and enhance their human capital (Kluve, 2010). Generally speaking, short courses have the goal of improving existing skills, while longer courses are geared to acquiring skills for a new trade (Bergemann and Van den Berg, 2008).¹⁴ Training can be of many types, depending on its content, form, providers and duration. One can distinguish, for example, between courses designed to develop general, i.e. transferable, knowledge and skills, such as language courses or basic computing, and courses intended to develop specific know-how and skills that will be applicable only within a given occupation or company (Kluve, 2010; Greenberg, Michalopoulos and Robins, 2003¹⁵). As to their form, the courses may involve classroom

¹³ This lack of clarity also derives from the fact that studies of this issue are nearly always written in English, using the word “training”, which at times it refers to skills development and at other times to technical and vocational education.

¹⁴ As explained in the introduction to this chapter, long courses geared to preparing persons for a new trade are considered vocational education, while the (generally shorter) courses intended to improve performance in the existing trade are considered as training. However, in many studies that are confined to training there is no clear definition as to what constitutes that training, and it may in fact include courses that correspond to technical and vocational education.

¹⁵ This study, of the meta-analysis type, includes an evaluation of 137 active labour market policy programmes in 19 European countries, including 70 training programmes.

training, on-the-job training,¹⁶ and work experience (Kluve, 2010; Greenberg, Michalopoulos and Robins, 2003). In addition, there are courses organized and conducted by employers themselves, in what is called on-the-job training, and courses organized and conducted by an accredited provider, known as off-the-job training (Picchio and Van Ours, 2013; Kristensen, 2012; Goerlitz and Tamm, 2012).¹⁷ Lastly, training can have a duration ranging from a few days to several years (Bergemann and Van den Berg, 2008; Betcherman, Dar and Olivas, 2004; Kristensen, 2012).

In some cases, before starting a training programme, candidates may receive counselling to determine their interests, objectives and skills and capabilities (Bednarzik and Szalanski, 2012). On the basis of this assessment, the training path best suited to the candidate can be selected. This is the case with a programme in the United States that offers a module for persons who need to update their job skills: it is focused on “learning to learn”, and it prepares participants for a successful return to studies.¹⁸ Another module is targeted at people who are undecided about the next step, and it provides an overview of the hiring process, a review of training possibilities, and an exploration of entrepreneurial avenues as an alternative (Bednarzik and Szalanski, 2012). A further characteristic of this programme is that the entire system functions with the one-stop shop approach (Bednarzik and Szalanski, 2012).

2. Participation

In evaluating government training programmes, a number of factors emerge that seem to influence who participates in the programme. First, this will depend on the selection criteria established for the programme. In Canada, some programmes are targeted at specific groups, such as workers in a selected industry, indigenous people, recently arrived immigrants, persons on welfare, the long-term unemployed, and older workers (Forum of Labour Market Ministers, 2013).

A second factor relates to the personal characteristics of potential participants, such as their education level and working history. Heckman and Smith (2004) show that some people with a lower level of education had no information on the training options available to them, and consequently

¹⁶ Greenberg, Michalopoulos and Robins (2003) identify two subcategories under “workplace training”: training that is provided in a private sector workplace, and subsidized employment in the public sector.

¹⁷ Many studies use the expressions “on-the-job” and “off-the-job” to distinguish between courses. It is not always clear whether this distinction refers to the course provider or the place where it is provided.

¹⁸ The report in question involved 30 case studies of persons who lost their job in Pittsburgh (United States) during the mass layoffs in the steel industry at the beginning of the 1980s (Bednarzik and Szalanski, 2012).

were unaware that they were eligible candidates, or did not know how to enrol. In another study, dealing with the United States programme under the Workforce Investment Act, it was found that participants with an intermediate education were those who received the most training. According to Jacobsen and others (2003, cited in Andersson and others, 2013), this was to be expected, as persons with an intermediate level of education feel they are ready to pursue vocational training, which is not the case with persons who have no schooling. In the case of persons who already have a high level of education, this type of training offers no value added (Barron and others, 1998, cited in Andersson and others, 2013). The same programme shows that relatively young participants receive more training. From the viewpoint of human capital theory, it makes sense to invest in young people because they have a longer time in which to apply the outcome of their training. Moreover, the people who are closest to the labour market, i.e. those who recently lost their job or recently returned to the workforce, have a greater likelihood of submitting an application and being accepted than do those who have been unemployed or inactive for longer periods (Heckman and Smith, 2004).

The third factor has to do with the characteristics of the job. According to a study conducted in Germany, persons who have a job that includes non-routine manual tasks or routine cognitive tasks, or work in which they perform multiple tasks, seem more likely to have had training. This may also explain, in part, why it is highly skilled persons who generally take the initiative to find training (Goerlitz and Tamm, 2012).

Lastly, a further determinant of participation in training is the sector in which the worker is engaged. According to a study in Denmark, the most popular training courses involve vocational or technical training (in comparison with basic courses and higher-level courses) and, in general, courses of this kind are taken more frequently by men and by workers in the private sector. Participation in training of this kind varies greatly among sectors, from 25% in education to 68% in the food and beverages sector. On the other hand, workers in the education sector (for the most part teachers) have the highest percentage of higher-level training, at 46.3% (Kluve, 2010).

3. Providers

There is a broad variety of training providers in the countries examined. Among them are vocational or technical colleges, adult training centres, secondary schools, higher education institutions, and companies (Kristensen, 2012; Bednarzik and Szalanski, 2012). In some countries, such as the United States, some providers may be non-profit institutes (Andersson and others, 2013).

4. Financing

In several countries the government or its agencies will pay for training directly, while in others, including the United States (through the Workforce Investment Act), financing flows through individual training accounts. In this case, programme participants receive vouchers with which they can purchase the desired training directly from a provider of their choice, selected from among the list of approved providers (Andersson and others, 2013). In 2005, the 15 countries that then constituted the European Union (EU-15) spent 66.6 billion euros on labour market policies: however, it is estimated that only 9.7% of that funding was used to finance training. Yet the percentage varies greatly among countries from 4% in Slovakia, 7.5% in Germany and 15.3% in Austria to 23.1% in Norway (Kluve, 2010). In Germany, it is less common for the employer to pay for off-the-job training (where the content is more general): rather, it is the workers themselves, for the most part, who take the initiative to participate in it and to pay for it (Goerlitz and Tamm, 2012). In Denmark, when employees take courses during the workday, they or their employer will receive compensation equal to the maximum benefit under the unemployment insurance programme. The government compensates for between 60% and 80% of incomes and, in many cases, the companies pay the rest (Kristensen, 2012). In Canada, provincial and territorial governments report that, in 2012, they invested 22 billion Canadian dollars in post-secondary education and skills development (Forum of Labour Market Ministers, 2013).

5. Management

Agencies are sometimes created to manage or implement a training programme: an example is to be found in the state and local Workforce Investment Boards (WIB) in the United States, for implementing the federal Workforce Investment Act. These boards receive funding from the federal government and have broad leeway in executing the programme. Hence, there is tremendous variation among different states, among WIBs within the same state, and even among caseworkers of the same board. Some provide training, for example, to every person who appears at their door, while others take into account the benefits (such as unemployment insurance) that the person has already received before applying (Andersson and others, 2013). The performance of the states and the workforce investment boards is evaluated in light of the outcome levels of registrants. On the basis of this performance, each state and board will be rewarded or penalized. This manner of evaluating performance, instead of measuring value added, for example, runs the risk of selecting only persons who are most likely to enjoy a good labour market outcome—the “cream skimming” effect (Andersson and others, 2013). Other programmes enlist not only the training providers and the government but

also representatives of industry, employers, sector organizations and labour unions to ensure that the programmes are responsive to labour market needs (Forum of Labour Market Ministers, 2013).

6. Effects

Studies of the outcomes of training programmes with government financing or co-financing are a fairly recent phenomenon (Kluve, 2010; Betcherman, Dar and Olivas, 2004; Boone and Van Ours, 2004; Card, Kluve and Weber, 2010; Brown and Koettl, 2012; Bergemann and Van den Berg, 2008). Some of them compare the outcome of the training with the outcome from other instruments of active labour market policies, such as programmes for direct or indirect job creation, employment services (intermediation) and the promotion of self-employment and micro-enterprises. Over time, countries have cut back funding for training in favour of support for job-seekers, advice and guidance, and incentives or penalties (Meager, 2009).

However, it has generally been found that training produces better outcomes in terms of unemployment and employment rates than do employment services and subsidized jobs (Boone and Van Ours, 2004). This may be due to the fact that participation by the unemployed in a training programme yields information for employers about those persons (the “screening effect”), strengthens their relative position vis-à-vis employed workers (the “competition effect”) and can facilitate their entry or re-entry into the labour market (the “transition effect”) (Brown and Koettl, 2012). Others argue that training is more effective because it boosts the worker’s expected productivity, improving the match between labour supply and demand, and reducing the probability of a layoff (Boone and Van Ours, 2004). Training also does more to enhance the individual probability of employment than do direct job creation programmes, but to a lesser extent than incentives to the private sector (Kluve, 2010). In addition, the positive effects of training endure over time (Card, Kluve and Weber, 2010). For example, it is estimated that Dutch workers in different age groups who had taken training were less likely by 6 percentage points to be unemployed than were their peers who had not had training (Picchio and Van Ours, 2013).

It should be noted that the magnitude of the effects mentioned seems to depend on factors such as the level of unemployment benefits (Boone and Van Ours, 2004), the economic cycle (Kluve, 2010; Brown and Koettl, 2012) and the specific group targeted by the training programme. According to a study by Betcherman, Dar and Olivas (2004),¹⁹ the unemployed achieve higher employment rates through training, but they do not improve their

¹⁹ This research involved a meta-analysis of 159 studies, of which 77 were training impact studies. Of these, 56 studies related to OECD countries and the other 21 to developing and transition countries.

income levels. Moreover, the effects tend to be less pronounced in developing countries than in developed countries. However, there were no significant effects among workers who were unemployed because of mass layoffs, except in some cases where re-entry was accompanied by comprehensive and costly employment services.

Training targeted at the second group, young people, is not very successful in terms of improving labour market outcomes, at least in developed countries (Betcherman, Dar and Olivas, 2004):²⁰ According to studies in European countries (Kluve, 2010) and the United States (Greenberg, Michalopoulos and Robins, 2003), youth training programmes are less effective than general programmes or those geared to adults. Apparently it makes more sense to improve initial education so that there will be fewer dropouts and other academic problems, than to try to remedy the problems later through training (Betcherman, Dar and Olivas, 2004). Finally, women tend to derive more benefit from training than do men in terms of better employability and a higher rate of transition to work. This effect can be seen in all types of training (Greenberg, Michalopoulos and Robins, 2003), although it is stronger in countries where women have a relatively low workforce participation rate (Bergemann and Van den Berg, 2008).

Training programmes can also have a number of negative effects. First, there may be inefficiencies in the sense that part of the subsidies go to persons who would have taken training without such funding (Lehmann and Kluve, 2010, cited in Brown and Koettl, 2012). Second, there is the so-called “cream skimming” effect that arises when only workers with high employment probabilities are selected into the programme. This negative effect occurs mainly when the entity selecting the candidates is required to show a good reemployment rate for participants (Lehmann and Kluve, 2010, cited in Brown and Koettl, 2012). Thirdly, during the programme a participant will be less likely to find a job than will a person not enrolled in the programme, and this is known as the “locking-in” effect (Calmfors and others, 2001, cited in Brown and Koettl, 2012; Andersson and others, 2013).

In short, a proper evaluation of training programmes must take into account the benefits and costs. However, there are few studies in this area, in part because such evaluations require a number of assumptions. For example, one training programme in the United States shows best results when it is assumed that the direct costs are low, the impact is of long duration, and the social discount rate and marginal costs of public funds are low (Andersson and others, 2013).

²⁰ The few evaluations conducted in Latin America show that youth training can have a positive effect when it is integrated with remedial education, job search assistance, and social services.

7. Factors for success with training programmes

On the basis of the literature review, some factors for success can be identified to guide the design of an effective and efficient training programme:

- It would seem that on-the-job training and classroom training accompanied by real-life workplace experience are the most effective forms, thanks to their initial assessment (“screening”), competition and transition effects (described in part 6 of this section) (Brown and Koettl, 2012; Kluve, 2010; Betcherman, Dar and Olivas, 2004; Greenberg, Michalopoulos and Robins, 2003; Meager, 2009).
- It is important that programmes should be flexible so they can be adapted to local circumstances, that they should be of limited scale and that they should be focused on selected groups (Meager, 2009; Bednarzik and Szalanski, 2012). Specifically, they should guide young people into initial TVET instead of encouraging their enrolment in training programmes.
- Training will be more effective when it is targeted at certain skills and occupations that are in demand on the labour market, as well as at developing analytical skills (Meager, 2009; Bednarzik and Szalanski, 2012). According to Martin and Grubb (2001), the most effective training programmes are those geared to specific groups for which skills deficiencies are a barrier to employment (Meager, 2009). Ideally, the training should lead to a formal qualification, preferably recognized at the national level.
- Employers must be closely involved (Betcherman, Dar and Olivas, 2004).
- Candidates must be properly screened or assessed, and programmes should be audited. Proper assessment will ensure that the programme is right for them and that they can handle and grasp the training content offered (Bednarzik and Szalanski).
- It must be recognized that the effects of training will become evident over the medium and long term and not immediately.

Among the final considerations, some other aspects should be mentioned. A review of labour market policy evaluations in the United States since the Great Depression suggests that while there is no “silver bullet”, there is a variety of programmes can serve diverse goals, which means that there must be some consistency between programmes and goals (O’Leary, 2010). For example, training programmes must respond to employer requirements, they must connect unemployment compensation recipients to reemployment

services, and they must be useful for facilitating the transition between jobs. Moreover, links between employers and employees need to be maintained and strengthened; as well, impending employment disruptions must be communicated to workers and to the community, and services must be well targeted in order to boost programme returns. In short, neither the training system nor its policies should operate in a vacuum: rather, they should be used in tandem with other systems and policies available to combat the negative effects of unemployment.

D. Conclusions

Technical and vocational education and training has great potential and could be a solid complement of general education. To investigate its potential, this chapter has reviewed the national TVET systems of European countries, Australia, Canada, New Zealand and the United States in order to identify and analyse models of good practices as well as factors for success with vocational education and training models. Those models embrace a wide variety of programmes and consequently, in drawing conclusions, a distinction has been made between initial TVET and continuing TVET.

1. Initial technical and vocational education and training at the secondary level

In most of the countries studied, there are secondary-level I-TVET programmes of two types. Dual TVET is common in the German-speaking European countries (Germany, Austria and Switzerland) and in Denmark, although it is also available in France and the Netherlands. This type of training could also be found in countries of the former Eastern European bloc, prior to the transition. On the other hand, school-based education is the most common form of I-TVET in other European countries and in the English-speaking non-European countries. Dual TVET offers advantages through the importance it assigns to formal training in the workplace. Thanks to that emphasis, graduates are able to develop both hard and soft skills that are relevant, up-to-date, and directly applicable; moreover, graduates know that there will be demand for what they have learned, for otherwise the company would not have offered the apprenticeship position. This allows graduates to obtain widely recognized qualifications in the corresponding sector and to acquire a personal familiarity with the world of work. All of this operates under certain conditions: for example, the curriculum must be designed around the needs of the students and of industry in the broad sense, and not confined to the outlook of a single employer; the academic portion and the workplace experience must be complementary, and provided by teachers and instructors of good quality; and there must be a system of assessment

and accreditation based on, for example, a framework of qualifications. In this way, graduates can make a better transition into the labour market, and will frequently earn higher incomes than their peers from other types of TVET and from general education.

However, it could be said that the greatest strength of dual TVET—learning in the workplace—is at the same time its Achilles' heel, as it depends heavily on the business world and its readiness to provide structured apprenticeships of good quality, offering transferable skills and high-quality supervisors, among other factors. Given all these preconditions, it is not surprising that some countries, instead of opting for dual training, will rely on school-based education in which virtually all learning occurs in the classroom and the practical portion is transmitted through simulated laboratory situations. To ensure the quality of this type of TVET, it is essential that the schools should arrange for active involvement by companies, so as to keep abreast of their workforce needs and offer an up-to-date curriculum: this can be done with the help of advisory committees, for example, and teachers who work part-time in industry.

In order for secondary-level I-TVET to be efficient, effective and of high quality, and to have a strong workplace learning component, there are a number of preconditions:

- Close and continuous cooperation among stakeholders, including government, schools, employers, industries and labour unions, so as to ensure an up-to-date curriculum that is balanced and that gives adequate consideration to transferable skills.
- Government supervision of the quality of apprenticeships, creation of a legal framework for the contracts between employers and apprentices, and the development of alternatives for young people unable to find an apprenticeship position.
- The structured offer of apprenticeships by employers, following curricula that allow the apprentices to attend school in order to earn qualifications and that hold out a credible prospect for future employment.
- Acceptance of the fact that apprenticeship contracts are not regular employment contracts, with their attendant duties and benefits.
- Dissemination of the labour market outcomes of graduates, which will boost recognition of TVET as an alternative to a university career that is valid for young people and their families, without precluding future university studies: this, of course, entails gathering data on I-TVET in general, and on its outcomes specifically.

- Investing in the quality of teachers and trainers, establishing minimum requirements, offering training and exchanges, on one hand, and developing a quality framework on the other.
- Developing a qualifications framework of national scope that will accord value to the certificate or diploma obtained.
- Implementing policies to maintain the level and quality of apprenticeships during the down-side of the economic cycle, when the offer of such positions by businesses tends to diminish.
- Extending vocational education and training to sectors beyond the traditional ones, especially in certain services such as education and health, so that more students can reap the benefits of this type of I-TVET.

It should be noted that several of the aspects mentioned above are also applicable to higher-level I-TVET and to C-TVET.

2. Higher-level initial technical and vocational education and training

At the present time, students who continue (or begin) their technical and vocational training at the higher level generally do so in a system comprising two pillars, where vocational training institutions offer I-TVET programmes at the post-secondary level and the universities offer academic training. Generally speaking, the universities enjoy greater prestige than does post-secondary TVET. However, in many countries initiatives have been put in place to bring these two forms of training more closely into line, so that the vocational training institutions will offer programmes that are more academically oriented and involve research, while the universities add vocational activities to their curricula and offer shorter and more practically-oriented courses of study. One of the great challenges in this process of convergence is to allow students who have a diploma or certificate from a TVET institution to enrol at the proper level for continuing their studies in university.

The resources for post-secondary TVET come for the most part from the national government, but also from the subnational levels of government, companies and (to a lesser extent) the students themselves. Generally speaking, the principle followed is “the payer decides”, which means that policies for post-secondary I-TVET are developed primarily by the ministries of education and, less frequently, by the labour ministries. Several countries also have a national TVET agency, and the universities and the post-secondary TVET institutions are actively engaged in policy formation. However, in some countries the participation of labour market stakeholders is rather weak. Such participation can be achieved and enhanced through labour practices, institutional governance, consultations, conferences, and joint development of the study programmes.

3. Continuing vocational education and training

Continuing TVET (C-TVET) is aimed at persons who have already entered the labour market, and it extends throughout their working life. Training is the most important component and it is focused on maintaining and enhancing the skills and capacities necessary to exercise a vocation successfully, now and in the future. In this area, government-financed training programmes fall within the ambit of active labour market policies.

C-TVET includes a great variety of courses and programmes conveying, for example, general or transferable knowledge, or specialized knowledge. In addition, there are courses offered by the employer and delivered in the workplace, and courses organized by third parties outside the workplace. Many government-financed training programmes include not only training but also counselling and help for finding a job. These elements seem to improve programme outcomes, in comparison to the offer of training alone. Generally speaking, this type of training is financed directly by the government, although participants sometimes receive vouchers with which they can choose their provider. Providers may be vocational or technical training institutes, adult training centres, secondary schools, higher education institutions, and companies.

In the countries considered, participation in training programmes tends to be greater when the conditions of eligibility are not too strict. Those most likely to participate are persons with an intermediate level of education who are close to the labour market and are relatively young, working in positions with non-routine or complex tasks, and in certain sectors. Moreover, training providers have substantial leeway in implementing government programmes, with the advantage that they can adapt the programme to local needs (of the region or sector) and those of the individuals concerned. On the downside, however, there could be a greater degree of arbitrariness in the selection of participants.

Among active labour market policies, training is a very effective—and in the long run the most effective—instrument for boosting a person's employability. It has additional favourable impacts through the screening and competition effects. Such programmes tend to be more effective for women than for men, but they are not very cost-effective for young people. It would seem that the best strategy with young people is to encourage them to complete their I-TVET successfully and not to abandon their studies, rather than try to overcome their shortcomings subsequently through C-TVET. It is important to guard against the inefficiency that arises when subsidies are paid to persons who would have sought training without them, and at the same time to avoid the "cream skimming" effect whereby only persons with the best prospects of finding a job are selected for the programme, as well as the "locking-in" effect whereby a person enrolled in a training programme has

less likelihood of finding a job than a person not participating. Among the factors for success of training programmes are to have the workplace serve as the place of instruction, to develop skills the absence of which acts as a barrier to employment, to ensure programme flexibility, to involve employers actively, and to assess candidates in advance. To conclude, it must be remembered that training has an impact over the medium and long term and that training programmes must be well coordinated with other active and passive labour market policies in order to overcome the negative effects of unemployment and achieve an optimum impact on productivity and on workers' incomes.

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Chapter VIII

Creating effective, efficient and inclusive national systems of technical and vocational education and training in Latin America

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Introduction

Latin America faces two closely linked challenges: laying the basis for sustainable economic growth, and reducing the still-high level of inequality that, among other things, threatens the social sustainability of that growth. Technical and vocational training, together with general education, has a key role to play in moving forward on this front. On one hand, an increasingly skilled labour force that can take advantage of the production potential of new technologies and new ways of organizing production is essential for closing productivity gaps, both external (in comparison with developed countries) and internal (reducing the structural heterogeneity among production sectors and among economic agents). Closing these gaps will require a structural change to incorporate activities that are based increasingly on innovation, knowledge and skills (ECLAC, 2012).

At the same time, more needs to be done to promote occupational and productive inclusion as a means of reducing income inequality, which remains high despite recent progress. This phenomenon can be laid in

part to labour markets, which are characterized by unequal access to high-quality jobs and by glaring income gaps between occupations that require greater or lesser levels of qualification. Inequality of access to high-quality jobs has to do with, among other things, differences in access to the required skills: those differences begin at home and are reinforced in the education and technical and vocational training systems. To reduce them, the entire population must be given access to high-quality education and technical and vocational training, which in turn will require profound transformations in both spheres (OECD/ECLAC/CAF, 2014). This fact has been explicitly recognized by member countries of the United Nations in the new Sustainable Development Goals (SDGs). The fourth goal, indeed, is to guarantee inclusive, equitable and quality education and to promote lifelong learning opportunities for all.

The main difference between academic education systems and technical and vocational education and training (TVET) systems is that the first are intended to convey general knowledge and skills, while the second are designed to transfer skills that will facilitate entry into the workforce.¹ Within TVET, there is a distinction between occupational training, intended to facilitate initial entry into the workforce through a specific occupation or occupational field, and skills development, which is designed to transmit knowledge and skills within a more highly defined sphere, generally for persons who already have some working experience or who, for various reasons, do not or cannot pursue studies of longer duration.²

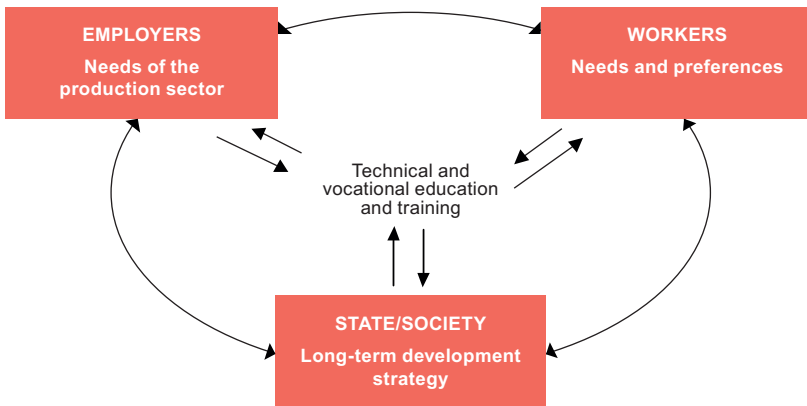
The effectiveness of TVET and its impact on inequality is determined primarily by its threefold purpose: its performance must be relevant to the needs of the production structure, to the needs and preferences of individuals, and to the development strategy of the country in question. These three dimensions are closely related, and no one of them can be emphasized to the detriment of the others (see diagram VIII.1). For example, if only the current requirements of businesses are taken into account, this can lead to a short-term approach that will not contribute to the country's socioeconomic development over the medium and long terms. If attention is paid only to individual preferences for training, this may generate skills that will fail to achieve integration into the productive workforce, for lack of demand.

¹ As will be seen below, this differentiation is becoming progressively blurred: on one hand, general education increasingly reflects aspects that are important for the workplace and incorporates many vocational training activities into its programme of studies; on the other hand, vocational training also tends to cover theoretical aspects or general knowledge.

² Throughout this document, references to the education system relate essentially to upper secondary school and, in particular, technical instruction, that is, the kind of education that prepares people for the workforce. The education system also includes post-secondary and tertiary, non-university education. However, the emphasis in this chapter is on vocational education and workforce training offered in national training institutions that generally operate outside the orbit of the education ministries.

Lastly, if the supply of training and education is subordinated to a long-term development strategy without thought to current needs, this will do nothing to foster the gradual transformation of the current production structure to the desired production matrix. Coordination of these three elements constitutes a challenge for the majority of countries in the region, and is a crucial factor for the development of equitable TVET systems.

Diagram VIII.1
The three goals of technical and vocational education and training systems



Source: Prepared by the authors.

This chapter analyses the progress of TVET in Latin America, and the challenges facing such systems. The first section summarizes the emergence of TVET institutions in the years following World War II and the questionings that were directed at those institutions at the beginning of the 1980s. The second section analyses the changes introduced in this regard during recent decades, partly in order to respond to a demand that was more differentiated than in the early years of those institutions. The third section highlights the persistent weaknesses that limit the effectiveness of TVET programmes, while the final section sketches some guidelines for overcoming those weaknesses and moving toward the establishment of effective, efficient and inclusive national TVET systems.

A. The emergence of formal technical and vocational education and training in Latin America

The institutional development of technical and vocational training in Latin America began in the 1940s and ran through the decade of the 1970s, depending on the country. Those 30 years witnessed the creation of institutions

(services or institutes) at the national level that were intended to structure and implement training policies.³

These organizations emerged primarily from the need to address various changes in production and economic structures that were having an impact on regional labour markets. Those changes implied recognition of the growing industrialization of the economy and the need to give more value-added to the products derived from agricultural production. In the labour market, employment increased significantly in the industrial and public sectors to the detriment of the primary sector, and this tended to boost demand for skilled or semi-skilled human resources.

At the outset, the State performed a central role in organizing vocational education systems. The design as well as the planning and execution of such education were assigned to a public institution and were managed on a tripartite basis (government, employers and workers). These agencies were financed primarily through compulsory contributions from businesses, amounting to 1% of their payroll, and to a lesser extent from fiscal revenues.⁴

In those years, a number of countries also developed middle and higher technical education systems, geared primarily to persons who did not wish to pursue a university education, or were not able to do so. The objective was to train middle-level technicians as a link in the chain between university-trained professionals and unskilled workers. While the technical education systems were the responsibility of the education ministries, the technical and vocational training systems came under the labour ministries, and this distinction still persists today.

De Ibarrola (1999) summarizes the paradigms that characterized technical and vocational training between the 1950s and the 1970s as follows: its content was strictly limited to specific occupations and activities marked by a sharp division of labour; it was managed autonomously and in isolation from both education policies and employment policies; there was little adaptation to change by the institutions providing training, which meant that the training bore little relation to the needs of the labour market; and it was targeted primarily at workers in formal enterprises and at young people in the school system.

Nevertheless, the development of technical and vocational training institutions in the region had a very important social impact by doing away with the dichotomy that existed in labour markets, which included small, highly qualified elites and broad sectors with little or no qualifications, so

³ See Casanova (1999), De Ibarrola (1999) and Ducci (2000).

⁴ This characteristic organization of training structured around major national institutions, with tripartite or multipartite governing bodies and with financing based on corporate payroll contributions, constitutes a model that is widespread in the region, referred to as the “Latin American model” (ECLAC/ILO, 2013).

that the workforce as a whole received only intermediate levels of training. Those institutions were actively involved in literacy policies and were the main if not the only source of education for broad segments of the population (Casanova, 1999, p. 60).

Beginning in the mid-1970s there were some important changes—economic (trade liberalization policies), political (redefinition of the role of the State), technological and educational—that had a strong impact on the labour market structure and, hence, on technical and vocational training systems. In effect, strategies for international integration demanded greater competitiveness, the drive to cut back central government made room for greater participation by the private sector, and technological changes highlighted the importance of knowledge in the new forms of productive organization. The influence of these changes on the labour market was felt primarily through a decline in employment in the industrial and public sectors, in terms of their relative weight in total employment, and an increase in the services sector, both in its output and in its employment levels. At the same time, the informal sector was growing and came to represent a substantial portion of total employment.

In this setting, existing training institutions failed to respond with the required flexibility and speed either to business demands for human resources with new skills, or to social demands, and they continued to turn out workers ill-equipped for full integration into the labour market.

During the 1990s, these factors contributed to some major changes in the organization of technical and vocational training systems. One of the most important changes was the appearance of new training providers, and this gave the State a new role in the regulation and oversight (as well as the delivery in many cases) of training.⁵ The recent progress that has been made and the new challenges that national training systems must now address are wide-ranging and will be discussed in the following sections

B. Recent progress in strengthening technical and vocational education and training

The economic, technological and social transformations mentioned above have generated, and continue to generate, new challenges that TVET will have to address in order to achieve its three goals. Those challenges, and

⁵ Llisteri and others (2014) suggest grouping training organizations into three categories or models: the “conventional institutional” model in which the State retains a near monopoly in the provision of training (according to these authors, that is the current situation in 11 countries of the region); the “State as regulator and promoter” model, in which the regulatory function is separated from the delivery of training (4 countries) and the “mixed model”, with characteristics of both previous models and a wide variety of institutional arrangements (5 countries).

the complexity of building an effective national training system, can be appreciated by examining the heterogeneity of the target population, in which the following groups can be identified:

- (i) Employed persons, above all adults in the formal sector.
- (ii) Persons who have left work and are seeking to return to productive employment.
- (iii) Adults with little or no working experience who are seeking paid employment.
- (iv) Students in secondary education.
- (v) Young persons who have completed secondary school and are seeking non-university training to join the labour market.
- (vi) Young persons who have not completed secondary school and want a short training course to make them quickly employable.

In turn, specific challenges arise from the needs of population groups that may form part of those target groups, such as persons with disabilities, immigrants, or members of ethnic minorities who face obstacles of communication. Following is a review of the challenges facing TVET, based on the specific requirements of each of these groups.

1. Employed persons

Skills development for employed persons reflects the needs of businesses to adapt the skills of their workforce to changing production processes, the desire of workers for upward occupational mobility and, from the perspective of the region's development strategy, the growing need to incorporate knowledge and technologies into the production matrix. Specifically, the transition from economic growth based largely on the exploitation of natural resources toward diversified economies that can close the existing productivity gaps through generalized processes of development, adaptation and incorporation of new technologies and the training of a skilled workforce for its efficient application, is key to Latin American development over the medium and long term.⁶ In this context, new skills, and in particular socioemotional or "soft" skills that are generally crosscutting and are not tied to a specific occupation, are becoming increasingly important, and firms face growing difficulties in finding persons who have them.⁷

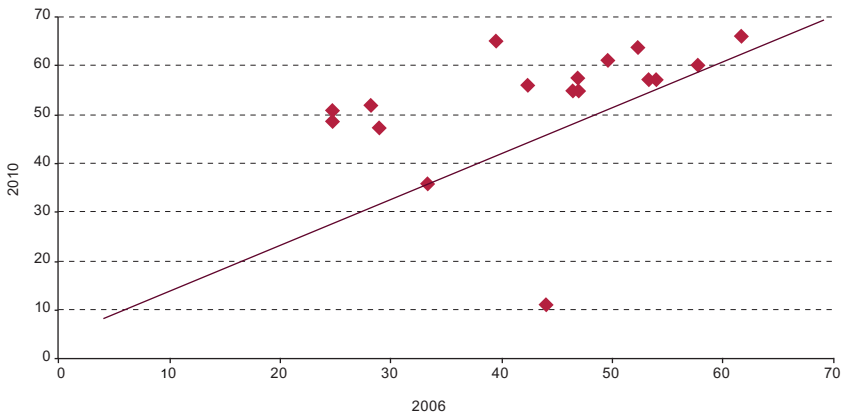
⁶ For the challenges to sustainable long-term Latin American growth based on structural change, see ECLAC (2012). Aedo and Walker (2012) and OECD/ECLAC/CAF (2014) address the changes needed to generate capacities to cope with development challenges.

⁷ According to surveys conducted in Costa Rica, El Salvador and Peru, firms face growing problems in finding workers with either "hard" or "soft" skills, with the latter skills being particularly scarce (Weller, 2011, p. 23).

One business survey shows how serious these problems can be: 36.8% of firms interviewed in 18 Latin American countries report that the shortage of skilled labour is an obstacle to better performance.⁸ In fact, Latin America and the Caribbean is the region with the highest percentage on this point.⁹

The challenges that rapid technological change implies for businesses, especially in open markets, such as those that have increasingly come to characterize Latin America during recent decades, have highlighted the importance of “lifelong learning”, a model that is now omnipresent in the debate on TVET. Firms have reacted to this challenge by providing increased training for their own workers. According to data from the survey cited above, in 2010, 52.3% of firms interviewed said they were offering training to 60.1% of their workers, on average. This implies an increase over 2006 in nearly all countries (see figure VIII.1).¹⁰

Figure VIII.1
Latin America: proportion of firms with training activities, 2006 and 2010
(Percentages)



Source: Prepared by the authors, on the basis of www.enterprisesurveys.com.

In many countries, the government supports these activities through tax incentives (for example, in Chile and Uruguay), subsidies to co-finance the training courses required by firms (for example, in Mexico), or the

⁸ See [online] www.enterprisesurveys.com (data downloaded on 12 November 2015). The coverage of the survey is limited to firms with a minimum degree of formality.

⁹ Indeed, this problem is apparently becoming more severe. In the 17 countries with comparable data, between 2006 and 2010 the average percentage rose from 28.2% to 34.5%, and the problem was considered to be less pressing in only five countries.

¹⁰ The percentage of Latin American firms reporting training activities is, together with the countries of the OECD and East Asia and the Pacific, the highest among all regions. See [online] www.enterprisesurveys.com.

delivery of training through public providers (for example in Colombia).¹¹ Some countries, such as Argentina, Brazil and Peru, have created specialized institutions at the sector level to facilitate access to training with relevant contents for firms and their workers. Sector specialization of these institutions would facilitate feedback with a view to updating their contents and training resources (ECLAC/ILO, 2013, p. 18).

Even so, firms in the region invest little in training, at least formally, and small firms are even less likely to make such investments. In effect, the coverage of training activities in firms increases with their size. Around 2010, in 17 Latin American countries, 84.0% of large firms (100 or more employees), 62.9% of medium-sized firms (20 to 99 employees) and only 39.3% of small firms (5 to 19 employees), on average, offered formal training to their workers. This means that training activities are currently doing little to reduce productivity gaps between firms of different size.¹²

In this context, it is interesting to find that the difficulties that an inadequately trained workforce poses for firms' performance vary with the size of the firm, although there is no common pattern among countries. In only three countries (out of 16) do large firms report more problems in this regard. This likely has to do with their greater possibilities for choosing their personnel, as they can offer better contractual conditions to workers who have appropriate qualifications, in addition to the point made above to the effect that these firms tend to have more training activities.¹³ In six countries, small firms are the ones that report the greatest problems in hiring staff with adequate training, while in another six countries small firms report the fewest problems.¹⁴ This could reflect a less sophisticated technological and organizational level in many small firms, meaning that they do not need a highly qualified workforce, something that would clearly not be a good signal for encouraging productive convergence.¹⁵ It is interesting to note that in seven of the countries considered it is the medium-sized firms that have the greatest problems.¹⁶ This could be due to the fact that many medium-sized firms are attempting to incorporate new technologies or

¹¹ However, as Flores-Lima, González-Velosa y Rosas-Shady (2014) report, in many countries little use is made of public instruments in support of training for the employed and, at least in some cases, there is a bias in favour of larger firms and persons who are already more qualified.

¹² See [online] www.enterprisesurveys.com. These data exclude micro-enterprises, for which the training level tends to be given lower.

¹³ The three countries are the Bolivarian Republic of Venezuela, the Dominican Republic and Guatemala.

¹⁴ Argentina, Colombia, Ecuador, Honduras, Panama and Plurinational State of Bolivia. In Honduras, the proportion is almost identical in these three segments.

¹⁵ The findings of Almeida and Aterido (2010) could be interpreted in this way: they indicate that training activities have lower expected rates of return in the case of small and medium-sized enterprises.

¹⁶ These seven countries are Brazil, Costa Rica, El Salvador, Mexico, Nicaragua, Paraguay and Peru. In addition, in six countries, medium-sized firms represent the segment with the second highest percentage, and in 13 of 16 countries the segment with the highest or second highest proportion of firms in this area.

organizational processes to improve their competitiveness but are facing a scarcity of qualified personnel which they cannot resolve satisfactorily because of limited resources or lack of available supply.

2. Laid-off workers

By definition, laid-off workers have work experience and, consequently, skills acquired in their previous job(s), in addition to any training or skills development they may have received. However, this group of persons needs additional training, primarily in four circumstances:

- (i) Laid-off workers with prior experience may need training to facilitate subsequent reemployment, or to make that employment more productive.¹⁷
- (ii) Persons who have been out of work for a long time may need training to compensate for the loss of skills during that time, in order to find new employment.¹⁸
- (iii) Persons who are temporarily out of work often take part-time employment (for example in agriculture) and may require training to find employment during periods of low labour demand in their normal type of occupation.¹⁹
- (iv) Persons formerly employed in a particular sector who have been affected by mass layoffs as a result of structural change that has shrunk that sector may require training to join another sector.²⁰ The specific human capital they have accumulated may be moot, as it can be difficult for them to rejoin the same sector.

These four situations may require training measures for persons without employment. However, there are situations of laid-off workers with other characteristics that would have to be addressed with other instruments: for example, information on employment options and intermediation activities, possibly linked to some subsidy in support of geographical mobility, or

¹⁷ An example is the training bursaries offered by the Unemployment Solidarity Fund [Fondo de Cesantía Solidario] of Chile. See [online] <http://www.chileatiende.cl/fichas/ver/20814>.

¹⁸ An analysis of active labour market policy evaluations has shown that, comparatively, programmes that enhance human capital have the greatest positive impact in the case of the long-term unemployed (Card, Kluve and Weber, 2015).

¹⁹ See, for example, training of agricultural workers for the gastronomy and hotel sector in Uruguay, [online] http://archivos.mtss.gub.uy/index.php?option=com_content&view=article&id=4151%3A-capacitacion-para-trabajadores-del-sector-gastronomico-y-hotelero&catid=1%3A-noticias-de-portada&Itemid=188, and for tobacco industry workers in Argentina, [online] <http://www.trabajosalta.gob.ar/index.php/noticias/694-impulsan-talleres-de-oficios-para-trabajadores-de-zonas-tabacaleras>.

²⁰ For example the Entrepreneurship Programme for Workers Displaced from the Fish Processing Industry in the Biobio Region of Chile [online] <http://www.subpesca.cl/prensa/601/w3-article-81832.html>.

temporary employment programmes in emergency cases involving economic crisis or natural disaster, or to address a structural or temporary weakness in labour demand in a specific territory.

3. Adults with little or no work experience

Among adults with little or no work experience who are seeking to earn incomes from work, many are women who, having devoted themselves to domestic chores and child-rearing, decide to join or rejoin the labour market. In this context, lower rates of labour market participation and greater training needs are observed among women with less formal education, as those who have accumulated more years of study tend to have greater opportunities for combining family life with work outside the home.²¹

In many cases, women who have had few opportunities to join the labour market but who have performed a range of domestic tasks have the option of transforming one of those experiences into paid activities, either as employees or as independent workers. It has been found that support for establishing an independent activity (such as working on one's own account or in a micro-enterprise) is a good mechanism for generating incomes in the case of adults with relatively little formal education but with work experience that can be gainfully put to use: the retail business is another area that can open options for independent work. In fact, in many countries, programmes to foster self-employment have a relatively high proportion of women among their beneficiaries.²²

One training mechanism for the unemployed (with or without prior working experience) is the *Bécate* [roughly "Get a Bursary!"] programme of Mexico (created originally as the Bursaries Programme for Workers, PROBECAT), which pays for training courses of between one and three months and grants a bursary of between one and three minimum wages.²³ The programme comes in four variants: (i) mixed training, where the instructor contracted by the programme trains beneficiaries within the facilities of a firm; (ii) on-the-job training, where recipients acquire skills by working in small businesses; (iii) training vouchers, with which beneficiaries can pay for training courses of their choice; and (iv) training for self-employment, where beneficiaries prepare themselves to work for their own account. Another example is the *Vamos Perú* ["Let's Go Peru!"] Programme, which has lines

²¹ In 2013, the weighted average participation rate in Latin America was 41% for women with up to five years of schooling, while in the case of women with 13 years or more it was 73% (ECLAC, 2014, table 17 of the statistical annex).

²² This is the case, for example in Mexico where among beneficiaries of the *Bécate* self-employment training programme, 85% are women (Ahumada, 2014, p. 29) and in Peru, where 61% of beneficiaries of the *Vamos Perú* self-employment services programme are women (Vice Ministry for the Promotion of Employment and Occupational Training, 2015).

²³ For further details, see Ahumada, 2014.

of training for work as an employee and for self-employment, as well as a line of action for certifying occupational skills. The beneficiaries are the unemployed, the underemployed, or persons at risk of losing their job (Vice Ministry for the Promotion of Employment and Occupational Training, 2015).

It should be noted that, in many cases, public agencies operating at the sector level will offer training activities themselves, instead of sponsoring or regulating TVET programmes through specialized institutions. In Mexico, for example, there are economic and social development programmes with training components that fall under the aegis of the Secretariat of Economic Affairs, the Secretariat of Agriculture and Livestock, Rural Development, Fisheries and Food, the Secretariat of Agricultural, Territorial and Urban Development, and the National Commission for the Development of Indigenous Peoples, among other agencies (Ahumada, 2014).

Another instrument that several countries are using to address the problems of workforce integration for adults with little formal education is through temporary public employment programmes. However, while these programmes may be useful for addressing a temporary situation of low labour demand, they are not in themselves a solution for the job-finding problems faced by this population group, and they pose the challenge of what to do when beneficiaries “graduate” from these programmes. The key instrument in this context is undoubtedly practical training.²⁴ For example, in 2004 Argentina established a system for graduates from the Unemployed Heads of Household Programme, the massive temporary employment programme that had been created to mitigate the tremendous social impact of the crisis at the beginning of this century. The system offered two channels, with beneficiaries’ employability as the key criterion. In the case of persons with prospects of being sufficiently employable to join the labour market, the comprehensive employment plan More and Better Work (*Más y Mejor Trabajo*) was established to encourage successful exit from the emergency employment programme, primarily through practical training and subsidies (Goldin, 2008).

4. Students in secondary education

For a long time now nearly all Latin American countries have had secondary education systems that embrace two streams: general and technical. Generally speaking, the first stream prepares students to go on to university, and the second provides them with tools for direct entry into the world of work.

²⁴ A key component of training in this context is the development of socioemotional skills, discussed above. These are of prime importance for initial entry into the labour market (Acosta, Muller and Sarzosa, 2015). Obviously, these policies must be coordinated in key aspects with others that will encourage workforce integration, for example day-care policies and extended-day education systems.

The technical education models are varied, for example, with respect to the number of years by which they differ from general education (UNESCO, 2013, p. 13). With respect to coverage, the proportion of students who attend technical colleges as a percentage of all secondary education students fluctuates markedly among countries of the region, with rates below 5% in the Plurinational State of Bolivia, Brazil, Nicaragua, Peru, the Dominican Republic and the Bolivarian Republic of Venezuela, and higher than 20% in Chile, Cuba and Guatemala (UNESCO, 2013).²⁵ While there is general recognition of the importance of linking theoretical learning with practical experience in the workforce (Jacinto, 2010a, p. 144), only a few countries, including Chile and El Salvador, have introduced formal systems of dual technical education at the secondary school level.²⁶

On the other hand, in the context of a generalized tendency to increase the coverage of secondary schooling, it has been the general education component that has grown, while in the majority of countries the share of technical education has shrunk. Moreover, for some time now there has been an evident process of assimilation of technical into general education, with reinforcement of preparatory contents to facilitate access to university education from the technical stream as well (Ducci, 2001; Ahumada, 2014). At the same time, there is a growing concern to initiate students to the world of work while they are still in general secondary education, using tools such as internships, training in aspects relating to independent work (as an entrepreneur) or guidance for students in taking decisions as to their future educational and occupational careers (Jacinto, 2010b).

5. Students at the post-secondary level

The proportion of young people graduating from secondary school is rising in Latin America. This level of education is increasingly seen as the necessary but not sufficient minimum for aspiring to a successful transition to quality employment (Gontero and Weller, 2015). Yet not all students graduating from secondary school want to pursue university studies, and many would prefer a shorter stint of post-secondary training that would facilitate their entry into the workforce through the acquisition of skills recognized by the market.

The growing interest of young people in tertiary technical training reflects in part the increasing inadequacy of secondary education (without additional formal training) for a successful transition into the workforce

²⁵ It must be remembered that the comparability of different countries' percentages is limited by differences in the definition of the specific forms of secondary education. The data cited in this respect by Briasco (2010) vary markedly in some cases.

²⁶ Euler (2013) examines the restrictions and conditions for transfer of the dual system from Germany to other countries.

(Jacinto, 2013).²⁷ Training of this kind has the potential to foster upwardly-mobile occupational careers, especially for young people from low-income households (García de Fanelli and Jacinto, 2010), and particularly if there are paths for a subsequent transition to university education.

As for businesses, the region has seen a growing demand for skilled technicians and technologists, and this is opening opportunities for the qualifications granted by post-secondary technical training institutions (Jacinto, 2013). The high demand for trained technicians is reflected in the results of a business survey conducted by the Manpower Group, which found that in seven of the eight Latin American countries examined, technicians constituted one of the three categories where employers had the greatest difficulties in filling vacancies (Manpower Group, 2015).²⁸

In many countries, indeed, post-secondary non-university vocational training is gaining importance. For example, in Chile vocational institutes and technical training centres accounted for 53.9% of the new enrolments in post-secondary education and training institutions in 2014, while the remaining 46.1% represented university admissions (SIES, 2014, p. 53).²⁹

6. Young people who have not completed secondary education

Despite policies intended to increase or even universalize graduation from secondary school, and the greater proportion of each age cohort that achieves this educational level, in many countries there is still a high percentage of young people who leave the education system without completing secondary school. In order to improve the options for young people who have no interest or opportunity to return to school to complete their studies, training mechanisms are needed that will make it easier for them to find a first job as an initial step in their working career.

The 1990s saw a start at addressing the challenge of expanding the coverage of TVET programmes to include young people belonging to vulnerable groups, generally with programmes created outside the existing training institutions. With the initial support of multilateral financing, specific

²⁷ Among young men and women, the unemployment rate is higher in the case of those with between 10 and 12 years of schooling. See, for example, Gontero and Weller (2015, p. 34).

²⁸ Worldwide, technicians rank fourth in this classification.

²⁹ With respect to total enrolment for that year, non-university institutions accounted for 41.6%. The increase in the proportion of new registrations shows the recent trend to gravitate towards the training offered by these institutions. This is occurring in the context of a growing cohort of secondary school graduates, especially since the second half of the 1990s when it became legally mandatory to complete that level of schooling. Chile, moreover, has made an effort to strengthen non-university vocational education, with the creation of 15 technical training centres linked to State universities. See [online] <http://www.adnradio.cl/noticias/nacional/presidenta-bachelet-promulgo-ley-que-crea-quince-centros-de-formacion-tecnica-estatales/20160321/nota/3089666.aspx>.

youth programmes were created (typically including the common term “joven” in their titles), offering training that would facilitate rapid entry into the workforce for young people who had not completed secondary school (Abdala, 2014). These programmes involve competition among training institutions and they consist of a theoretical component, provided by those institutions, and a practical component that is pursued in firms committed to the programme. Since Chile’s pioneering experiment (*Chile Joven*), this model has been reproduced in other countries of the region, including Argentina, Colombia, the Dominican Republic, Peru and Uruguay.³⁰ While there have been few evaluations of these programmes, and they betray some methodological limitations, the partial findings available generally point to favourable impacts (although they vary for different groups of individuals) in terms of integrating the programmes’ young beneficiaries into the labour market (González-Velosa, Ripani and Rosas-Shady, 2012).

Once it was recognized that other tools beyond occupational training were needed to ensure successful workforce integration for many young people in vulnerable situations, a number of initiatives have emerged that cover a broad range of aspects related to juvenile life, with a special emphasis on the psychosocial environment of vulnerable young people (Abdala, 2014, pp. 24-31). In their training activities, many of these programmes include tools such as guidance workshops on the world of work and introductory courses with components such as job-seeking techniques, labour rights, and determination of preferences. This is the case, for example, with Argentina’s More and Better Work (*Más y Mejor Trabajo*) youth programme.³¹

Another route that has occasionally been proposed for integrating young people into the workforce, especially in a context of low demand for labour, has been independent work, an option that applies for young people at all educational levels. Some countries have introduced entrepreneurship training in the secondary education curriculum. At the same time, for young people with high education levels business incubators have been created in universities and support systems for start-up companies have been established. In the specific case of young people with low education levels, there is also support available for own-account work: an example is the Youth at Work (*Jóvenes a la Obra*) programme in Peru.³² There is a broad set of conditions that must be addressed in providing support for the creation of businesses or micro-enterprises that will be sustainable over time, particularly for young people with low education levels: these relate to the

³⁰ Programmes have also been developed in which training is imparted exclusively in firms (González-Velosa, Ripani and Rosas-Shady, 2012).

³¹ On this point, see Mazorra and others (2013) and <http://www.trabajo.gov.ar/jovenes/>.

³² Between August 2011 and December 2014, 22.6% of beneficiaries under this programme received training for self-employment (Viceministerio de Promoción del Empleo y Capacitación Laboral, 2015).

production project itself as well as to the personal circumstances of young people, of whom only a small proportion will have a successful future as entrepreneurs. Nevertheless, these programmes and the training that goes with them can expand the range of options for pursuing personally and occupationally successful careers.³³

Lastly, while persons with disabilities in need of special training for satisfactory workforce entry are not exclusively young, most of the demand in this area comes from this age group. Several countries have training programmes that take this group into account, or that offer a special component in the context of broader training programmes. For example, between 2013 and 2014 the Dominican Republic's National Institute for Technical and Vocational Training (INFOTEP) provided training on various topics for 1,345 persons with disabilities (Amargós, 2016), and Chile has expanded its *Más Capaz* training programme, which focuses on persons with disabilities (see box VIII.1).

Box VIII.1

Employability training for persons with disabilities in Chile

Disability is a complex phenomenon, and one that has a significant impact on society as a whole. In recent years, the concept has evolved from a definition based on an individual's deficiencies or limitations (the biomedical model) toward a social model that defines disability as a complex and multidimensional phenomenon flowing from the interaction of individual factors with the physical and social setting. Disability is now viewed from a human rights perspective, according to which integration of the affected individuals constitutes a fundamental right, and hence a social responsibility.

It is estimated that there are some 85 million persons with disabilities in Latin America and the Caribbean. This segment of the population is regarded as one of the most vulnerable, with a greater probability of being afflicted by poverty and of suffering the consequences of low living standards, social violence, lack of access to health services, armed conflicts and natural disasters (Ascue and Baltondano, 2008).

Among the most important aspects associated with the social inclusion of persons with disabilities are those that have to do with their access to appropriate education and training and their integration into the workforce under conditions of equity. Among Latin American countries, Chile has made notable progress in this respect. In 2008, Chile signed the Convention on the Rights of Persons with Disabilities and in 2010 it promulgated Law 20,422, committing the State to promote and apply affirmative action measures to foster occupational inclusion and non-discrimination for persons with disabilities.

³³ See Romero-Abreu Kaup and Weller (2005, pp. 260-264) for a brief analysis of the options and obstacles associated with programmes of this kind, particularly for young people with lower levels of formal education.

Box VIII.1 (concluded)

The 2014-2018 Government Programme seeks to foster workforce inclusion for persons with disabilities through training. The government is giving effect to this promise through the disability stream of the *Más Capaz* programme. Responsibility for the programme's design and execution fell to the National Training and Employment Service (SENCE). This stream of the programme was designed with three components: (i) training in cross-cutting skills for the workplace; (ii) training in individual trades; and (iii) assistance in finding a job. In addition, it offered access to support services to enhance accessibility for beneficiaries, for example by providing transportation, meals and childcare subsidies. In recent years there has been significant progress in the programme's design and implementation. Positive achievements include a pilot programme that served 1,000 beneficiaries and allowed for evaluations of the programme. This made it possible to identify the main bottlenecks and to propose key areas for improvement. The aspects addressed included issues relating to the target population, accessibility, complementary services, and the characteristics of the training (cross-cutting skills, trades, workplace practices and employment support). Possibilities for improvement were also identified in areas relating to the programme's institutional structure, for example its strategic management and coordination, the selection of training profiles and plans, dissemination, selection of providers, monitoring and evaluation, and oversight and audit (STATCOM, 2015; Ministry of Labour and Social Welfare/SENCE, 2015; Zúñiga, 2015 and 2016). At the same time, there have been some important steps forward in working with the municipal labour information offices, based on training for their staff so as to provide better service for job-seekers with disabilities. Following multidisciplinary consultations, changes were made in 2014 to the Labour Intermediation Manual used by staff of these agencies to establish the institutional processes for carrying out their intermediation mandate.

The programme is currently facing some challenges, relating both to its implementation and execution and to its institutional aspects. Among the first set of challenges is the one relating to the effective capacity for workforce integration of persons with disabilities, while among the second is the need for greater coordination of the various areas involved —IT, research and evaluation— within SENCE. During 2016, the programme's managers have been working to overcome these limitations, on the one hand through a discussion forum geared to greater promotion and awareness-raising among Chilean firms, and on the other hand through institutional strengthening based on the work of the Disabilities Committee of SENCE and a public-private advisory board. It is important to note that the programme has helped to ensure that the social inclusion of persons with disabilities is a topic of national debate, and to appreciate that there are many learning opportunities in this respect.

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of S. Ascue Bravo and E. Baltodano Pallais, *Inclusión laboral para personas con discapacidad*, Ministry of Education of Peru and Ministry of Education, Social Policy and Supports of Spain, 2008; Ministry of Labour and Social Welfare/National Training and Employment Service (SENCE), "*Informe final de evaluación: Programa Más Capaz*", Santiago, 2015; STATCOM, "*Informe de resultados de evaluación de implementación. Piloto Programa + Capaz 2014, Línea Discapacidad*", Santiago, 2015; I. Zúñiga, "*Capacitación para personas con discapacidad*", Project Documents (LC/W.674), Santiago, ECLAC, 2015; and "*Apoyo a la implementación del Programa Más Capaz para personas con discapacidad*", Santiago, 2016, unpublished.

C. Other advances in strengthening technical and vocational education and training

The national TVET services of Latin America have taken a number of steps to satisfy the growing diversity of demand for their services, with due regard to the three goals described in diagram VIII.1. In addition to specific activities targeted at each of the six types of demand, training agencies have introduced a series of innovations to address cross-cutting aspects.

One of the most important changes in these national agencies has been to diversify the suppliers of education and training, primarily through reliance on private institutions, reflecting the fact that existing institutional arrangements were unable to respond swiftly and flexibly to the growing heterogeneity of demand. In some cases, this diversification has involved the creation of new service providers to supplement the activities of the existing public or semi-public institutions that had constituted the “Latin American model” of previous decades. In other cases, private institutions took over the delivery of training activities, while the public institutions focused on allocating resources and on regulating and supervising training activities (ECLAC/ILO, 2013). In this latter case, in particular, the idea was to generate a market for education and training, where the convergence of supply and demand, under the regulation of the competent public agencies and with public funding, would produce optimal results in terms of effectiveness and efficiency.

Nevertheless, this ambition ran up against a series of structural obstacles, and it was not by itself capable of addressing the three-pronged challenges for the various target groups.³⁴ A central problem that arose here had to do with the great differences in quality of the provider institutions and the lack of transparency with respect to these “markets”. Nevertheless, countries on the whole made efforts, through regulation and certification, to ensure that those institutions complied with the minimum conditions in their provision of education and training.

Another challenge that training institutions had to address was how to measure demand, both short and long-term. Among the instruments used to measure that demand more precisely are business surveys, econometric models, and the establishment of sector agencies with participation by relevant stakeholders in each sector. One example of an instrument for measuring current demand is the worldwide survey that the Manpower Group conducts each year to investigate the difficulties that firms face in hiring staff with specific qualifications. That survey is also applied in various countries of the region (Manpower Group, 2015). The National Apprenticeship Service (SENA)

³⁴ Ducci (2001, pp. 280-281) summarizes the weaknesses inherent in the attempt to organize vocational training in Latin America from a market perspective.

of Colombia, for its part, uses information sources such as the occupational status of its graduates, online employment portals, apprenticeship contracts, enrolment in courses and information on the current and prospective dynamics of production development at the regional level, in order to adjust its offer of training to the needs of the workforce (Forero, 2014). An example that illustrates a projection of the demand for skills over a longer term (to 2020) is the model used by the International Labour Organization (ILO) to forecast future trends in employment and its characteristics in Peru (ILO, 2013).

Another notable aspect is the definition and certification of skills, which has become a new instrument that is widely used in countries of the region, although in many cases it is still in the process of development (Vargas Zúñiga, 2010). On this point, there are four important aspects that reflect profound changes in the approach to education and training:

- (i) Many skills are of a cross-cutting nature: while in the past the skills and know-how required to perform successfully in different occupations reflected the specific technological features of each occupation, today many of the skills required in different occupations are the same or similar. This transversality is a challenge, on one hand, for students are obliged to train themselves in a broader range of skills than in the past, but it is also an advantage, for it allows greater flexibility to change occupations if one so desires. The cross-cutting applicability of many skills for different occupational profiles allows for a curriculum design with a modular structure.
- (ii) The growing demand for socioemotional or “soft” skills in production processes (Bassi and others, 2012): firms are reporting wider gaps between their needs and what their workforce can offer (Weller, 2011, p. 23).
- (iii) Recognition of informal processes for generating know-how, skills and abilities: in many cases, these processes are the most frequent in the regional workforce, particularly for persons engaged in the informal sector. These approaches include informal learning processes for young people as well as the on-the-job acquisition of knowledge (practical learning or “learning by doing”).³⁵
- (iv) The growing need for lifelong learning: this has to do mainly with the acquisition of new skills that are not reflected in traditional TVET certificates.

³⁵ In Paraguay, for example, around 27% of employed persons say they have participated at some point in a non-formal education activity (DGEEC, 2015).

Skills certification has in fact proven to be a vehicle of integration in at least two respects. First, for many providers of technical and vocational training, it represents common guidelines that encourage the development of similar curricula, which facilitates not only the certification of the skills of the persons trained but also the supervision of the providers, with a view to guaranteeing minimum standards of quality. Second, it facilitates the mobility of workers within the region, if the skills certified by the competent agencies of one country are recognized elsewhere.³⁶

On this point, there have been some important changes in the methodologies of instruction, relating both to the transformations in demand, as discussed above, and to the new information and communication technologies. Those changes are facilitating the development of new teaching resources and the growth of distance education, which among other things allows for greater territorial coverage (ECLAC/ILO, 2013, pp. 16-17).

Other advances relate to inter-agency coordination. Labour ministries have assumed a growing role in education and training, and are coordinating efforts with other institutions in this field, as well as with the education ministries. In some cases, interaction with the ministries responsible for economic development and planning has been further strengthened. At the same time, there is growing recognition of the importance of close coordination with the intermediation services, as they can provide valuable information on the needs of businesses and workers as input to skills certification schemes and support for the employment of persons trained in the various programmes.

D. Persistent weaknesses

1. The demand for technical and vocational education and training

To ensure the three dimensions of technical and vocational training is an ongoing challenge that requires contributions from various stakeholders. At the present time, Latin America betrays weaknesses in identifying short-to-medium and long-term demand. As noted above, various instruments

³⁶ The Network of Vocational Training Institutes (REDIFP) of Central America, Panama and the Dominican Republic represents an interesting experiment in the recognition of methodologies for developing standards for workplace skills. See [online] www.redifp.net. Another noteworthy experiment is the framework of qualifications for the mining industry supported by the Fundación Chile, which organizes the profiles and skills of the main processes of the value chain of the Chilean mining industry into levels of qualification and progressive learning routes. See [online] <http://www.fch.cl/>.

are used to determine the demand for training on the part of businesses, but anecdotal evidence and business surveys alike indicate that the institutions providing training and skills development have not gone about this process in an appropriate way. As to determining the demand for training on the part of individuals, the tools used seem to be even weaker, although the availability of systematized data from education, training and intermediation bodies could help to generate progress in this regard.

For businesses and individuals alike, determining demand is complicated by the production and social segmentation of countries in the region: in effect, businesses and individuals in a position to vocalize their demands are much more likely to be heard than are, for example, informal micro-enterprises or vulnerable population groups with little organizational capacity. In the case of tripartite agencies financed by payroll contributions from formal businesses, the problem lies in the fact that those stakeholders are excluded from the workings of the institution and they need outside representation (typically through the public sector or the unions represented in the governance bodies) in order to have their needs taken into account. The problem is even more acute when the potential beneficiaries of training or skills development live in a social setting that requires additional measures for seizing these opportunities. This is the case, for example, with single mothers, youth from poor households, persons with disabilities, migrants, or members of ethnic minorities.

It must be recognized that the three-pronged response to the various demands does not necessarily generate a coherent scenario, and that what is determined as relevant in response to a specific demand from one of the three key perspectives may not coincide with the demand expressed by other stakeholders. Here, post secondary, non-university technical education provides an example: it is commonly regarded as a key component in generating the skills needed for the region's development. Yet despite the progress made in some countries, many others still have a marked shortage of non-university technicians. This has to do with the fact that post secondary, non-university education tends to be stigmatized as a less prestigious alternative for persons who do not or cannot pursue a university education.³⁷ This stigma is reinforced by the relatively low incomes earned by graduates of those systems, and the obstacles they face in obtaining recognition of acquired knowledge and skills when they apply subsequently for higher studies. Consequently, a component that is key from the development

³⁷ The relegating of vocational training to a secondary option (after university studies) for successful subsequent entry into the workforce has also been indicated as an obstacle in Europe, although there are differences among countries (Blöchle and others, 2015).

strategy viewpoint is still underdeveloped because it does not coincide with the current preferences of individuals.³⁸

As to the longer term, there are some obvious weaknesses in the design and implementation of national policies for skills development and their integration into a national development strategy. National development strategies and the planning required both to prepare and to implement them were out of favour for several decades, and the renewed interest in those instruments is a recent phenomenon. Yet national education plans are not integrated into a national strategy that would guide skills development from the viewpoint of medium and long-term goals, taking into account such aspects as the sustainability of growth, competitiveness, production convergence and integration of the vulnerable population. Under these circumstances, the search for static competitive advantages (such as those represented by low wages) tends to persist at the expense of dynamic advantages that might be based, for example, on a more highly skilled workforce. There are also problems in determining the medium or long-term demand on the part of businesses, in large part because of uncertainty over future technological and economic development and the ways in which it could affect their production processes.³⁹

2. The supply of technical and vocational education and training

Weaknesses in the supply of training relate primarily to two aspects that prevent TVET from having a sufficiently broad coverage, with the required quality: (i) the inadequate number or size and the quality problems of many institutions providing this service, and (ii) the shortage of resources available for improving coverage, effectiveness and efficiency.

On the first point, it should be noted that, especially in cases where the intention was to generate a training market, many providers emerged whose services were not always of the required quality. Moreover, there is a persistent lack of transparency as to the characteristics of those services

³⁸ A contributing factor here may be the perception that non-university education is of poor quality and high cost, especially in the case of private providers, making for an unattractive cost-benefit relationship.

³⁹ For example, between a third and two thirds of the firms interviewed in Costa Rica, El Salvador and Peru expected that they would be unable to hire the staff they would need in five years, due in part to uncertainty about their future environment (see Weller, 2011, and the sources cited there with detailed information on the surveys mentioned). The difficulties facing businesses in defining their demand as to the characteristics they will require of their workers in the future are not confined to Latin America. For example, among other conclusions from a study on workforce integration problems for young adults in two metropolitan areas of the United States of America, it was found that, in order to improve outcomes for young adults and businesses, employers would have to define more clearly the skills necessary to implement their business plans (Ross and others, 2015).

and their impact on employment opportunities, thereby posing risks that cannot be adequately assessed by persons seeking those services. Many countries are attempting to address the problem through mechanisms such as certification of training providers and of skills, but this does not overcome all the doubts as to the quality of many training providers. The services offered by public institutions are not exempt from criticism, although here the greatest shortcoming noted has to do with problems of matching supply with demand.⁴⁰

Teachers are a central element of education and training programmes. Even more than in general education, this field requires continuous updating, due in particular to the pace of technological change that is apparent in nearly all fields. Yet many studies indicate that shortcomings in the training of trainers are compromising the effectiveness of technical and vocational training systems in the region (Bassi and others, 2012; World Economic Forum, 2015).

Another aspect relating to the inadequacy of supply has to do with the practical components of training programmes. According to most evaluations, programmes that include a practical training phase in companies tend to produce better results in terms of beneficiaries' workforce integration than do those that lack this component.⁴¹ Generally speaking, however, the limited number of firms participating in those dual schemes is an obstacle to their expansion, and moreover the great majority of firms confine themselves to training their own employees. Businesses should recognize that in this market they form a part of demand and supply alike, and that engaging in TVET is in their own interest. However, their participation in training and skills development activities that are not limited to their own employees leaves them vulnerable to parasitic behaviour on the part of other firms (the "free rider" syndrome). The ability to hire persons trained at no cost to the firm (even if those persons have had limited additional training in the skills needed in their new position) tends to spark this attitude among employers, or to make them fear that other firms will adopt such an attitude, and this will discourage them from helping to cover the costs of participation in those programmes.

This situation has impeded the possible transformation of technical secondary education, the attractiveness of which seems to be declining in many countries where it is seen increasingly less as a way of accessing high-

⁴⁰ In Paraguay, students are increasingly demanding data on the quality of institutions of higher education and vocational training, and the National Agency for Evaluation and Accreditation of Higher Education (ANEAES) has been striving to publish information on accredited and non-accredited programmes. See <http://www.paraguay.com/nacionales/conozca-las-carreras-sin-acreditacion-145889>.

⁴¹ For example, this was one of the conclusions of the analysis by Samaniego (2004) of training programme evaluation exercises conducted in Mexico.

quality employment.⁴² The dual technical secondary education modality is considered relatively effective for training skilled workers and non-university technicians but, in countries that have tried to introduce it (such as Chile, Brazil, El Salvador and Mexico), it has not achieved very significant coverage. While these limitations have no single cause, the shortage of firms willing to apply the dual modality seems to be a central factor in its modest growth.⁴³

Lastly, the resources available for TVET are limited and are often the target of budgetary adjustment cuts. As Van Breugel suggests (see chapter VII), there are many potential sources of financing, but any effort to increase the available resources must be accompanied by reforms to enhance their effectiveness, their efficiency, and their impact on inequality.

3. The interaction between supply and demand

The idea of integrating supply and demand efficiently within an education and training market, which guided policies in some countries during the 1980s and 1990s, encountered obstacles that had to do with the structural characteristics of those activities. On one hand, there is a fairly general consensus that training and skills development should be based on demand in order to achieve the three goals. On the other hand, the difficulties in properly measuring the demand for skills, together with a degree of inertia on the supply side due to the specialization of institutions and instructors, have meant that the installed supply still plays a decisive role in determining activities in this field. This is not a completely negative factor, as supply reflects to some extent the experience of the past, which is not totally irrelevant despite the intervening technological and economic changes. Overall, the development of dynamic mechanisms for integrating demand and supply remains an ongoing challenge.

In many countries this integration has not been successful, and many people are working in occupations for which they are overqualified.⁴⁴ This is due in part to the relative weakness of economic growth, which is not generating enough jobs to provide employment for persons with certain qualifications. However, it also reflects a problem of asymmetry, as many

⁴² Studies outside the region on the performance of technical secondary education compared with general or academic secondary schooling have shown mixed results. For example, a study on China found unfavourable outcomes for vocational high school students (Loyalka and others, 2015). By contrast, a study of the United Kingdom found generally positive results for this type of education, especially for persons who acquired a balanced set of skills (Brunello and Rocco, 2015). The importance of ensuring sufficient flexibility in the skills acquired in vocational secondary education also emerges from a study which found that this form of schooling tends to favour initial employment but can then hinder subsequent employment prospects through lack of adaptability to shifting demand (Hanushek, Woessmann and Zhang, 2011).

⁴³ See Labarca (2010, pp. 154-155) for a summary of the factors that have held back the growth of dual technical secondary education in Latin America.

⁴⁴ In the case of Peru, see Espinoza (2011) and Gamero (2015).

firms have problems in finding staff with the required qualifications.⁴⁵ On the personal demand side, the lack of transparency creates uncertainty and costs that can be considerable, all of which can discourage training and lead to a misallocation of resources.

Another problem in integrating the supply of and demand for qualifications is the evident bias with respect to the groups of persons who benefit from education and training activities. Mention has already been made of the challenge of determining and giving effect to demand on the part of persons belonging to vulnerable groups, due to the problems they face in making themselves heard. Moreover, evidence indicates that, especially when it comes to training in businesses, the beneficiaries tend to be persons with higher levels of qualification (Flores-Lima, González-Velosa and Rosas-Shady, 2014). In many cases, this may reflect the internal compensation policies of firms, and not necessarily the demand that might flow from the efficient organization of the production process.

Despite some evidence of progress, the Latin American workplace is still characterized by gender inequality, which is expressed in various ways and which leads to a lack of equity in terms of women's possibilities of "making themselves heard". A relevant aspect here is the difference of access to certain qualifications. Education and technical and vocational training systems are supposed to address this inequality as an important aspect in terms of development strategy and of women's demands. Yet in most countries it is the demands of the production sector, rather than any considerations of parity, that are given priority in training programmes (UNESCO, 2013, p. 35). The quest for parity would entail, among other things, the need to eliminate the obstacles that prevent many women from making their demand for qualifications effective. To achieve this will require facilitating access to qualifications in typically male occupations, certifying skills acquired informally, and making available resources to cover domestic duties (care work in particular) so that women can participate in training activities, among other aspects (Maurizio, 2011; Fawcett and Howden, 1998).

As noted in the previous section, one instrument that has recently been widely used in the region is skills certification (ECLAC/ILO, 2013), which has great potential for: (i) establishing processes for updating the supply of technical and vocational training through the continuous revision and adaptation of requirements in different occupations as demand evolves, so as to become the central pillar of the national training system; (ii) making qualifications more transparent, which could boost the efficiency of recruitment and contracting; and (iii) integrating formal and informal training mechanisms as a key element of a systemic approach. Despite the progress

⁴⁵ On this point, see Bassi and others (2012) and the above-mentioned Manpower Group survey (2015).

that many countries in the region have made in this respect, there are still some weaknesses that make it difficult to perform this role. For example:

- The coexistence of multiple institutional frameworks for granting skills certificates obstructs the transparency needed in a system of this kind (Ricart, Morán and Kappaz, 2014).
- In many cases, the certificates awarded are still not sufficiently known or recognized, and therefore cannot fulfil their function of facilitating access to certain jobs, especially in the case of people who have acquired their qualifications informally.

4. Institutional aspects

Generally speaking, institutions involved with TVET in Latin America are not integrated in a systemic manner, even though in many cases the necessary components are in place.⁴⁶ One reason for the absence of a national system is the diversity of TVET providers, which has grown in recent decades. This in itself is a positive development, as it makes for greater flexibility in responding to a demand that is also more diversified. However, the lack of coordination among the players makes it difficult to take full advantage of this diversity. Coordination tends to be weak, as much among public institutions as between them and private institutions, nongovernmental organizations, and the academic world. This has several adverse effects: for example, if training activities are in the hands of NGOs, which are typically financed with external resources, they will be forced to terminate their activities when those resources are exhausted, and their experience and lessons learned will be lost if, as is generally the case, they are not passed on to other institutions.

Another aspect of the weakness of inter-agency coordination lies in the fact that the various providers tend to develop their curricula in isolation. The absence of a solid mechanism for regulating the certification of skills makes it difficult to draw comparisons among the different programmes. It also impedes the development of training careers based on qualifications acquired in different institutions. This is a serious limitation, given the need for the constant acquisition of new skills in a context of growing demand for lifelong learning. In turn, the lack of recognition of previous training tends to hold back this process. For example, while tertiary technical training is increasingly linked to university education, few students will go on to obtain a university degree, and this is apparently due in part to the lack of curricular coordination (Jacinto, 2013).

⁴⁶ See Amargós (2016) for an example of a systemic design for vocational training, integrating five subsystems: (i) studies, information and vocational guidance; (ii) a national framework for vocational qualifications; (iii) delivery of education and training programmes; (iv) evaluation, recognition and certification; and (v) quality assessment and assurance.

The weaknesses in coordination reflect broader problems with TVET governance. Countries generally lack a governance structure that offers appropriate space for the various stakeholders. It is only the business organizations (and to a lesser degree the labour unions) that have any say on TVET governance matters, apart from a few institutions in the public sector. Although many countries have arrangements for institutional participation, particularly in the traditional training institutions and in the area of skills certification mechanisms, these are inadequately representative of important stakeholders.⁴⁷ Monitoring and evaluation are two important factors in the creation of a national training system, as they can help to boost the quality of programmes and improve the matching of supply and demand. While many training and skills development programmes have been evaluated (particularly those that have external financing), this is far from being a common practice for improving the effectiveness and efficiency of technical and vocational training (Abdala, 2014, pp. 48-51).

Lastly, the coordination of TVET programmes with information and intermediation systems remains generally weak. Some programmes will have their own intermediation component. While this can improve the employment options for beneficiaries, it does not seem to be the best approach in comparison to an information and intermediation system that serves job-seekers in general, regardless of whether they have participated in those programmes.

E. Some guidelines for strengthening technical and vocational education and training

An analysis of the challenges, progress and persistent weaknesses in TVET in Latin American countries suggests some essential guidelines for strengthening them and turning them into effective, efficient and inclusive TVET systems. This brief section does not pretend to address all the spheres where reform of some kind could contribute to these objectives and enhance the impact on equality and social cohesion. It seeks, rather, to highlight some aspects that would seem important if the relevant institutions are to make the necessary contributions to Latin American development in terms of productivity and equality.

As noted in the first section, formal TVET in Latin America was in its origins closely linked with the processes of industrialization, and both supply and demand were clearly defined with reference to a limited number of occupations. The subsequent (and necessary) diversification of supply and demand has generated a set of training institutions and activities that

⁴⁷ See Lengfelder and Schkolnik (2011) for a summary of social and worker participation in vocational education and training institutions of the region.

are little integrated or coordinated, despite recent efforts. With the plethora of activities and players, as well as the processes of constant change that increasingly characterize the production structure, what is needed now is a systemic approach for organizing TVET at the national level: this would serve to highlight the three-pronged objectives of technical and vocational training. Without such an approach, efforts to meet these objectives will stumble over structural obstacles, for the following reasons among others:

- The market failures characteristic of TVET tend to encourage a short-term view and underinvestment in these activities (Llisterri and others, 2014, pp. 17-19).
- Certain population groups are excluded from efforts to measure the demand for TVET, because the existing inequalities deny them a voice.
- It will be virtually impossible to coordinate a set of isolated TVET activities so as to address long-term development goals.

It must be noted that national training systems are not in a position to apply the best practices identified for other countries, as the effectiveness and efficiency of these will depend on the experience and sociocultural features of each country. This means that the development of any national system must be based on stakeholder involvement and social dialogue, which must go beyond union participation in the governance of TVET institutions.⁴⁸

In general terms, however, it may be said that any national training system must have components or subsystems responsible for: (i) studies and analysis; (ii) development of occupational profiles and definition of the corresponding required skills; (iii) delivery of training activities; (iv) quality control over the providers; and (v) skills certification.⁴⁹ Among the key aspects for strengthening national training systems are the following:

- Greater specificity and separation of the functions of the various institutions within the national system. In the case of government, although there are certainly many models for its participation as a training provider, it is essential for government to reinforce its functions of regulation, supervision and evaluation.
- A better definition of individuals' needs and preferences, empowerment of students through vocational guidance mechanisms that will help them take sound decisions, and the provision of current and relevant labour market information for students and workers.

⁴⁸ See Llisterri and others, 2014, pp. 50-51.

⁴⁹ For a detailed analysis, see Amargós, 2016.

- Better coordination among institutions involved in TVET, not only those engaged directly in the areas of education and work but also the institutions responsible for economic development and planning issues.⁵⁰
- Greater efforts to determine short and long-term demand.
- Development and strengthening of skills certification systems as the core of TVET activities, based on internal mobility (recognition of TVET activities by the various stakeholders).

With regard to these last two aspects, determining demand is an ongoing challenge. Given the uncertainty over future technological and organizational changes in the workplace, determining the future demand for TVET involves the constant pursuit of a moving target. Determining future demand with certainty, then, is impossible, but this does not mean that it is an unnecessary task, and the identification of trends is vitally important for taking decisions. The objective must be to monitor continuously the trends that will influence the demand for TVET, and to strive constantly to strike a balance between the determination of demand and definition of the corresponding standards, while preserving the flexibility to respond swiftly to changes as they arise (Euler, w013). This in turn highlights the importance of stakeholder dialogue and participation, including contributions from the academic world, as determining the processes that impact the future demand for TVET requires the greatest possible number of information sources and interested participants.

Another implication of the limited predictability of demand for qualifications is the need to make national training systems flexible and nimble enough to adapt effectively to changes in demand. With technological and organizational progress, completely new occupations are merging, while others are losing importance. For example, trends in information and communication technologies, biotechnology, and efforts to reduce the carbon footprint of economies (green jobs) are generating new demands worldwide. Countries may experience new demands for profound changes in the production structure. Early detection will make it easier to adjust the training processes.⁵¹

With respect to the demand for TVET, while there is a worldwide consensus on the importance of considering the needs of businesses, there remains the complex challenge of determining and addressing the needs of

⁵⁰ A group of Mexican training institutions has enumerated various actions of common interest, joint implementation of which would help to improve their performance (Ahumada, 2014).

⁵¹ In Panama, for example, new needs for training in connection with expansion of the Canal and related activities have been anticipated and defined. In the context of international cooperation, GIZ (2011) has presented a proposal to support the determination of needs and to initiate training activities in areas that will strengthen ecological sustainability.

persons traditionally overlooked in the definition of training activities. On one hand, many people need help (during their general studies or subsequent specialized activities) to recognize their strengths and clarify their own preferences. On the other hand, municipalities and NGOs, for example, can determine these demands and support people who have no organized representation within the system so that their needs will be taken into account in the design of TVET activities. A key component in this respect is to improve information on the status and trends of the labour market and its accessibility, particularly for vulnerable groups, as it is essential to determine their demand in the specific context in which they live.

On this last point, the determination and certification of skills could be the key pillar for the integration of TVET supply and demand. As noted earlier, the definition of the skills required for an occupation (and its changes) must involve the relevant stakeholders in each case, as only in this way can its relevance be assured. On the other hand, the certification of skills (and also of TVET providers) is the key instrument for guaranteeing quality. Another potential advantage of this instrument is that the recognition of occupational skills at the regional or subregional level can facilitate intraregional migration under decent conditions.

Although the definition of skills should preferably be integrated into a single subsystem of the national TVET system to which the certification agencies belong, in some cases it may be more efficient to allow skills to be defined and certified independently in a specific sector. This is the case with the new occupational profiles that are emerging in settings of profound technological change, where skills are often validated within the sector that concentrates the knowledge and that can respond most swiftly to such change. In this situation, it would be advisable, as an initial step, to establish channels of information between these efforts and the skills subsystem of the national TVET system and, as a subsequent step, to incorporate them formally into the subsystem.

There are frequent complaints that TVET is undervalued, especially in comparison with university education, but this situation can be overcome only through results that reflect a high degree of compliance against the three-pronged goal posited earlier in this chapter. A well-integrated national TVET system will not in any case be sufficient to achieve that goal. It is essential to ensure close cooperation with other labour market mechanisms, such as intermediation and information, and with the education system, recognizing that even the best technical and vocational training cannot compensate for a low-quality education.

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Chapter IX

The Asia-Pacific region's experience with national systems of technical and vocational education and training

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Introduction

Technical and vocational education and training (TVET) is being widely promoted as a transformative tool that can have a positive impact on a country's economy, increase its level of social equity and contribute to its sustainable development. It is thus seen as a mechanism that facilitates increased productivity and well-being by providing individuals with the knowledge and skills necessary to function in a position of employment. In order to activate this transformative potential more effectively, national systems of technical and vocational education and training (NSTVETs) are shifting away from a supply-driven approach and towards a demand-driven model. Here, both labour market data and input from industry have a critical role to play. Labour market data can help TVET providers to anticipate demand. Industries (including small and medium-sized enterprises) that are active participants at all levels of the national system, including policy development, the establishment of national standards and coordination with providers, can

effect positive results. By the same token, providers (both public and private) must be flexible and nimble in order to respond to changes in the job market.

To support TVET initiatives, many countries are working to create a nationally administered and unified funding system through a variety of mechanisms, including public-private partnership initiatives. Sustainable funding is vital if NSTVETs are to transform the economic status of their countries and enhance the well-being of the population.

In many countries, there has been a poor uptake of the learning opportunities provided by NSTVETs because these systems are often viewed as inferior to other formal learning pathways, particularly those offered by universities. This parity-of-esteem issue is exacerbated by the traditional, outdated didactic delivery and assessment model used by many TVET providers, which does not meet the needs of today's learners.

There is growing acceptance of the proposition that learning in a TVET environment is most effective when it involves an abundance of practical opportunities for applying or deducing theory. It is recognized that TVET teachers and trainers must be highly skilled and well-resourced. They must also be able to offer a variety of delivery and assessment approaches both in the corresponding institution and in the workplace. The aim of TVET is to develop a skilled workforce and, if this objective is achieved, this will in turn enhance the public perception of TVET so that it is no longer seen as a second-rate source of education.

There is an increasing awareness that informal and non-formal learning (often driven by the informal or unregulated economy) needs to be drawn into the NSTVET at both the policymaking and the delivery levels. Skills recognition is a mechanism for facilitating the incorporation of informal and non-formal modalities because it gives credit for learning gained through any number of pathways. Skills recognition can also provide a pathway into formal programmes and can support the mobility of the workforce across the region if mutual recognition systems are in place in the various countries.

The linking of TVET pathways is an emerging issue. Countries are attempting to offer multiple entry points for the acquisition of qualifications and to facilitate transitions between academic, technical and work-based programmes. Programmes are beginning to incorporate transferable skills, information and communications technologies (ICTs) and green skills. Active labour market policies closely linked to accessible learning opportunities can support the reskilling and upskilling of the workforce. Learners need to continue on their learning journey throughout their working life if they are to remain employable in a rapidly changing workplace.

This chapter provides an overview of the current state of TVET in the Asia-Pacific region and of the constituent characteristics of an NSTVET,

including its policy and funding mechanisms, its responsiveness to the needs of stakeholders and its inclusiveness or lack thereof in diverse societies. The chapter also highlights what appear to be the good practice indicators that characterize well-functioning systems.

A. Governance of national systems of technical and vocational education and training

In the Asia-Pacific region, governments play a major role in the governance of TVET systems in such areas as funding, ownership, policy development, regulation and coordination. These systems come under a number of different ministries in different countries, such as the ministries of labour, education and industry (Wahba, 2012). Often, a number of different government departments also play a part. These may include departments of education, labour, agriculture, social welfare, higher education, transport and commerce.

In more established TVET systems, national qualifications authorities, national standard-setting bodies and various training agencies and providers are involved in governance activities. So, too, are “apex bodies”, which represent all stakeholders, including students, industry and all levels of education providers. Sometimes these apex bodies are autonomous; in other cases they play an advisory role.

The Manpower Skills and Training Council (MSTC) in Singapore, for example, addresses the manpower skills and training needs of various industry sectors¹ and is made up of members of senior management and staff of multinational companies, small businesses and micro-enterprises, industry experts, union representatives, government agency and ministry representatives, and independent practitioners. In Malaysia, 16 lead agencies in the industry are playing a role in the development of the National Occupational Skills Standards (NOSS), which underpin the learning outcome categories known as units of competency (ILO, 2014a).

Table IX.1 provides country-specific details about the legislation and governance structures of NSTVETs in the Asia-Pacific region and lists the different players involved. A multiplicity of players in the governance of a NSTVET can lead to fragmentation and inefficiencies. In Malaysia, for example, two separate agencies are responsible for human resources development, quality assurance and certification. Partially as a result of this state of affairs, there are different sets of criteria in use for the assignment of levels to qualifications, an inconsistent national credit system and no single database of all qualifications (ILO, 2014a).

¹ See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Singapore.pdf.

Fragmentation and inefficiencies create a number of challenges (ILO, 2011). These include mismatches between the demand for and supply of skills, the limited involvement of employers and worker organizations in helping to ensure that training is relevant and appropriate, the poor quality of training, limited access to training opportunities and insufficient coordination of a highly complex system.

Table IX.1
Legislation and governance structures for national systems of technical and vocational education and training

Country	Legislation, policies and plans	Governance
Afghanistan ^a	Education Act National Skills Development Programme	Ministry of Education: functions through 34 provincial departments and has links with five offices of deputy ministers, including the Office of the Deputy Minister for Technical and Vocational Education and Training Ministry of Labour, Social Affairs, Martyrs and the Disabled: provides vocational skills training through its training centres and coordinates the work of non-governmental organizations (NGOs) National Institute for Curriculum Development: is responsible for both academic and vocational education Ministry of Higher Education
Brunei Darussalam ^b	Brunei Vision 2035 Brunei Darussalam National Accreditation Council Order of 2011, part III, section 21-23	Brunei Darussalam National Accreditation Council Brunei Darussalam Qualifications Framework Advisory Board
Cambodia ^c	Strategic Education Plan National TVET Development Plan (1996-2020)	Secretariat of the National Supreme Council of Education National Training Board (NTB) Ministry of Labour and Vocational Training Ministry of Education, Youth and Sport Director General of Technical and Vocational Education and Training (the secretariat for NTB) Local education and labour authorities
Hong Kong, China ^d	Council for Accreditation of Academic and Vocational Qualifications Ordinance	Vocational Training Council Hong Kong Council for Accreditation of Academic and Vocational Qualifications
Indonesia ^e	National Education System Act of 2003 Manpower Act of 2003 (regulates the national training system) Teacher Act of 2005 (establishes standards for teacher qualifications) Public non-formal education is the responsibility of district governments	Ministry of Education and Culture: has nine departments that report to it regarding TVET activities Provincial and district education offices manage, adapt and implement ministerial policy Ministry of Manpower and Transmigration: is responsible for the national training scheme National Agency for Professional Certification: is in charge of issuing competency certificates National Standards of Education Board
Lao People's Democratic Republic ^b	Prime Minister's Decree (No. 036, January 2010)	National Vocational Consulting and Skills Development Council Ministry of Education and Sports Ministry of Labour and Social Welfare

Table IX.1 (concluded)

Country	Legislation, policies and plans	Governance
Malaysia ^f	Human Resources Development Act of 1992 National Strategic Higher Education Plan Malaysian Qualifications Agency Act of 2007	Ministry of Higher Education Ministry of Human Resources Ministry of Rural and Regional Development Ministry of Youth and Sports Department of Skills Development Malaysian Qualifications Agency
Myanmar ^b	Employment and Skills Development Act of 2013	Ministry of Labour, Employment, and Social Security National Skills Standards Authority
Philippines ^g	Republic Act No. 7796	The National Coordinating Council for Education is composed of: - Technical Education and Skills Development Authority (TESDA) - Commission on Higher Education - Department of Labour and Employment - Professional Regulations Commission - Four technical working groups (each with specific remits)
Republic of Korea ^h	Workers Vocational Skills Development Act Promotion of Industrial Education and Industry Academy Cooperation Act Vocational Education and Training Promotion Act Employment Insurance Act Lifelong Education Act Skills Development Framework Vision 2020: Vocational Education for All	Ministry of Employment and Labour Ministry of Education Ministry of Trade, Industry and Energy National Institute of Lifelong Education
Singapore ⁱ	Continuing Education and Training (CET) Masterplan (2008), updated 2014	Singapore Workforce Development Agency Manpower Skills and Training Council National Productivity and Continuing Education Council Technical skills committees

Source: Prepared by the authors on the basis of official information from the countries.

^a See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_afg_en.pdf.

^b See [online] www.ilo.org/asia/whatwedo/publications/WCMS_310231/lang-en/index.htm.

^c See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_khm_en.pdf.

^d See [online] <http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/Presentation%20Global%20NQF%20Developments%20ASEM%20Meeting%2012%205%2013.pdf>.

^e See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_idn_en.pdf.

^f See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Malaysia.pdf.

^g See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_phi_en.pdf.

^h See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_kor_en.pdf.

ⁱ See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Singapore.pdf.

Several countries do not separate policy and oversight functions, as in the case of the Cambodian National Training Board (UNESCO, 2013b). International experience suggests that, while policy-setting authority is appropriate at the ministerial level, it is preferable for monitoring and

evaluation functions to be undertaken by agencies that are operationally independent of government ministries, as is done in Malaysia and Singapore. In that regard, China has made significant gains in terms of the decentralization of responsibilities based on a very clear-cut national framework (Yang and Valdes-Cotera, 2011, as cited in Marope, Chakroun and Holmes, 2015). This approach is intended to avoid the types of conflicts of interest which can arise when the same agency evaluates the success of the policies and programmes for which it is responsible (UNESCO, 2010).

B. Policy considerations

A number of drivers determine the nature of NSTVET policy within specific countries, including the global economy, the domestic economy, emerging technologies, demographics, the labour market and skills demand, and current TVET provision. The determination and prioritization of a country's technical and vocational needs are critical. This information can be gathered by means of a policy review process. The depth and breadth of recent policy reviews differs across the region (see table IX.2).

Table IX.2
Policy reviews of technical and vocational education and training

Country	Policy reviews
Afghanistan	A review and assessment of the relevant legal, policy and strategy documents has been conducted. Consultations with line ministries and national and international stakeholders were held in 2010.
Cambodia	A policy review of TVET in Cambodia was undertaken by UNESCO. The corresponding report, produced in 2013, covers the context, the current education and training system, the current TVET system, TVET links to the labour market, the vocationalization of secondary education, conclusions, recommendations and points for further discussion.
Lao People's Democratic Republic	A policy review of TVET in the Lao People's Democratic Republic was undertaken by UNESCO. The corresponding report, produced in 2013, covers the context, the current education and training system, the current TVET system, TVET links to the labour market, the vocationalization of secondary education and conclusions. The report also offers recommendations and points for further discussion.
Pacific islands	A questionnaire was sent to 14 countries in 2004 in order to gather information on providers, legislation, policy, governance, funding, non-governmental organizations (NGOs), and national and regional qualification frameworks.

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO), National TVET Strategy: Afghanistan [online] www.unesco.org/new/fileadmin/MULTIMEDIA/FIELD/Kabul/pdf/NationalTVetStrategyEnglish.pdf; *Policy Review of TVET in Cambodia*, Bangkok, 2013; *Policy Review of TVET in Lao PDR*, Bangkok, 2013; J. Bartram, *A review of TVET policy and planning in the Pacific Islands*, Pacific Association of Technical and Vocational Training, 2004.

The policy review reports for Cambodia and the Lao People's Democratic Republic are particularly comprehensive and provide a detailed analysis of the current TVET situation in each country. They identify policy options and strategies for improving TVET policies and systems based on findings arrived at on the basis of desk research and interviews. TVET country priorities are

often discussed in regional organizations, such as the Association of Southeast Asian Nations (ASEAN). At the Congress of Southeast Asian Ministers of Education Organization held in Thailand in 2014, a number of TVET policy and priority areas were identified (see table IX.3).

Table IX.3
Technical and vocational education and training policy and priority areas across the Asia-Pacific region

Country	Policy areas
Brunei Darussalam	Rebranding the TVET image; aligning programmes with labour market needs Orienting governance towards the promotion of autonomy and flexibility Upgrading training environments
Cambodia	Strengthening governance, access and equity Developing a demand-driven skills-based economy; improving the image of TVET
Indonesia	Soft skills Teacher education and quality assurance Increasing the use of information and communications technologies (ICTs) Collaborating with government and industry
Lao People's Democratic Republic	Expanding the voucher scheme to target women and ethnic groups
Malaysia	Developing a proposal for the establishment of the Malaysian Board of Technologists Developing multiple certifications Collaborating with public agencies and industry
Myanmar	Reviewing policies in order to ensure inclusive growth
Philippines	Unifying TVET registration and accreditation Enhancing the teaching of soft skills Developing competency standards and training regulations
Singapore	Reviewing the Applied Study in Polytechnics and Institute of Technical Education Review (ASPIRE) Programme ^a Strengthening applied pedagogy Enhancing student success Strengthening research and enterprise
Thailand	Enhancing the image of TVET Promoting public-private partnerships and expanding global partnerships Strengthening capacity- and capability-building strategies
Viet Nam	Reviewing labour laws Unifying TVET to create a subsystem within ministries of labour and education Building capacity of TVET administrators and teachers

Source: Southeast Asian Ministers of Education Organization (SEAMEO) Congress on Education, Science and Culture [online] www.seameocongress.org/.

^a The review was undertaken by a committee chaired by the Minister of State for Law and Education in 2014. The committee was tasked with studying how applied education in the polytechnics and information technologies engineering (ITE) fields could be enhanced by: (i) more closely matching students' strengths and interests with applied education pathways to enable them to maximize their potential; (ii) exploring deeper school-industry collaboration so that polytechnic and ITE students can learn deep skills and have better career progression paths; and (iii) enhancing industry partnerships to raise the quality of teaching and learning for polytechnic and ITE students. See [online]: http://www.parliament.gov.sg/lib/sites/default/files/paperpresented/pdf/2014/Misc.%203%20of%202014_0.pdf.

The literature suggests that it is of critical importance for a TVET policy to be embedded in a national workforce development framework. A recent report on the regional development of TVET in Asia and the Pacific

(Maclean, Jagannathan and Sarvi, 2013) underscored the importance of making progress towards the strategic alignment of TVET with national socioeconomic goals, including labour market policies. Afghanistan, the Republic of Korea, Pakistan and Bangladesh all have an overarching skills development policy, and TVET activities are set within this major policy area. In addition, TVET policies are increasingly being linked to labour market policies, with cases in point being Cambodia and Bhutan. The latter has a labour market information system that provides data to guide the provision of TVET (Dorjee, 2011). This alignment of TVET policy with skills and labour policies can help to shift TVET from a supply-driven to a demand-driven system.

C. Organizational structure

Many countries in the Asia-Pacific region now use the type of qualifications system commonly found in Anglophone countries. In most instances, this system has been superimposed onto an existing education structure in the hope of developing a coherent, comprehensive TVET approach. The aim of the approach is to provide an inclusive framework for the majority of stakeholders: industry, providers at all levels in both the public and private sectors, and learners.

Qualifications systems are made up of several components. They generally include a national authority, which manages the overall system, and a national qualifications framework, which is responsible for: (i) qualifications system design, including standards and learning pathways; (ii) assessment of learning; and (iii) quality assurance.

National qualifications authorities are governed by national laws designed to ensure that qualifications are credible and robust both in the country concerned and internationally. They manage both the national qualifications framework (NQF) and formalized quality assurance processes. Their roles include setting standards, establishing learning outcomes for specified qualifications, managing a qualifications register, accrediting training providers and developing processes that allow for the recognition of prior learning. In some countries, national qualifications authorities also manage training institutions. In these cases, there is a potential conflict of interest, inasmuch as the regulatory and delivery components of the system are overseen by the same body.

National qualifications frameworks vary in structure, as illustrated in table IX.4. They may be TVET-specific, as in the Republic of Korea;² combine

² See UNESCO, "Global Inventory of NQFs: Republic of Korea" [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/GlobalInventoryonNQFs_Rep_Korea_130509_final-final.pdf.

secondary-school, TVET and academic qualifications, as in Malaysia,³ or divide TVET and academic programmes into two frameworks that are separate yet unified to some extent, as in the case of Indonesia.⁴ Some countries, such as the Lao People's Democratic Republic and Viet Nam, have yet to implement a unified national technical and vocational qualifications framework but are working towards this end.

Table IX.4
National qualifications frameworks, quality assurance frameworks and qualification levels by country

Country and authority	National qualifications framework	Quality assurance processes	Qualification levels
Afghanistan ^a Afghan National Qualifications Authority	Afghan Qualifications Framework: levels 1-8 covering TVET	Monitoring and evaluation and quality control and assurance units are independent	Levels 2-4: basic to advanced vocational training Level 5: diploma Level 6: bachelor's degree Level 7: master's degree Level 8: PhD
Cambodia ^b Secretariat of the National Supreme Council of Education	Cambodian Qualifications Framework: 1-8 levels, including both vocational and academic programmes	Reforms in place for the development of a quality assurance and accreditation process	Certificate level: short courses (from a few weeks to a year) delivered in provincial or vocational training centers Diploma level (three levels): post-grade 9 training Higher diploma level: post-grade 12 Technician: two-to-three-year diploma Engineers: bachelor's degree
Indonesia ^c Indonesian Qualifications Board	Indonesian Qualifications Framework: levels 1-9, including academic and TVET qualifications	Unspecified	Certificate on completing Balai Latihan Kerja (BLK) training ^d Diploma and degree-level certification upon completion of higher-education courses
Malaysia ^e Malaysian Qualifications Agency	Malaysian Qualifications Framework: levels 1-8, incorporating three subsectors: skills, vocational and technical training, and academic instruction	Comprehensive: internal and external quality assurance processes	Skills qualifications Level 1 skills certificate Level 2 skills certificate Level 3 skills certificate Level 4 advanced skills cert Level 5 advanced skills diploma TVE: levels 1-8 Academic: levels 6-8
Philippines ^f National Coordinating Council for Education Technical Education and Skills Development Agency	National 8-level qualifications framework with 3 sub-frameworks: - basic education - technical education and skills development - higher education	Quality assurance systems include: - Qualification standards - Programme accreditation Assessment criteria	Five levels of skill qualifications: - National certificate 1 - National certificate 2 - National certificate 3 - National certificate 4 - National diploma 5

³ See UNESCO, "Global Inventory of NQFs: Malaysia" [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Malaysia.pdf.

⁴ See UNESCO, "Global Inventory of NQFs: Indonesia" [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Indonesia.pdf.

Table IX.4 (concluded)

Country and authority	National qualifications framework	Quality assurance processes	Qualification levels
Republic of Korea ^a Ministry of Education	Korean Qualifications Framework: national technical qualifications levels 1-5	Centre for Evaluation of Skills Development Policy evaluates training institutes	Degrees Multi-skilled technicians Master technicians
Singapore Continuing Education and Training System ^h	Workforce Skills Qualifications (WSQ) Framework: levels 1-6 VET only, does not include academic education	Comprehensive: pre-accreditation and continuous accreditation, including track record, process and systems	WSQ certificate WSQ higher certificate WSQ advanced certificate WSQ diploma WSQ specialist diploma WSQ graduate certificate WSQ graduate diploma

Source: Prepared by the authors on the basis of official information from the countries.

^a See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_afg_en.pdf.

^b See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_khm_en.pdf.

^c See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_idn_en.pdf.

^d The vocational training centres are known as Balai Latihan Kerja (BLKs). They provide vocational training and job placement services to formal- and informal-sector workers in Indonesia.

^e See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Malaysia.pdf.

^f See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_phl_en.pdf.

^g See [online] www.unevoc.unesco.org/wtdb/worldvetdatabase_kor_en.pdf.

^h See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Singapore.pdf.

The Republic of Korea has a national technical qualifications framework that consists of 5 levels and 27 fields. The qualifications reflect a mix of private and public sector requirements. Efforts are also being made to incorporate both academic and vocational skills into the Korean Qualifications Framework.

Singapore has a competency-based qualifications system that includes broad foundational competencies and industry-specific competencies, but it does not include academic qualifications. It comprises six levels, ranging from certificates to higher-level certificates to graduate diplomas. The Workforce Skills Qualification Framework (WSQ) covers over 26 industry clusters, including aerospace, security, digital animation, tourism, business management, leadership and people management. It has a robust quality assurance process that includes pre-accreditation and ongoing accreditation of training providers. However, WSQ does not yet include TVET offered by private-sector institutions.

The Malaysian Qualifications Framework is an eight-level framework that comprises three sub-frameworks: skills, TVET and a higher education sector. It provides flexible pathways for all learners to allow horizontal and vertical movement across qualifications.

The Indonesian Qualifications Framework is under development. It is moving towards providing a unified reference point for all education and training providers. It has nine different levels and includes both academic

and TVET qualifications. It provides for the recognition of prior learning and offers a credit transfer procedure to encourage learners to move between educational streams.

As table IX.4 illustrates, while NQFs in the Asia-Pacific region may be subject to the same drivers and have similar aims, all are different, since they have different institutional forms of governance, maintain different types of relationships with civil society and deal with providers that have different institutional structures and cultures. Some have separate authorities tasked with managing NQFs and quality assurance processes, while others are governed directly by government ministries.

The strength of any NQF lies in having clearly articulated levels and progression pathways. However, challenges arise when the time comes to compare NQFs for the purpose of recognizing a qualification across a number of jurisdictions, since NQFs may have differing vocational or academic mandates, differing level descriptors, differing credit values and inconsistent nomenclatures. In Singapore, for example, private and public institutions use the terms “certificate” and “diploma” interchangeably, which leads to confusion at both the national and international levels.

1. Learning pathways

Having qualifications that are linked together across all levels allows learners to plot out a clearly delineated skills development pathway. This “value chain” is missing in some qualifications frameworks that do not provide for such connectivity (ILO, 2014a). Generally, in the past, where TVET pathways and academic pathways did exist, they were separate, and it was difficult for learners, once on a given pathway, to move across to an alternative learning route. In recent years, however, NQF authorities have been developing systems and processes to support both vertical and horizontal movement across pathways. This enables people with TVET qualifications to progress to higher-level TVET qualifications and also to transition into and out of academic programmes. In Hong Kong Special Administrative Region of China, for example, a significant number of TVET graduates move from TVET education settings into academic programmes (Hui and Cheung, 2014), and Singapore is developing policies to encourage academically qualified learners to transfer to TVET pathways.

2. Qualifications and competency standards

Qualification modules can be developed and designed in a number of different ways. According to Marope, Chakroun and Holmes (2015), Asia-Pacific countries are increasingly relying on competency standards—which describe what students need to know or what they must be able to achieve—

to design their TVET qualifications. Often, competency standards have an assigned level and credit value.

Many countries use their own formulas for designing competency standards. In the Philippines, for example, competency standards are developed and packaged into sets of qualifications.⁵ In Cambodia, competency-based training documents are being developed that include standards, curricula, and learning and assessment packages. In Indonesia, national competency standards are being designed using a functional analysis approach in consultation with industry experts. In Singapore, competencies comprise three skill sets: employability skills (generic workplace skills), industry skills (broad industry-specific skills) and occupational skills (specific role-related skills).

3. Assessment of learning

There are two types of competency-based assessments: task assessment and evidence assessment. In task assessments, an assessor provides learners with specific tasks in which they can demonstrate their knowledge and skills as measured against the established outcomes for the corresponding competency standards. Task assessments usually take place in a provider/training environment. In evidence assessments, an assessor provides learners with a guide that tells them what evidence they need to present from their everyday work practice to meet the established criteria for the corresponding competency standards. Evidence assessments are usually carried out in the workplace.

In many instances, TVET assessments are marred by outdated practices which focus on knowledge acquisition rather than on the application of knowledge in practice. In the Asia-Pacific region, assessment formats need to be shifted from summative functions to performance-based and formative functions in order to enhance learning (Hau-Fai Law and Miura, 2015). In a number of countries, such as the Philippines, Indonesia and Cambodia, TVET assessments are conducted in assessment centres, which are often not located near the corresponding training providers. While assessment centres may offer consistency in terms of assessor judgments, their use may create barriers for learners in terms of access and cost.

4. Recognition, validation and accreditation of learning

Movement between learning pathways can be facilitated by the recognition, validation and accreditation of acquired learning, which "...is an important instrument for comparing different forms of learning, in order to eliminate discrimination against those who acquire competences non-formally or

⁵ See [online] <http://apskills ilo.org/resources/philippines-competency-standards>.

informally. Individuals who have had limited access to, or low achievement in, formal education and training, or who learned skills predominantly in the workplace or other settings outside the formal system, are often disadvantaged in further learning and training, and in the labour market” (UNESCO, 2013a, p. 12).

Non-formal and informal learning are important pathways that need to be made visible within the formal education system. Many countries are using national qualifications frameworks to do this. The three main mechanisms in use are: (i) accrediting providers; (ii) accrediting the learning outcomes of programmes based on formal competency standards; and (iii) accrediting an individual’s learning as measured against agreed competency standards.

In the Republic of Korea, the Academic Credit Bank accredits non-formal education programmes. It determines whether the quality of the programme and course is equivalent in credit terms to those offered by universities or colleges. Degrees can be awarded through the Academic Credit Bank system. The potential risk with this system is that credentials awarded in this way may be considered to be second-rate certifications.

The Republic of Korea also has a Lifelong Learning Account (LLA) system that works as a repository for an individual’s learning record. It thus provides recognition of a person’s learning experiences in both the TVET and academic sectors. The National Institute of Lifelong Learning can then accredit these learning experiences. Non-approved courses can be included in an LLA record, but the Ministry of Education, Science and Technology cannot guarantee their quality. Therefore, the record’s actual accreditation value is questionable. However, the LLA system also provides a directory of registered learning courses that have gone through an assessment and accreditation process. While this system provides a repository for individual learning experiences, it remains unclear how informal learning is credentialled and how its equivalencies with formal learning are established.

Indonesia operates a credit transfer system which accepts credentials awarded by an accredited provider but which can also incorporate the skills and knowledge that a learner has acquired from non-accredited providers or in the workplace. Cambodia is considering ways of assessing and recognizing the skills of returning migrant workers so that they can contribute more fully to national development efforts (ILO, 2014a).

Accreditation can become a barrier to persons seeking to access the benefits of a NQF in countries where non-formal education is delivered by community learning centres, voluntary agencies and non-governmental organizations (NGOs) because the limited resources of such providers tend to be focused on programme development and delivery rather than on NQF compliance requirements. Without provider accreditation, learners are at a

disadvantage in terms of skills recognition. However, NQFs can support the recognition of learning acquired from such providers if their programmes are aligned with explicit outcome-based standards/competencies (Björnåvold, 2000). The more closely aligned these standards are with workplace and industry requirements, the more likely it is that skills gained in non-formal learning environments will be recognized.

5. Quality assurance processes

Quality assurance processes are an integral component of qualifications systems. These processes are designed to meet the needs of all TVET system stakeholders, including students, funding sources (including national governments), employers, education providers and government policymakers. As shown in table IX.4, the scope and degree of robustness of quality assurance processes differs from country to country. Common features include the accreditation of education providers and maintenance of accreditation, approval of programmes and qualifications, measurement of the consistency of outcomes across providers and the award of qualifications.

The compliance model of quality assurance predominates in the Asia-Pacific region and is used by Malaysia, the Philippines and Singapore, among others (Bowen-Clewley, Cooper and Grannall, 2010). This model focuses on establishing criteria for the accreditation of standards, qualifications, training providers, assessors and/or courses with the goal of ensuring national consistency in TVET provision and assessment. This model is very costly, however, as it requires strong centralized systems and regular reviews and audits, along with follow-up in cases of non-compliance with performance standards. This approach is most suited to countries where the levels of TVET quality are low or uneven or where there are large numbers of training providers that operate within agencies that have different organizational structures and requirements.

6. Regional qualifications reference frameworks

The Qualification Reference Framework (AQRF) recently developed by the Association of Southeast Asian Nations (ASEAN) has the aim of “providing a reference point and translation grid for all qualifications throughout Southeast Asia... that will benefit employers, education providers and job seekers to recognize qualifications issued within the region” (Paryono, 2013).

AQRF is a tool that can be used to support cross-border labour migration. This is seen as particularly important since the establishment of the ASEAN Economic Community in 2015. It is hoped that in the future AQRF will make it possible to recognize modules or smaller skill sets that learners have acquired which do not constitute full qualifications. This objective recognition of such competencies could further facilitate worker mobility.

The ASEAN Secretariat and the International Labour Organization are currently developing two skills mobility tools for this purpose: mutual recognition arrangements (MRAs), which focus on professional qualifications such as engineering, architecture, accountancy, surveying, nursing, medicine, dentistry and tourism; and the mutual recognition of skills (MRS), which will focus on technical/vocational skills.⁶

The East Asia Summit (EAS) member countries are also discussing proposals for the establishment of a regional TVET quality assurance framework (Paryono, 2013). The aim of the framework is envisioned as being to provide “a set of principles, standards and quality indicators to assist EAS countries to develop, improve, reform, guide and assess the quality of their TVET systems and provide a basis for alignment between national TVET systems” (ASEAN).⁷ Regional quality assurance frameworks can serve as a tool for promoting and monitoring the improvement of member countries’ TVET systems. This can be accomplished by using such frameworks to outline benchmarks that can then be employed to arrive at clear, consistent assessments and to determine whether the necessary measures for improving the quality of TVET systems have been implemented and reviewed (Bateman and others, 2012).

D. Technical and vocational education and training providers

All the Asia-Pacific countries have a range of TVET providers that offer formal, non-formal and informal learning opportunities through a number of different types of programmes (see table IX.5). Although there are no agreed definitions of these terms, the following descriptions appear to be generally recognized:

- Formal learning takes place in educational and training institutions and leads to certification at various levels. Formal learning is structured and curriculum-based, with clear teacher/learner requirements.
- Non-formal learning takes place outside of formal settings. It can be structured but tends to be more flexible. Non-formal providers complement or supplement formal education providers and tend to operate in community-based settings, the workplace or civil society organizations.
- Informal learning is often described as “unintentional learning”. It takes place at work, in the family environment or during leisure activities.

⁶ See [online] <http://apskills.ilo.org/events/ilo-national-workshop-implementation-of-mutual-recognition-of-skills-in-preparation-for-aec>.

⁷ See [online] www.asean.org/news/asean-secretariat-news/item/asean-develops-framework-to-facilitate-movement-of-skilled-labor-and-professionals.

Table IX.5
Technical and vocational education and training providers, by country

Country	TVET systems	Providers
Afghanistan ^a	Formal	TVET high schools TVET institutions (private) TVET institutions (public)
	Non-formal	Training centres Private sector NGOs
Cambodia ^b	Formal	Higher secondary school TVET programme: three different levels, one year each Polytechnics Vocational training schools
	Non-formal	Provincial training centres and vocational training centres offer programmes lasting from one to four months Private providers and non-governmental organizations (NGOs)
Indonesia ^c	Formal	Senior technical and vocational secondary schools Higher education institutes offering TVET: - Single faculty academies - Advanced schools - Polytechnics - Institutes - Universities
	Non-formal	Public non-formal vocational training providers (Balai Latihan Kerja (BLKs)) offer four types of training: - Institutional training (to increase skills of job-seekers) - Non-institutional training: mobile training units - Apprenticeship programmes - Demand-based training
Malaysia ^d	Formal	TVET schools: lower and upper secondary schools Technical universities Polytechnics Vocational colleges
	Non-formal	Community colleges
Philippines ^e	Formal	Schools administered by the Technical Education and Skills Development Authority (TESDA) State universities/colleges Regional and provincial TESDA training centres Agricultural training institutes Private institutes
	Non-formal	Community learning centres
Republic of Korea ^f	Formal	Vocational high schools Vocational polytechnics Korea University of Technology and Education Training centres within companies
	Non-formal	Vocational training institutes Community learning centres
Thailand ^g	Formal	TVET schools Vocational institutes
	Non-formal	Community learning centres
Viet Nam ^h	Formal	Technical and vocational institutes
	Non-formal	Community learning centres

Source: Prepared by the authors on the basis of official information from the countries.

^a See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_afg_en.pdf.

^b See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_khm_en.pdf.

^c See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_idn_en.pdf.

^d See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Malaysia.pdf.

^e See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_phl_en.pdf.

^f See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_kor_en.pdf.

^g See [online] www.unescobkk.org/education/resources/resources/education-system-profiles/thailand/higher-tvet.

^h See [online] www.tvet-vietnam.org/.

Developed TVET systems in the region have an array of public and private providers that offer formal TVET programmes through senior secondary schools, training institutes, polytechnics and universities. Non-formal providers in developed TVET systems often offer a range of credit-bearing courses (Republic of Korea, Singapore). Community learning centres cater for those learners who “fall between the cracks”. In Singapore, community outreach programmes target low-wage workers, youth, ethnic minorities, persons with disabilities and people over 40 years of age in order to ensure ongoing employability. It is less common for community learning centres to offer credit-bearing courses. Their focus is predominantly on pre-employment or trans-employment skills.

Countries such as Malaysia, the Republic of Korea, Singapore and Thailand are currently building their institutional capacities with a view to making their NSTVETs more inclusive. The most effective programmes are demand-driven and have up-to-date, relevant standardized curricula that include transferable, entrepreneurial and green skills that embed technology and incorporate workplace experience. The Republic of Korea has developed a specialized agency that is responsible for integrating ICT into the education and training sectors at all levels.⁸

E. Technical and vocational education and training programmes

TVET programmes range in length from half-day workshops on topics such as literacy or hygiene to four-year master’s degrees in applied technology. Most formal TVET courses start at the senior secondary school level and run from one to three years. One- to three-year programmes are also offered by higher educational institutions, such as technical colleges or polytechnics, and specialized technical courses of study in such areas as engineering are offered by universities. Table IX.6 summarizes the types of programmes offered by TVET providers and their links to higher education.

1. Resources, relevancy and standardization

The resources required to deliver relevant TVET curricula are considerable. They include a low teacher-to-learner ratio, practical equipment for skill development, ICT resources and appropriate facilities which permit the replication of current industry practice. Many Asia-Pacific countries see resourcing TVET as an ongoing challenge.

⁸ See [online] http://english.keris.or.kr/es_ak/es_ak_100.jsp.

Table IX.6
Types of programmes offered by technical and vocational education
and training providers and their links to higher education

Country	TVET system	Providers	Programmes	Links to higher education
Afghanistan ^a	Formal	TVET high schools TVET institutions (private) TVET institutions (public)	Agriculture, livestock, veterinary science, business, construction, engineering, arts	Transfer to university possible via cross-crediting
	Non-formal	Training centres Private sector NGOs	Carpentry, plumbing, motor mechanics, television repair, electrical engineering, computer studies Private providers offer computer literacy, English, management and accounting programmes	No current system for validating outcomes of non-formal or informal learning. A recognition system is under development.
Cambodia ^b	Formal	Higher secondary school TVET programme: three different levels, one year each Polytechnics Vocational training schools	Vehicle repairs, general mechanics, computer technology, agricultural mechanics, electricity, electronics, cooling mechanics and civil engineering	Skills bridging programmes provide access to two-year diploma programmes Equivalency tests allow re-entry into formal education from non-formal education
	Non-formal	Provincial training centres and vocational training centres offer one- to four-month programmes Private providers and non-governmental organizations (NGOs)	Basic agriculture, construction, motor repair skills, craft and basic food processing	No current mechanism for skills recognition or cross-crediting
Indonesia ^c	Formal	Senior technical and vocational secondary schools Higher education institutions offering TVET: - Single-faculty academies - Advanced schools - Polytechnics - Institutes - Universities	Technology and engineering, health, art, crafts and tourism, information and communications technology (ICT), agribusiness and agrotechnology, business management	If the student passes a national exam, s/ he can gain access to institutions of higher education. Balai Latihan Kerja (BLKs) are credentialed and allow for certification. Theoretically, they could link to higher education via a credit transfer system.
	Non-formal	BLKs offer four types of training: - Institutional training (to increase skills of job-seekers) - Non-institutional training: mobile training units - Apprenticeship programmes - Demand-based training	Early childhood, youth education, women's empowerment, literacy	Theoretically, informal learning could also link to higher education through government assessments.
Malaysia ^d	Formal	TVET schools: lower and upper secondary schools Technical universities Polytechnics Vocational colleges	Vocational subjects in secondary school include: engineering services, construction, home economics, agriculture, computing Extensive post-school qualifications in all technical and vocational areas	Accreditation prior to experiential learning Note: The 22 vocational subjects taught at secondary school link to national skills certificates
	Non-formal	Community colleges	Unspecified	

Table IX.6 (concluded)

Country	TVET system	Providers	Programmes	Links to higher education
Philippines ^a	Formal	TESDA-administered schools State universities/colleges TESDA regional and provincial training centres Agricultural training institutes Private institutes	Full range of TVET programmes	Post-TVET bridging programmes Alternative learning system based on portfolio, interview and/or written exam Flexible entry into national skills certificate programmes
	Non-formal	Community learning centres		
Republic of Korea ^f	Formal	Vocational high schools Vocational polytechnics Korea University of Technology and Education Training centres within companies	Engineering Technology Agriculture Commerce Maritime Note: Specialized vocational high schools link directly to needs of industry	Providers are accredited by the Academic Credit Bank system Learners have access to the Lifelong Learning Account system
	Non-formal	Vocational training institutes Community learning centres	Teaching, agriculture, nursing, maritime sciences, health, arts, physical education, physiotherapy, fisheries, aviation	
Singapore ^g	Formal	The Institute of Technical Education (ITE) caters for the lowest 25% of school leavers: three colleges in total Polytechnics Universities	ITE offers 99 courses in 11 sectors ^h Polytechnics offer approximately 50 courses across many industry sectors	A formal vertical and horizontal articulation process allows individuals to continually reskill and upgrade
	Non-formal	Unspecified (see table IX.9)	Unspecified (see table IX.9)	

Source: Prepared by the authors on the basis of official information from the countries.

^a See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_afg_en.pdf.

^b See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_khm_en.pdf.

^c See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_idn_en.pdf.

^d See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Malaysia.pdf.

^e See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_phi_en.pdf.

^f See [online] www.unevoc.unesco.org/wtdb/worldtvtdatabase_kor_en.pdf.

^g See [online] http://uil.unesco.org/fileadmin/keydocuments/LifelongLearning/en/UII_Global_Inventory_of_NQFs_Singapore.pdf.

^h See [online] www.tda.edu.au/resources/Singapore_TVET_system_16_Dec_2012.pdf.

Graduates from secondary school and post-secondary school TVET programmes are often reported to be unable to meet the needs of employers. This is because their skill set is either too restricted or based on outdated practice. If curricula lack relevance, graduates are unable to “hit the ground running” and so fail to satisfy the demands of the workplace. Malaysia has identified curriculum relevancy as an ongoing concern.

Standardization of curriculum outcomes across providers is another weakness in current national TVET systems. Several countries are working to improve this. Malaysia has established the Malaysian Board of Technologists in an attempt to standardize the quality of training curricula across public and private providers. It is also working closely with industry to increase curriculum relevancy.

2. Learning through workplace practice

“Learning through practice in work stands as the most common, pervasive and salient provision of learning for occupations across human history” (Billett, 2013, p. 127). Occupational development is a key, if not the key, component of TVET. Evidence suggests that engaging learners in authentic occupational activities within the work environment leads to both situation-specific learning and the acquisition of more generalized vocational skills in such areas as teamwork and problem-solving. Throughout the Asia-Pacific region there is an increasing demand for work-based TVET, including apprenticeships.

A number of apprenticeship models exist within the Asia-Pacific region. In Cambodia, for example, businesses with over 60 employees are required to take on an extra 10% of employees as apprentices or pay 1% of their wage bill in lieu thereof. It is estimated that between 6% and 13% of businesses comply with the apprenticeship law. Questions remain regarding quality, retention of apprentices, ongoing employability of trainees and wages received during and after the apprenticeship. In Cambodia, 92% of apprentices are women, which suggests that the majority of apprenticeships take place in the garment sector (UNESCO, 2013b).

In the Philippines, the formal apprenticeship system is quite small, but well-developed, with a strong institutional underpinning. Enterprises wishing to take on apprentices and institutions that provide off-the-job training components need to be accredited. The training content is based on national competency standards that have been developed jointly with industry.

3. Transferable skills

Technical skills training is a vital part of TVET, but it is no longer seen as sufficient in and of itself. The teaching of transferable skills is now considered to be of paramount importance. Definitions of “transferable skills” differ. Broadly speaking, these are skills that allow individuals to adapt to change so that they can lead productive and meaningful lives. These learning domains include critical and innovative thinking, interpersonal skills, intrapersonal skills, global citizenship, and media and information literacy (UNESCO, 2014). Hui and Cheung (2014) define such skills as constituting “cultural literacy”.

Throughout the Asia-Pacific region, the inclusion of transferable skills in TVET is occurring “at a varied pace and in varied ways” (UNESCO, 2014). Some countries are integrating the concept of transferable skills at the policy level, while others are piloting it at an educational/delivery level. Table IX.7 gives examples of some of the different models that are being used by providers.

Table IX.7
Models for teaching transferrable skills

Country	Teaching of transferable skills ^a
Japan	Extracurricular: One-day programme that combines instruction and practice
Malaysia	Diffusion model: Teaching modules of transferable skills as separate disciplines, (e.g. industrial training in soft skills)
Viet Nam	Infusion model: Infusing skills into existing learning experiences

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO), *Transferable Skills in Technical and Vocational Education and Training: Policy Implications*, Bangkok, 2014.

^a In the infusion model, transferable skills are blended throughout the learning experience, with no specific time frame. In the diffusion model, each skill is taught in a separate module of variable length.

4. Entrepreneurial and green skills

Alongside the need of all learners to develop transferrable skills, there is the need to have a toolkit of the entrepreneurial skills required in order to turn ideas into action and to be creative and innovative. Currently, most TVET programmes are designed to prepare learners for paid employment, and many focus on employment in large enterprises. Less attention is given to skills that would allow learners to become self-employed or work in small or medium-sized enterprises (Badawi, 2013). The acquisition of entrepreneurial skills opens up possibilities of both self-employment and the start-up of small businesses in the local context, which are a central factor in alleviating poverty and offering opportunities to vulnerable groups.

Climate change, environmental degradation and the scarcity of resources are not only changing the nature of work; they also call for a response from the TVET sector that will ensure that people can acquire the knowledge and skills required to move towards a green economy and a green society. Greening TVET is a major driver towards sustainable development and corporate social responsibility (UNESCO-UNEVOC, 2013a).

F. Vocationalization of schools

There is a global trend towards a decreased demarcation between TVET and general education. A number of countries have been “vocalizing” their

secondary schools in an attempt to ensure that learners leave with the skills that they will need to find employment and remain employed. Globally, the vocationalization of secondary education began in the 1970s. Its original aim was to promote the inclusion of less privileged groups in education and training, to narrow educational gaps and to avert social fragmentation (Lauglo, 2005).

Indonesia has increased its TVET components at the secondary school level in order to equip students with employment skills that will ease their transition into the workplace (Paryono, 2011). Cambodia has also brought about a significant change in its secondary schools by making nearly 70% of them TVET-focused. This shift was prompted by the realization that young people were leaving secondary school with insufficient skills to transition into the workplace.

Nonetheless, the stigma associated with TVET persists in some countries, where it is still seen as a second-class form of education. Many countries are trying to revamp this image. Indonesia has stepped up its provision of TVET. China has increased the amount of general education content provided in TVET programmes. Indonesia and the Republic of Korea have heightened the permeability between TVET and higher education (Ratnata, 2013).

In Singapore, the image of TVET has significantly improved over the last decade. Now, a third of all students enrol in institutes of technology at year 11. This change has been due to a major overhaul of the TVET system in terms of infrastructure, curriculum, innovative programmes and marketing (Seng, 2011). The Institute of Technical Education, which targets the needs of the bottom 25% of the school cohort, now has a clearly defined mission. It addresses the specific needs of particular cohorts and offers a modern campus infrastructure. The Institute has a rigorous curriculum development process, offers a process-oriented pedagogic model and works in partnership with industry. In India, the concept of work has been embedded into primary school education, and pre-vocational education has been included at the lower secondary school level (Marope, Chakroun and Holmes, 2015).

G. Technical and vocational education and training: staffing

As is illustrated in table IX.8, the educational qualifications of TVET teachers differ throughout the region.

Table IX.8
Country-specific teacher training for technical and vocational education and training systems

Country	Current practice in TVET teacher education
Afghanistan	A bachelor's degree is required to become a TVET teacher. However, more than 50% of TVET teachers do not currently have a degree.
Brunei Darussalam	Brunei Darussalam has one teacher training institution: Sultan Hassanal Bolkiah Institute of Education (SHBIE), University of Brunei Darussalam. It has recently been converted into a graduate school in order to raise the level of qualifications of all teachers, including TVET teachers. Current TVET teachers' programmes include: <ul style="list-style-type: none"> - MTeach (TVET) - GradDipEd (TVET) - Continuing Education Centre, University of Brunei Darussalam - Diploma in Technical Education
Cambodia	There are two different types of teacher training (an academic track and a TVET track (National Technical Training Institute)). Each is under a different ministry. TVET teacher training is a one-year programme for instructors for either junior- or senior-level students. Instructors at the junior level must hold an associate degree or higher; instructors at the senior level must hold a bachelor's degree or higher. The National Technical Training Institute also trains selected university graduates to become TVET teachers and upgrades the skills of existing trainers.
Indonesia	Universities offer education for TVET teachers for secondary vocational and technical schools. By 2015, all teachers had to have completed a certification process that requires them to have a higher education degree. Teachers are certified on the basis of standards developed by the National Standards Board. A vocational education development centre offers in-service training for TVET teachers.
Lao People's Democratic Republic	The National University of Laos has been offering pre-service education to TVET trainee teachers. Overall, TVET teachers are seen as having low-level qualifications.
Malaysia	The aim is to reach a point where all TVET teachers hold a first degree. Work is moving forward on a new national TVET teacher qualification standard. There is a need to standardize TVET teacher training across a broad number of providers.
Myanmar	Two TVET teacher training centres produce competent technical teachers. Instructors who want to teach at a technical university need to hold a first degree. TVET teachers working in technical colleges, schools and institutions are trained via practical skills-based courses.
Nepal	The Training Institute for Technical Instruction was established in 1991, but pre-service or in-service training is not mandatory for TVET instructors. The requirement for recruitment of professional teachers in vocational schools is usually a diploma, bachelor's degree or master's degree in a specialized field. There is a need for competency standards for TVET teachers. There are over 10,000 TVET teachers/trainers in the public and private sectors.
Republic of Korea	TVET teachers are trained at Koreateach and are classified as professional teachers, general teachers and on-site training teachers.
Singapore	The Singapore Institute of Technical Education provides its own TVET teacher education programme, which is competency-based and practice-oriented and is supplemented by on-the-job mentoring and supervision by experienced teachers.
Viet Nam	The quality of TVET teachers is low, and salaries are average. There is no professional development plan, and teaching equipment and aids are insufficient. There are no specific TVET teacher training programmes. However, there is a focus on helping TVET teachers to meet the required industry standards, where they exist. This is to be achieved by having teachers return to industry every 2-5 years to update their practical skills and learn about new technologies.

Source: SEAMECO VOCTECH, "The excellence of teacher education and research innovation", report from the Expert Meeting on TVET Teacher Education in Southeast Asia, Bangkok, 25-28 December 2012; International Centre for Technical and Vocational Education and Training (UNESCO-UNEVOC), World TVET Database - Country Profiles [online] www.unevoc.unesco.org/go.php?q=New%20country%20reports%20in%20World%20TVET%20Database.

While models of TVET teacher training may differ across countries, what remains the same is the expectation that TVET teachers/trainers will be technical experts as well as teaching experts. TVET teachers need to move between the world of manual or technological skills that underpins many traditional jobs and occupations and the world of critical thinking and analysis, innovation and abstract reasoning that accompanies modern industry. They must also be skilled teachers who are capable of using different pedagogical approaches as different situations arise.

To meet these requirements, the training of TVET teachers needs to be actively linked to industry, academic research and best practice teaching methods (Gamble, 2013). However, while some countries in the Asia-Pacific region have well-articulated procedures for training TVET teachers, others have very limited resources. Malaysia, Pakistan, Bangladesh and Sri Lanka, among others, have national teacher training institutes. While this is clearly a strength, it is also true that these institutions often stand in need of modernization, particularly in relation to teaching and assessment pedagogy.

In the Philippines there are more than 23,000 TVET trainers covering over 215 qualifications. In 2006 the National TVET Trainers-Assessors Qualifications Programme (NTTAQP) was developed to ensure competence in trade qualifications and in training and assessment methodologies. The programme has four levels: (i) trainer/assessor, (ii) training design/development, (iii) training supervision/mentoring, and (iv) master trainer. In Indonesia, assessor standards have been established and endorsed, and a growing number of qualified assessors are in place.

In 2009, universities in China, Indonesia, the Lao People's Democratic Republic, Malaysia, Thailand and Viet Nam established the Regional Cooperation Platform (RCP) for Vocational Teacher Education in Asia with the goal of improving vocational teacher education. In 2013, RCP developed core curricula for vocational teacher education in mechanical engineering and electrical engineering at the bachelor's degree level. It is hoped that the establishment of core curricula will enable institutions to exchange lecturers and students and that, in the near future, qualifications will be mutually recognized (Hung, 2013).

1. Technical and vocational education and training pedagogy

It is important to note that any pedagogical content that is taught as part of a TVET teacher training course needs to reflect the fact that many TVET students have their own subculture and ways of learning. This awareness is not incorporated into the didactic methods that most TVET student teachers are exposed to and perpetuate, however.

A recent report by Hau-Fai Law and Miura (2015) focused on the predominant teacher training methods used in seven Asia-Pacific countries. While there were differences from one country to the next, all of these countries' governments have recognized the need to change the main teaching and learning style from a teacher-centred transmission approach to a learning-centred participatory approach. Learning-centred activities include "project-based activities, problem- and theme-based integrated learning, experiential learning and activities that involve action research, debate, teamwork, group discussion and presentations" (Hau-Fai Law and Miura, 2015).

Many countries have also recognized the need to change their assessment formats in order to move away from predominantly theoretically based summative testing towards performance-based and formative functions. Professional TVET teacher training also needs to incorporate research into its own learning culture. Research is now seen globally as a core component of higher education in general, and TVET should embrace this as well. It is also imperative, in today's world of ever-changing technology, for TVET teachers to be actively involved in professional development activities. This will happen as a matter of course if each teacher maintains close links with industry, as it is industry which embeds the latest technology into business practices.

2. Technical and vocational education and training teachers and industry

Majumdar (2011) sees the backbone of TVET teacher education as its link to industry. TVET teachers should engage with industry, be regularly upskilled with the help of industry counterparts, have close working relationships with them and make use of those experiences to influence curricula and teaching practice. Only then will the formation of a skilled, qualified TVET teacher workforce be an achievable goal. It is known that TVET institutions in less industrialized countries generally receive little support from industry (UNESCO-UNEVOC, 2012b). However, more developed countries, such as Indonesia, Malaysia, Singapore and the Republic of Korea, have closer working relationships with industry and see these as vital if a skilled, responsive workforce is to be readily available.

Indonesia has developed the concept of "teaching factories" as a means of improving the link between TVET education and industry. Teachers invite members of industry to host their production activities in their TVET institute. This allows students to learn about the range and level of skills required to meet industry standards. It also educates TVET teachers about these standards and about the working culture of specific

industries. Another approach is to place TVET teachers as part-time employees within a given industry. Alternatively, selected employers can be assigned as part-time teachers. Both these approaches are currently being used in China.

H. Technical and vocational education and training and vulnerable groups

The majority of non-formal TVET programmes target vulnerable groups. These include the unemployed, underemployed, the illiterate, youth (particularly those who did not have access to or did not complete secondary education) and women. In developing countries, most of these initiatives take the form of pre-employment programmes and focus on literacy and numeracy skills (see table IX.9). In some instances, these programmes lead into work-focused skill development programmes, some of which are short-term, outcome-driven programmes which provide guaranteed employment. In line with the premise of lifelong learning, all programmes should cover transferable skills and, in the case of vulnerable groups, entrepreneurship skills, in particular.

It is interesting to note that, in developed TVET systems, programmes are targeted more specifically at subgroups within the vulnerable population and are designed to ensure ongoing employability. These subgroups include low-paid workers, youth, ethnic minorities, persons with disabilities and those over 40 years of age. Providers of programmes for vulnerable groups include both government agencies and private-sector bodies (industry counterparts and NGOs).

Access is a major issue for vulnerable groups in all countries across the Asia-Pacific region (Caillods, 2010). Traditionally, access to TVET opportunities is usually an option at the upper secondary level (ages 15-18 years). In order to have access to these opportunities, students generally have to have attended primary and lower secondary school. Thus, for many different reasons, a significant number of children in the region fail to benefit from TVET opportunities simply because they have not been engaged in the formal education system for long enough. Obstacles faced by women and youth include gender, socioeconomic, ethnic and rural-urban disparities.

Table IX.9
National systems of technical and vocational education and training providers
and programmes for vulnerable groups

Country	TVET providers for vulnerable groups	Programmes
Afghanistan	Literacy department working in government overseas non-governmental organization (NGO) initiatives	Occupational literacy and skills acquisition
Cambodia	Community learning centres	Equivalency programmes Literacy programmes Life skills courses: hair cutting, sewing, sculpturing, rice planting
Indonesia	Balai Latihan Kerja (BLK) providers focus on poor individuals who have dropped out of primary or secondary school Providers are located in large urban areas, smaller urban centres and rural areas Provincial training centres and vocational training centres target rural areas. The aim is to reduce social dislocation and poverty	Early childhood education, youth education, women's empowerment education, literacy education, vocational training and internship, equivalency programmes and other kinds of education aimed at developing learners' abilities Basic agriculture, construction, motor repair skills, craft and basic food processing Hairdressing/beauty Computing Tourism
Lao People's Democratic Republic	Non-formal education institutions	Literacy Basic vocational training
Republic of Korea	Polytechnic students include school dropouts, unemployed people and disadvantaged groups The Neilbaum Voucher System offsets the cost of TVET training	Employment-oriented curriculum Customized training tailored to company needs Hands-on skills Employment success packages support unemployed people in actively seeking work
Singapore	Singapore offers a number of programmes for a range of vulnerable people: - Disengaged youth - Unemployed workers - Older workers - Low-wage and low-skilled workers	NEXSTEP Programme for disengaged youth Skills redevelopment Place-and-Train Programme ADVANTAGE! Programme Job creation
Thailand	Community learning centres ^a "Wisdom teacher providers" Local administration, government administration or business administration	Provision of functional literacy Second-chance education for those who did not complete their formal education Practical skills training
Viet Nam	Community learning centres ^b at provincial level Community learning centres at commune or ward level	Illiteracy eradication Tailored to the needs of learners: literacy, technology, foreign language mastery Training and upgrading Life skills improvement oriented towards personal fulfilment and community development

Source: Prepared by the authors on the basis of official information from the countries.

^a See [online] www.unescobkk.org/fileadmin/user_upload/appeal/Literacy_and_Continuing_Education/Meetings_Conferences/RegionalResearchWorkshop/Presentations/Thailand.pdf.

^b See [online] www.unescobkk.org/fileadmin/user_upload/appeal/Literacy_and_Continuing_Education/Meetings_Conferences/RegionalResearchWorkshop/Presentations/Viet_Nam.pdf.

Girls, in particular, are underrepresented in secondary education in many Asia-Pacific countries, including Cambodia, the Lao People’s Democratic Republic and Afghanistan. Often, gender discrimination is entrenched in the sociocultural context of the country. Socially accepted norms surrounding such practices as early marriage and early pregnancy and poor maternal health deter girls from starting or completing their upper secondary school education. Economically and culturally, girls are expected to stay at home to care for children and grow food. Conditions such as a shortage of water and the lack of separate toilet facilities, the presence of very few female teachers and long travel times may make parents reluctant to send their daughters to school. These constraints may also be a factor for adult women who are seeking training opportunities, and they are exacerbated in rural areas and for certain ethnic groups in cities.

Community learning centres are a common type of TVET provider for members of vulnerable groups at the local level and are operating in 25 Asia-Pacific countries. Their growth over the past decade has been significant (see table IX.10). They offer basic education; literacy instruction; skills development and vocational training; training in income generation, entrepreneurship and community development; training in culture, recreation and sports; and instruction in information sciences and connectivity (Miyazawa, 2015).

In Viet Nam, for example, community learning centres (CLCs) offer programmes for vulnerable groups, including young people and adults seeking employment as civil servants, in small enterprises and as rural labourers. Programmes are also run for the elderly to enhance community engagement. The overall aim is to improve the quality of the stock of human resources and to build a learning society.

Table IX.10
Number of community learning centres and learners, by country

Country	Number of community learning centres
Indonesia	4 513 centres
Philippines	843 centres
Republic of Korea	4 992 centres with over 27 million learners
Thailand	8 764 centres with over 2 million learners
Viet Nam	10 994 centres with over 13 million learners

Source: I. Miyazawa, *Transforming Education and Training Systems to Create Lifelong Learning Societies in the Asia-Pacific*, Bangkok, United Nations Educational, Scientific and Cultural Organization (UNESCO), 2015 [online] www.unescobkk.org/fileadmin/user_upload/appeal/Literacy_and_Conrtinuing_Education/Meetings_Conferences/RegionalResearchWorkshop/Presentations/LLL_and_education_system.pdf.

In Thailand, Fix-It Centres offer instruction in the maintenance of work tools, agricultural machinery, equipment and household appliances (Choomnoon, 2011). The majority of these learning experiences appear to go unrecognized, however, and are therefore not credentialed.

Community Learning Centres face a number of issues. NQFs fail to recognize the learning experiences that they offer. There are few, if any, skills recognition processes in place. Management staff are often untrained, and there is limited infrastructure and inadequate funding. Relationships with government agencies can be quite complex when multiple departments are responsible for service delivery (UNESCO, 2013a). Certain groups and sectors are calling for the lifelong learning that is taking place at CLCs to be recognized in NQFs.

I. Public-private partnerships in national systems of technical and vocational education and training

To ensure that NSTVETs are demand-driven, it is generally agreed that up-to-date, relevant industry stakeholders need to be involved at every level of governance and at every level of the organizational structure. A wide range of public-private TVET partnerships are in place in the Asia-Pacific region (ADB, 2009). Many governments are exploring options and developing mechanisms to increase the involvement of the private sector in TVET supply and demand. Governments need to make sure that their public agencies have the capability to regulate, monitor and contract private TVET providers properly, to develop the capacities of private providers to deliver quality products and to set up processes that contribute to the establishment and implementation of public-private partnerships. Such partnerships need to include small, medium-sized and large enterprises in order for the full potential of skills development to be recognized.

Examples of partnerships of this type can be found in several countries. In Cambodia, the private sector is actively invited into TVET schools to assist with training in such fields as technical knowledge, engineering, electricity and architecture. In Malaysia, collaboration initiatives encompass research, internships and work-based learning programmes (see table IX.11). In Singapore, industry is involved at both in policy development and at the curriculum level to ensure that qualifications are fit for purpose. In the Republic of Korea, industry is involved at many levels in the national system. In Thailand, the Petrochemical Technical College is a joint initiative of industry and government that is designed to meet the need for skilled technicians. Engagement with the private sector leads to an improved understanding of skill demands and also allows for the continual upgrading of learning content, particularly in connection with innovations in technology.⁹

⁹ See [online] www.khmertimeskh.com/news/799/public-private-partnership-----contributes-to-labor-development/.

Table IX.11
Malaysian collaboration initiatives, by type of institution

Ministry	Institutions	Collaboration initiatives
Ministry of Higher Education	Technical universities	Industry PhD
		Research, innovations and commercialization
	Polytechnics	Industrial training
		Internship programmes
Industrial deployments for lecturers Guest lectureships		
Ministry of Education	Community colleges	Work-based learning
	Vocational colleges	Traineeship programmes
	Vocational schools	Basics of financial management
	Mainstream schools	Traineeship programmes

Source: KHMER Times, “Public-Private Partnership Contributes to Labor Development” [online] <http://www.khmertimeskh.com/news/799/public-private-partnership-----contributes-to-labor-development/>.

J. Financing of national systems of technical and vocational education and training

A demand-driven TVET system is responsive to the technical education and training needs of the population and of industry. In order for such a system to be in place, clear, diversified sources of funding are required (Atchoarena, 2014), as government funding in itself is often not enough to accomplish the needed change. Public-private partnerships also have a place, as discussed earlier. For a topic of such complexity, the desktop review undertaken for this study did not identify the amount of commentary that had been expected.

At a macro level, funding is required for the development and operationalization of a nationally based, comprehensive TVET system. Such a system should include a national qualifications authority, national qualifications frameworks, standard-setting bodies and awarding bodies. At a micro level, funding is required by training institutions and a range of other training providers, including workplaces. To be effective, TVET should have a relatively low trainee-to-trainer ratio and reputable facilities and should be backed up by regular investment in new equipment and the maintenance and repair of existing equipment (Dubois and Balgobin, 2010). Sound TVET systems also require earmarked funds for trainer and assessor education and upskilling. This funding can come from a variety of sources, as outlined below.

National training funds are the vehicle that is used in many countries to unify various funding sources, augment the volume of training resources and allocate funds. Training funds provide an institutional framework for fund collection and allocation. They usually operate outside of the normal

government budgetary channels. Table IX.12 provides details of some of the current funding models in use in the Asia-Pacific region.

Table IX.12
Current funding models for some countries in the Asia-Pacific region

Country	Financing
Afghanistan	The Afghanistan Reconstruction Trust Fund is supported by donors. A functioning system for public TVET funding is in its infancy.
Cambodia	The National Training Board allocates financing from the National Training Fund (Training Grant Fund and Self-Employment Generation Fund). Funding sources include government, international organizations, donors and other stakeholders.
Hong Kong, China	The Vocational Training Council administers training funds in the form of student grants, loans and scholarships. There is a self-financing post-secondary education fund (government-backed) There are both State-funded and privately funded universities
Indonesia	Responsibility is shared by the national government, local government and the community 20% of the national budget is allocated for education (net of teachers' salaries) Funding for educational institutions takes the form of grants
Malaysia	The Human Resources Development Fund relies on the Human Resources Development Levy, which is imposed on specific groups of employers. The Skills Development Fund also extends loans to skills trainees, especially school-leavers.
Republic of Korea	Public funding is allocated by ministries and municipal governments Private funding takes the form of employment insurance paid for by business owners and employees. User-paid private colleges are also in operation.
Singapore	The Skills Development Fund is managed by the Singapore Workplace Development Agency. Sources of funding: contributions by all employers in Singapore.

Source: International Centre for Technical and Vocational Education and Training (UNESCO-UNEVOC), World TVET Database - Country Profiles [online] www.unevoc.unesco.org/go.php?q=New%20country%20reports%20in%20World%20TVET%20Database.

K. Conclusions

Countries in the Asia-Pacific region have adopted various strategies for adapting existing TVET models to meet rapidly changing societal and economic needs. The analysis of, and responsiveness to, the fluidity of demand is critical. Such an analysis can drive the strategic vision, operational plans and evaluation of the system as a whole. This approach makes it possible to develop a coherent and possibly unique TVET model rather than borrowing systems and processes from jurisdictions where significantly different needs and contexts may exist. Retrofitting other countries' TVET systems into a different domestic setting can result in poor outcomes.

It is also important to recognize that TVET serves a wide range of learners, including youth, low-income workers, women, persons with disabilities, the unemployed and migrants. Each of these groups has widely differing characteristics, contexts and constraints. But they all need to be included in any TVET strategy. This need for inclusivity has led to a

growing acceptance of the idea that multiple routes to skills acquisition and workplace competence need to be provided, and all of these routes must be recognized by the TVET system. There is general agreement that TVET systems should include:

- Workplace-based training through non-formal (apprenticeships) and informal (on-the-job learning) processes
- Public and private institution-based training
- Organization and enterprise competency-based frameworks
- Training schemes that target specific groups
- Vocational training in secondary schools.

The importance of programmes that combine generic skills (sometimes called “employability skills” or “transferable skills”), entrepreneurial skills and technical components is being increasingly recognized. This approach is aimed at enhancing worker adaptability in a rapidly diversifying workplace and supporting worker mobility in rapidly developing economies. A considerable amount of resources are required in order to develop and support a demand-driven system that offers extensive education and training across the lifespan, meets workplace requirements and is flexible enough to be delivered via multiple mechanisms.

In addition, comparable standards need to be established in order to measure learner outcomes from whichever route has been used to acquire the skills in question. This has been the impetus for the establishment of national and regional qualifications frameworks and national and regional competency/skills standards. Embedded within these national frameworks are formalized quality assurance processes. The compliance model is the one most commonly used for this purpose in the Asia-Pacific region. Taken together, national qualifications frameworks and quality assurance processes are used for setting standards, establishing learning outcomes for given sets of qualifications, accrediting training providers, developing processes that allow for the recognition of prior learning, and assessment and certification. There is now a strong emphasis on meaningful engagement with industry in developing both frameworks and standards. This has become a key feature of the effort to ensure the relevance, quality, reputation and sustainability of TVET systems.

The purpose of technical and vocational education has always been to equip learners for success in the workplace, in their communities and in their personal lives. While this objective may have remained constant for centuries, the world around TVET is undergoing a period of unprecedented change marked by an array of new challenges. The challenges for NSTVETs include securing funding and achieving affordability. Sustainable funding models

have a number of common characteristics. These include a public-private partnership approach, a significant role for employers in the governance of the system as a whole and, in particular, a strong voice for employers in the allocation of training funds. The funding system should be transparent and should be based on an independent administrative capacity in order to limit corruptibility. Competition between providers should be encouraged, as should a regular evaluation of the performance of the training fund.

Systems should accommodate learners who may already have access to all the knowledge and skills that they require but who are not credentialed; they should also serve the non-traditional learner. Other issues have to do with managing learners who are moving between multiple learning environments, managing learners from different jurisdictions, meeting government objectives and doing all this within the constraints of current delivery models.

A summary of good practices for the implementation of NSTVETs, based both on the strengths of various systems and countries discussed in this chapter and on an ample body of literature, is included in the annex. It is important to note, however, that these good practices still must be tailored to the specific circumstances of each country and to the specific characteristics of the intended beneficiaries of technical and vocational training.

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Annex IX.A1

Good practices in the implementation of national systems for technical and vocational education and training

A. National skills development policy

Good practice indicator 1	National systems of TVET are embedded in a country's national skills development policy and are clearly linked to the satisfaction of labour market requirements and to social development considerations.
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B. Developing NSTVET policy

Good practice indicator 2	In establishing NSTVET policy, a detailed analysis of key policy drivers has been undertaken and is regularly reviewed to ensure the currency and relevance of the system.
Good practice indicator 3	The reviews provide robust information through a consultation process that has included key stakeholders such as policymakers, employers (of small, medium-sized and large enterprises), industry peak bodies, learners, education providers, unions, relevant NGOs and funding agencies.
Good practice indicator 4	The impact of TVET outcomes on the labour market is measured to ensure that there is a good match between the level and type of skills imparted by the NSTVET and the requirements of the labour market.

C. Governance and accountability

Good practice indicator 5	NSTVET governance is based on the principles of participation, transparency and accountability. A robust, inclusive quality assurance process is in place.
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D. Organizational structure

Good practice indicator 6	The national qualifications framework goes beyond a hierarchical classification system and is designed to ensure that a needs-based, coherent and cohesive qualifications system is in place that recognizes lifelong learning and is based on stakeholder consultation.
Good practice indicator 7	TVET operations are centralized under one authority in order to provide a coordinated, efficient and effective national system.

E. Qualifications

Good practice indicator 8	Qualifications are designed to identify the underpinning skills, knowledge and attributes that graduates need to perform a range of roles across a broad context. Opportunities for acquiring qualifications are accessible in different settings, including the workplace and educational institutions.
Good practice indicator 9	TVET qualifications are focused on clearly defined outcomes that explicitly define what graduates can do, be and know upon completion of the qualification.

F. Assessment of learning

Good practice indicator 10 Assessment is focused on outcomes, is evidence-based and reflects an understanding of learning as a multidimensional, integrated process that is revealed in performance over time.

G. Recognition, validation and accreditation of learning¹⁰

Good practice indicator 11 Assessment methodologies encompass the opportunity for assessing and credentialing persons who have acquired competencies non-formally or informally.

H. Management of learning pathways

Good practice indicator 12 Systems and processes exist within national qualifications frameworks that support both vertical and horizontal movement across learning pathways.

I. Regional relationships

Good practice indicator 13 NSTVETs are aligned with regional qualifications frameworks in order to ensure portability and mutual recognition of skills across the region.

J. Technical and vocational education and training provision

Good practice indicator 14 TVET providers are accredited as having the capacity to develop, resource, deliver, assess and quality-assure programmes that meet specified competency-based outcome requirements.

Good practice indicator 15 TVET programmes reflect the workplace and its requirements, are learner-centred and are based on the principles of good practice in TVET learning while emphasizing a participatory approach.

Good practice indicator 16 TVET providers ensure engagement with industry in order for their teachers and learners to maintain the currency and relevance of their programmes.

Good practice indicator 17 TVET trainers and assessors are trained and competent in both their technical specialization and competency-based training and assessment.

Good practice indicator 18 TVET providers at all levels engage with other providers, including those in workplaces and non-formal providers, in order to foster interconnections between the variety of programmes that are offered.

Good practice indicator 19 Policymakers, providers, employers and other stakeholders work together to ensure quality provision of targeted and staircased TVET programmes for vulnerable people.

Good practice indicator 20 Programmes for vulnerable groups include workplace literacy and numeracy, transferable skills and entrepreneurial skills.

K. Sustainable funding

Good practice indicator 21 Sustainable and accountable financing systems exist that support the capacity for extending TVET provision and improving quality.

¹⁰ This is known by a range of terms in different countries, including the recognition of prior learning (RPL), recognition of current competence (RCC) and accreditation of prior learning (APL).

Chapter X

Technical and vocational education and training institutions and programmes in Mexico

Ívico Ahumada Lobo

Introduction

This chapter reviews the main characteristics of the institutions responsible for technical and vocational education and training (TVET) in Mexico. Through them, the Mexican government has fostered the development of job skills through interventions of two kinds.¹ On one hand, it has established a series of legal provisions that oblige employers to train their workers and, on the other hand, it has implemented policies and programmes to deliver TVET or to provide support for worker training. The TVET systems operating these programmes can be classified into three types, according to the duration of the plan of study and the employment status of participants: (i) the “technological baccalaureate”, with a three-year plan of study;² (ii) “training for the workplace”, with short-term courses that may be offered in or outside a classroom setting; and (iii) “on-the-job training”, which may be the principal purpose of the public intervention, or merely a complementary component of programmes that have other objectives.

¹ This chapter is based on Ahumada Lobo (2014), which presents in detail the features of the institutions and programmes that make up the TVET systems, as well as all the bibliographical references on which that presentation is based.

² “Baccalaureate” refers to “upper secondary education”, the second and final stage of secondary education, according to the International Standard Classification of Education (ISCED 2011) (UNESCO, 2013).

The Mexican government established the first TVET systems with a view to preparing the human resources needed for the country's industrialization. Subsequently, at times and in regions where there were surpluses of qualified personnel, these systems were developed for two additional reasons. First, they were intended to boost the human capital of workers and enterprises so as to enhance their productivity and competitiveness, and TVET was therefore used as a policy to promote development. The second motivation was to increase the employability of unemployed groups deemed priorities, and TVET thus became an active labour market policy.

While TVET systems have been in existence for several decades, their purposes, plans of study, target population and linkage to the productive apparatus have been adapted to the economic conditions of the moment. When they were established, the Mexican economy was growing at an average annual rate of 6%, and the industrial sector was expanding at even higher rates. The last 10 years, by contrast, have seen a sluggish average annual growth rate barely exceeding 2%, and in fact it fell below 2% between 2013 and 2015 (INEGI, 2016). Moreover, this growth has been very uneven within each economic sector and across different sectors. For example, in the manufacturing sector, transportation equipment has risen at an annual average rate of 7%, while the chemical industry has stagnated. Performance has also been uneven across states of the federation: while Querétaro, Aguascalientes and Quintana Roo have posted average annual rates above 5% in the last 10 years, the rates for Chiapas and Oaxaca were below 2%. Slow economic growth, especially in the industrial sector, where the degree of formality is highest, has meant that over the past decade informal employment has accounted for around 58% of total employment. This economic context has conditioned the recent development of TVET systems.

This chapter has six main sections. The first three relate to each of the TVET groups. The fourth section describes the system for certifying the job skills acquired in TVET or in the workplace. The fifth assesses inter-agency coordination among the institutions involved in TVET. The final section presents some conclusions.

A. The technological baccalaureate

Upper secondary or “upper intermediate level”³ education, which by constitutional mandate will be compulsory as of 2022, is offered in two modalities: the “general baccalaureate”, which prepares students for moving on to higher education, and the “technological baccalaureate”, which

³ This is the term used in Mexico (Spanish *educación de nivel medio superior*) and is equivalent to “upper secondary education” as defined by UNESCO (2013).

constitutes the Mexican government's key intervention for training the human resources needed for the country's economic development. This modality is two-pronged, in the sense that it has a preparatory orientation that gives its graduates the academic certificate required to continue their studies at the higher education level, while providing them with a technical career qualification that readies them for immediate entry into a productive activity.

The Secretariat of Public Education (SEP), through the Under-Secretariat of Upper Secondary Education (SEMS), is responsible for regulating the technological baccalaureate, which is offered through four systems: technological baccalaureates in agriculture, in industry and in marine fisheries, as well as the technical and vocational education schools (INEE, 2011).

The Directorate General for Agriculture and Livestock Education (DGETA) coordinates 284 centres offering the agricultural technological baccalaureate (CBTA) and 6 centres for the forestry technological baccalaureate.

The Directorate General for Industrial Technological Education (DGETI) runs 168 centres for industrial and service technology studies (CETIS) and 284 centres offering the industrial and services technology baccalaureate (CBTIS). In addition, it coordinates the state-level colleges for scientific and technological studies (CECyTES), which are to be found in 29 of the 32 federative entities and operate 288 decentralized educational establishments.

The Directorate General for Marine Science and Technology (DGECyTM) coordinates 35 centres for marine technological studies (CETMar) and two centres for inland water technology studies (CETAC).

The National College of Technical Education (CONALEP) coordinates the operation of 307 schools that train technical professionals with baccalaureate studies.

In order to enrol for the technological baccalaureate, students must have completed their secondary studies. The school-based modality offered in the four technological baccalaureate systems involves six semesters and is targeted exclusively at young people. The system also offers open education, semi-classroom or distance modalities for young people and adults who are unable to register for the classroom modality or attend school on a daily basis, whether because of their age, their place of residence, or their family and occupational obligations. The non-classroom-based technological baccalaureate offers more limited development of the skills and aptitudes associated with an academic education, such as sociability, teamwork, creativity, discipline, motivation and punctuality.

During the school year 2015/16, approximately 1.8 million students were registered in the technological baccalaureate systems, representing around a third of total enrolment at this level. Among young persons aged 15 to 17 years resident in the country, about a quarter are studying for the technological baccalaureate (SEP, 2015). The percentage of graduates from these systems is still relatively low in comparison with the economically active population, although registration has been growing steadily.

In various countries of Latin America, integrating young people into the labour market is a difficult task, for they lack the job skills required by the labour market (ECLAC/ILO, 2013). By contrast, in Mexico there are various sectors and regions, especially those that are not linked to the export economy, where the supply of qualified workers exceeds demand in the formal economy, and consequently a significant proportion of well-trained young people graduating from the technological baccalaureate systems must seek employment in the informal economy (INEGI, 2013).

The similarities between the different technological baccalaureate systems have been accentuated by the tendency to emphasize generic skills and to accord lesser importance to specific skills associated with particular occupations. Moreover, there has been an attempt to strengthen the preparatory component of all the systems, with a view to reducing differences vis-à-vis the general baccalaureate. These changes are consistent with tendencies in other countries, which are incorporating the preparatory component into technological baccalaureate systems and standardizing their curricular contents with those of the general baccalaureate (World Bank, 2005; Benavot, 2006).

The DGETA, DGETI, DGECyTM and CONALEP have established standards and mechanisms for operating the schools for which they are directly responsible, as well as for coordinating with the decentralized agencies of the state governments. While each state agency has a distinct regulatory framework and fits in its own way within the organic structure of the state government, the federal government entity responsible for coordination has established policies and rules common to each system for, among other tasks, designing the curriculum, defining the offer of courses, enhancing the professional status of teaching staff, and improving quality. It provides a basis that, among other benefits, facilitates collaboration among schools in each system, as well as fostering academic interchange, mobility between schools, and linkages to the production apparatus.

Given their diversity of origin and evolution, as well as their differing objectives, each system tends to function independently, without considering the objectives and characteristics of other systems and without any coordination among them. This has made for little compatibility and

complementarity between study programmes, duplications and lack of synergies, for example, in planning and evaluation, use of infrastructure and other resources, and tracking of graduates.

In response to these shortcomings in inter-agency coordination, the Comprehensive Reform of Upper Secondary Education (RIEMS), launched in 2007 by the SEMS, has made progress in linking the different systems, including the general baccalaureate, through creation of a National Baccalaureate System (SNB). The strategies of the Comprehensive Reform involve: (i) construction of a Common Curricular Framework (MCC), which establishes 11 generic skills common to all systems, as well as discipline-specific and vocational skills;⁴ (ii) redefinition of the characteristics of the different systems in order to regulate and integrate them into the National Baccalaureate System; (iii) establishment of management mechanisms for teacher training, student support and comprehensive evaluation, and (iv) development of an additional certification that will be common to all the systems (SEP, 2012 and 2013b).

In support of the Comprehensive Reform, since 2010, SEMS has been implementing the Skills-based Human Resources Training Programme (PROFORHCOM) phase II. This programme has focused on linking the curricula of the different systems; the development of generic, discipline-specific and vocational skills; skills-based teacher training; and participation by the production sectors in defining job skill standards (IDB, 2013).

In redefining the programmes of study for an education based on skills standards, the emphasis has been placed on the match between subject contents and the requirements of the production apparatus. However, candidates for the technological baccalaureate tend to select their specialty on the basis of their own preferences, without much regard for the distribution of labour demand by specialty. For the most part, when they begin their baccalaureate they are expecting that, upon completion, they will continue their studies and go on to higher education, and they therefore tend to see it as a stepping stone, rather than an end in itself. Indeed, a significant proportion will enrol for the technological baccalaureate because they were not accepted for the general baccalaureate. Moreover, when considering the possibility of finding work at the end of their baccalaureate, they generally have an optimistic assessment of their job prospects, which they believe will be better than the average for their peers.

⁴ In the case of occupational skills, it only suggests how they should be defined, and it does not seek to harmonize them, or at least to link them, when they are common to several education systems (Kis, Hoeckel and Santiago, 2009).

B. Training for work

The Mexican government is pursuing two types of training for work: school-based, under the coordination of the Directorate General of Work Training Centres (DGCFT) of the Secretariat of Public Education; and non-academic training, which is targeted at unemployed workers and is the responsibility of the General Coordination Office of the National Employment Service (CGSNE) under the Secretariat of Labour and Social Security (STPS), through state employment services administered by the state governments.

1. School-based training

While the academic track promoted by the government implies that everyone will complete the baccalaureate, only 72% of young people aged 15 to 17 years were enrolled at this educational level during the school year 2014/15 (SEP, 2015). For those who do not register for the baccalaureate, the government offers school-based training for work, which is the main option by which the job skills needed to perform a production activity properly can be acquired through short courses.

The DGCFT of the Secretariat of Public Education coordinates the training-for-work programme, consisting of two subsystems that offer school-based training in short courses of 120 to 600 hours over a maximum of six months. On one hand, there is the subsystem of industrial work training centres (CECATI), belonging to the federal government, and on the other hand, there is the subsystem of work training institutes (ICAT), decentralized agencies of the state governments.

To ensure that the knowledge imparted is relevant to the demands of the labour market, the specialties and courses of the CECATI and the ICAT are based on job skill technical standards (NTCL) or educational institution standards (NIE), and defined jointly with employer representatives.

Although the content of the study plans seeks to meet the needs of the production apparatus, above all in the regions and sectors of greatest economic dynamism, enrolment in each specialty does not necessarily correspond to the structure of labour demand by potential employers. This is what happens when there are no guidance mechanisms to channel the demand for training, and when there is less awareness of labour market conditions on the part of students, who will choose their specialties in light of their own preferences and not of their effective employment prospects. Admission to any of the courses is open to anyone who can read and write and is over 15 years old. The majority of applicants have not completed secondary school, although persons who have finished their baccalaureate studies may attend.

Although training for work is the main component of these subsystems, they also offer on-the-job training at the request of firms that are ready to pay for this. In these cases, the content and duration of the courses will be adapted to the needs of the employers.

The CECATI subsystem, initiated in 1963, has 199 schools across the country. In a complementary manner, 27 state governments (of the total of 32 federate entities in the country) have established their corresponding ICAT, with 279 training units. In the school year 2015/16, 1.8 million persons (58% of them women) registered for some work training course in these subsystems (SEP, 2015).⁵

CECATI and ICAT offer various types of courses. The regular courses may be offered with programmes of study based on occupational skills criteria, or on skills-based education (EBC). The extension courses are of short duration, and their purpose is to broaden or improve technical knowledge and abilities, as well as to disseminate new technologies. Specific accelerated training is targeted at private firms or public enterprises that pay for their workers to receive the training they need, in the context of a cooperation agreement. With a view to helping students complete their practicum in firms, both CECATI and ICAT provide internship bursaries (Fernández Gutiérrez, 2012).

CECATI and ICAT also pursue mobile training activities, conducting courses in remote regions where there are no schools offering training for work. Participants tend to be persons with little schooling who want to acquire training in order to improve their performance in micro-enterprises or self-employment. There are three mobile training options available: the teacher may travel to give the courses using the applicant's facilities and equipment; the instructor and the equipment may move to deliver the courses in facilities supplied by the interested party; or the courses may be offered in the applicant's premises within a mobile unit fitted out as a classroom-workshop.

Given the sluggish demand for labour on the part of the formal sector of the economy, especially in certain regions, graduates of the training-for-work courses have turned to self-employment as an option for incorporating themselves into productive activity (Pieck Gochicoa, 2012). To help groups of graduates set up their own business, both CECATI and ICAT are implementing the Entrepreneurs Programme, which conveys the know-how and skills needed to create, operate and consolidate a micro-enterprise. They also take steps to foster the growth and survival of their graduates' businesses, for

⁵ The same person may be counted more than once if he or she registers for several courses during the year.

example, by sponsoring national congresses for entrepreneurs and setting up business incubators. In 2012, there were 14 business incubators (12 sponsored by CECATI and 2 by ICAT) that had helped launch more than 100 business projects (SEP, 2013a).

Graduates who complete the CECATI and ICAT training courses receive a diploma of Official Recognition of Occupational Skills (ROCO), which certifies that they have acquired the corresponding knowledge and abilities. The DGCFT also grants this diploma to persons who pass a theoretical and practical assessment confirming that they have acquired the knowledge and abilities directly in the workplace, or through self-learning.

2. Training of unemployed workers

The Bécate (which translates roughly as “Get a scholarship”) subprogramme (originally the Programme of Training Scholarships for Unemployed Workers, PROBECAT) has for more than three decades constituted the most important public intervention for training the unemployed, as part of active labour market policies (Ahumada Lobo, 2007).

Bécate gives its beneficiaries a scholarship worth 1 to 3 minimum monthly wages and a training course for a period covering one to three months, with a minimum of six hours of attendance daily from Monday to Friday. Bécate is one of the subprogrammes of the Employment Support Programme (PAE), which grants subsidies to help the unemployed find a job. PAE also includes various subprogrammes for temporary employment, self-employment, and labour intermediation.

Currently, Bécate has four modalities. In the Mixed Training modality, companies participate in the design of the courses, make their facilities available and undertake to hire a certain percentage of scholarship holders. With the Practical Workplace Training modality, recipients acquire job skills by working in small businesses. Under the Training Voucher modality, unemployed persons receive their scholarship as well as partial payment of training courses in any private or public institution. In Training for Self-Employment, participants acquire or improve the job skills they will need to work for their own account.

In 2014, Bécate trained 531,000 persons, of whom 402,000 found a productive occupation (STPS, 2015). In the Mixed Training and Practical Workplace Training modalities, more than half of beneficiaries are under 26 years of age. In the Practical Workplace Training and Training for Self-Employment modalities, women constitute the majority of participants.

Because Bécate is designed as an active labour market policy, its main purpose is to facilitate the integration of unemployed workers into

a productive activity, and thus the placement rate carries more weight for evaluating its success than does the salary level or working conditions of its beneficiaries, or the improvement in their job skills. The programme has gradually increased its placement rates, channelling its resources into modalities that are more effective in terms of workforce integration.

The Mixed Training and Practical Workplace Training modalities do not require trainees to obtain certificates of job skills validating the knowledge and abilities acquired. Therefore, the subprogramme does not operate, strictly speaking, as a TVET policy, but tends instead to function as a subsidized hiring mechanism, one that supports the recording and assessment of job applications, as well as initiation into firms.

By contrast, under the Training Vouchers modality, beneficiaries attend courses in private or public institutions designed to provide TVET. Although these institutions deliver some kind of certification of the skills acquired, participation by the target population in this modality is expected to stay at a low level, as its placement rate is considerably inferior to that of the other modalities.

Given the orientation of the Self-Employment Training modality, there is no evidence to show the degree to which its beneficiaries have improved their job skills. This modality does not have strong ties with TVET policy, rather it addresses the social policy purpose of reducing household poverty by supporting productive projects for subsistence and facilitating the efforts of beneficiaries of other social programmes to work for their own account. The evaluations show that the beneficiaries of this modality tend to have low-quality jobs, and this is particularly the case for women, who constitute 85% of participants (Van Gameren, 2010).

C. On-the-job training

1. Regulatory framework and its observance

The Mexican government, by means of the Federal Labour Law of 1970, made it an obligation of firms to train their workers. Subsequently, in 1977 it was decided to elevate this obligation to constitutional rank. The 2012 reform of the Federal Labour Law confirmed the employer's obligation to provide all workers with on-the-job training or skills development. It also specifies that: (i) training may take place within or outside the firm, and may be provided by the company's own staff, by external instructors, or by specialized agencies; (ii) training plans must be based on the job skill technical standards, where these exist, for the occupation in question; and

(iii) workers must receive a certificate of job skills or abilities as proof that they took the training course (STPS, 2013).

The Directorate General of Federal Labour Inspection (DGIFT) of the Secretariat of Labour and Social Security is responsible for overseeing observance of all labour provisions, including those related to training. In a concomitant manner, since 2014 the Directorate General of Training and Labour Productivity (DGCAPL) of the Secretariat of Labour and Social Security has been responsible for designing, implementing and operating procedures whereby companies can comply with labour training requirements (STPS, 2014). To this end, it records the training plans that companies have agreed with their workers. It also compiles a register of all workers who have been trained by companies.

Although the obligation of employers to train their workers has been in place for more than four decades, it is still being observed to only a limited extent. As of the end of 2012, only 68% of employers registered with the Mexican Institute of Social Security (IMSS), which covers the formal sector of the economy, had reported fulfilment of their legal training obligations to the Secretariat of Labour and Social Security. In June 2015, only 7 million workers were included in the Register of Trained Workers, representing fewer than half of the formal, full-time workers registered in the IMSS, and only 14% of the 52 million employed persons in the country (STPS, 2015). Moreover, inclusion in the Register of Trained Workers is a formality and does not necessarily mean that those registered have documented job skills, as there is no examination or verification mechanism of any kind.

Data on the proportion of workers trained on the job show that, on one hand, companies eschew investment in training because they prefer to have their workers improve their skills in the course of performing their daily tasks. On the other hand, the efforts of the Secretariat of Labour and Social Security have been insufficient to ensure compliance with training standards, due to the shortage of human resources and effective mechanisms for detecting non-compliance or for enforcing the rules.

2. On-the-job training programmes

Recognizing the difficulty of enforcing legal provisions regarding on-the-job training, the Mexican government has opted to establish a series of incentives to motivate employers and facilitate the task of providing training for their workers.

In 2015, the Mexican government restructured all its programmes with the adoption of zero-based budgeting. As a result of that restructuring, the DGCAPL is implementing the Training Programme to Boost Productivity,

which pools several programmes that until 2015 operated separately. These include the Distance Learning Programme for Workers (PROCADIST) and the Productivity Support Programme (PAP), which continue to operate with no substantial modifications.

PROCADIST offers short, online training courses of a maximum of 10 hours to persons currently employed and those in a situation of employment vulnerability. Most of the courses were designed by the National Institute for Adult Education (INEA) as part of the non-academic secondary education plan of studies aimed at persons who have not completed their basic education. In the first half of 2015, only 4,000 persons completed one of the courses offered by PROCADIST (STPS, 2015).

PAP was established in 2009 as a replacement for the Training Support Programme (PAC), with the same objective, namely, to strengthen the knowledge, abilities and aptitudes of active workers. PAP has four components. The Specific Skills Training component covers part of the cost of the courses agreed between the company and the programme. In 2014 this component supported 13,000 workers, a tiny number when compared with the 300,000 workers that were supported annually by PAC. The other three PAP components do not cover the teaching-learning process itself, but relate to activities in support of training and productivity (STPS, 2015).

3. Economic and social development programmes that support training

The federal government is implementing a number of programmes to develop enterprises and self-employment activities and, in a subsidiary manner (without being their principal objective) to promote training for active workers. Under these programmes, support for TVET is complementary to other assistance, primarily subsidies and credits to finance investments in production activities. By way of illustration, this section considers the main programmes run by the offices responsible for economic development and social policy.⁶

Noteworthy for the size of its budget, the National Entrepreneurship Fund (FNE) of the Secretariat of Economic Affairs (SE), formerly the Support Fund for Micro-, Small and Medium-Sized Enterprises (Fondo PYME), supplements its financing for enterprises with support for training courses. This training is not geared to upgrading the general job skills of beneficiaries, but rather to helping them acquire the knowledge and abilities needed to carry out the specific project financed by the National Entrepreneurship Fund.

⁶ Ahumada Lobo (2014) presents the essential features, including the budget and the target population, of support programmes for enterprises and self-employment activities that have the greatest impact on vocational training for their beneficiaries.

With the programmatic restructuring that resulted from zero-based budgeting, the Secretariat of Economic Affairs now operates the Innovation and Software Industry Development Programme (PROSOFT) and the Industrial Productivity and Competitiveness Programme (PPCI). The latter combines the former Programme to Promote Competitiveness of the Industrial Sectors (PROIND) and the High-Tech Industries Development Programme (PRODIAT). While the target populations for these programmes tend to have a high level of education and specialization in technical aspects, they do not necessarily have all the knowledge and abilities needed to grow their enterprises. It was therefore deemed appropriate to complement the financing offered by these programmes with support for courses designed to improve the planning and management of enterprises.

According to evaluations of the National Programme for Financing Micro-entrepreneurs (PRONAFIM) and the Microfinance Fund for Rural Women (FOMMUR), now combined within the National Financing Programme for Micro-enterprise and Rural Women (PRONAFIMUR) of the Secretariat of Economic Affairs, the probability of success of productive projects depends on the job skills of their beneficiaries. As this programme is targeted at low-income entrepreneurs and poor women in rural areas who tend to have scant knowledge and abilities, the training supports that accompany the financing are crucial.

With the programmatic restructuring resulting from zero-based budgeting, the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) is now responsible for programmes to support rural producers, including those that were formerly offered by the Secretariat of Agrarian, Territorial and Urban Development (SEDATU). The guiding principle of these programmes is to pursue comprehensive interventions that provide a full range of support, including training, as required for developing and boosting the productivity of economic units engaged in agriculture and fisheries.

The National Commission for the Development of Indigenous Peoples (CDI) is implementing the Programme to Improve Indigenous Production and Productivity, which has merged all the CDI interventions that offered subsidies for establishing productive projects or strengthening existing ones. These subsidies are supplemented with support for training courses when the beneficiaries lack the knowledge and abilities needed to carry out productive activities successfully.

The Secretariat of Social Development (SEDESOL), which has primary responsibility for social policy, is implementing the Programme for Development of the Social Economy, merging the National Fund for Social Enterprise (FONAES) and the Productive Options Programme (POP), which

operated until 2015. As with other programmes for economic development and self-employment, the survival prospects of productive projects will depend, among other factors, on whether the beneficiaries have the job skills required to perform their tasks, particularly in the key areas of planning and management. Recognizing that workers have limitations in this respect, the financing and subsidies are accompanied with measures to help them acquire the needed knowledge and abilities.

D. Certification of job skills

The great majority of persons who have some type of job skills certificate are graduates of educational institutions, who receive certification of their vocational training from the Secretariat of Public Education. Some graduates of training courses also receive this type of certificate, although in greatly reduced numbers. These diplomas merely confirm that the graduates of the educational institutions or the training courses have completed their studies, but they do not evaluate their job skills (World Bank, 2013).

In order to certify the job skills acquired within or beyond educational institutions, whether in training courses (in or for work) or through experience gained in performing an occupation, the Mexican government established the National Job Skills Standardization and Certification Board (CONOCER). This is a public entity controlled by SEMS, as the body responsible for regulating and coordinating the certification of job skills, regardless of the manner in which they were acquired. CONOCER was established in 1996, suspended in 2003, and reintroduced in 2005 (Ricart, Morán and Kappaz, 2014).

CONOCER coordinates the National Skills System, which develops standards for job skills and determines mechanisms for training, evaluation and certification through sector-specific committees on skills management, consisting of experts and representatives of business and government related to each sector (CONOCER, 2013). The granting of certificates is the responsibility of certification and evaluation entities, as well as certifying agencies coordinated by CONOCER.

CONOCER has established and maintains up-to-date three registers that facilitate consultation of key information in the National Skills System: the National Register of Skills Standards, the National Register of Training Courses Based on Skills Standards, and the National Register of Persons with Certified Skills. From 2008 to 2015, some 600,000 individuals were entered in the National Register of Persons with Certified Skills, equivalent to around 1% of the 52 million persons in the economically active population at the end of 2015 (SEP, 2015; INEGI, 2015).

E. Inter-agency coordination

Both DGCAPL and CGSNE contract, directly or through their beneficiaries, instructors and facilities for each course or workshop offered, as they do not have these resources in-house. These agencies could join forces with institutions that have the human and material resources to provide training, such as CECATI, ICAT and the technological baccalaureate systems. As there are no cooperation arrangements with these institutions at present, the potential complementarities are not being systematically exploited. There may be some joint activities cobbled together informally at the local level, but they have become less frequent as CGSNE has expanded its mixed training and on-the-job training modalities drawing upon the resources of the firms themselves.

Government efforts to enhance integration of the various systems under SEMS have been focused at the upper secondary level, without addressing the weak linkages that DGCFT has with the other systems. Although PROFORHCOM supports both the technological baccalaureate and school-based training, it offers separate activities for each educational level, due to the impossibility of integrating joint projects in the themes it promotes (for example, development of common skills, linking of curricula, and portability of skills across systems), given that the skills acquired in school-based training are, by their type and degree, different from those of the technological baccalaureate. However, quite apart from PROFORHCOM, it should be possible to take advantage of complementarities in the use and maintenance of machinery and equipment, the identification of human resources needs by specialty or region, tracking of graduates and other similar tasks.

PROFORHCOM is attempting to enhance the relevance of job skills standards within the technological baccalaureate and the SEMS training systems, which make little use of the standards issued by CONOCER as the basis for their plans of study. These systems prioritize the standards they have developed themselves, even though a significant number of their schools have been accredited as CONOCER job skills certification and evaluation entities.

CONOCER has established agreements with DGCAPL to ensure that the job skills standards issued by the Board (when they exist) can form the basis of the training activities it subsidizes and to encourage the certification of workers based on those standards.

To the extent that the demand for human resources derives from trends and conditions in the economy, the requirements for skilled personnel and their employability opportunities will depend in part on the policies and programmes of the entities responsible for economic development. Yet there are no cooperation agreements between these entities and the TVET systems

of the Secretariat of Public Education and the Secretariat of Labour and Social Security. This shortcoming means not only that those responsible for the TVET systems have no say in the formulation of economic development policies and programmes, but also that they have no advance knowledge of the thrust of those policies and programmes, and thus cannot predict their impact on the demand for skilled workers.

F. Conclusions

Apart from stipulating the obligation of employers to train their workers, the Mexican government shows little commitment to on-the-job training. It prefers to rely on training for work, primarily school-based, and above all on the technological baccalaureate, which has an important preparatory component as a stepping stone to higher education. In a subsidiary way, support is granted for on-the-job training, whether for the purpose of boosting productivity or improving the performance of self-employment and subsistence activities. There is no emphasis on strengthening the job skills certification system. The Mexican government's priorities are reflected in the TVET component of the federal government budget for 2016 (SHCP, 2016):

- (i) 23.711 billion Mexican pesos for the technological baccalaureate
- (ii) 2.718 billion Mexican pesos for classroom-based training for work, coordinated by DGCFT
- (iii) 1.727 billion Mexican pesos for Bécate and other subprogrammes of the PAE
- (iv) 84 million Mexican pesos for DGCAPL, which implements PROCADIST, PAP and other programmes of that agency
- (v) 82 million Mexican pesos for CONOCER

The Mexican government's policy regarding TVET has responded to the structure and performance of the economy. Given the economic slowdown experienced over the last three decades, the share of formal unemployment in total employment is only 43% (INEGI, 2015). Consequently, graduates who cannot find work in the formal sector have been obliged to accept informal jobs or to work for their own account. In order to improve the conditions in which they conduct their production activities, the government has implemented policies to foster self-employment for graduates at all levels. Interest in meeting the needs of companies in the formal economy, while still present in the main TVET systems, has been declining, while interest in enhancing the vocational skills of own-account workers has been rising. As to the TVET systems, it must be recognized that until the formal economy bounces back, and as long as difficult conditions persist in the labour

market and self-employment remains the fall-back option, the majority of the population served will find itself in jobs that do not require complex or sophisticated skills.

Generally speaking, with the exception of a few high-performing sectors, the availability of qualified workers is less important for economic development than are some other constraints, such as the low level of investment, infrastructure shortcomings, the high cost of services and lack of public security. Despite underemployment among graduates of the TVET systems, candidates and employers alike are demanding that the coverage of those systems be expanded. On one hand, potential participants in TVET programmes want training to enhance their likelihood of landing a formal job or improving their self-employment performance. On the other hand, employers insist that they need greater numbers of qualified workers with better job skills and that a greater supply of such workers would help to lower costs by boosting productivity and controlling wage hikes.

While the technological baccalaureate systems have been maintained as the sources of training for the human resources needed by the formal sector of the economy, the characteristics of the other TVET systems have been adjusted to reflect the lack of vigour in that sector. Institutions that had long experience in serving this sector have had to adapt so as to give greater emphasis to support for self-employment. The various systems have responded to this challenge in different ways.

The school-based training-for-work system responds to firms that submit specific requests for training, without obliging them to join a broader TVET programme. It also offers supplementary support, such as business incubators, to graduates who decide to organize themselves to establish micro-businesses.

The Bécate programme has advanced on two fronts. On one hand, to take maximum advantage of work options in the formal sector, it has involved firms more directly in the design and operation of the courses, even if this means that its support is converted partially into a subsidy for firms' hiring efforts, to the detriment of human resources training. On the other hand, there has been a considerable expansion in actions to support training for persons seeking to work for their own account.

The on-the-job training supported by the federal government is not for the most part provided independently, but rather is subsumed within programmes where the main objective is not to develop job skills but rather to facilitate the use of other supports, primarily financial.

The current universe of TVET institutions and programmes has also been shaped by the Mexican government's specific responses to the limitations of human resources training policies.

In principle, the Mexican government has sought to improve the job skills of workers through two basic interventions, targeted respectively at people with and without employment.

In the case of active workers, the results in terms of the proportion of persons who are trained by companies have shown that labour legislation is not very effective in encouraging the training of a cohort of workers with adequate job skills. This has limited the success of public programmes for economic promotion and enterprise development. Given the difficulties in enforcing the employer obligation to provide training, the Mexican government implemented a set of programmes to encourage and facilitate training by employers. Some programmes require direct government involvement in training activities. In addition, in various economic promotion programmes it has been found that workers do not have adequate job skills to take advantage of the support offered them, and a training component has thus been incorporated to prepare them to make better use of these supports. Training is not geared to overall human resources needs, but is limited to resolving specific shortages.

In the case of persons who are not in work, the coverage of TVET institutions is limited in comparison to the size of the economically active population, and the skills of their graduates are not always very relevant, due in part to their choice of courses: these factors have made it difficult to incorporate certain groups of unemployed workers into the productive apparatus. In response, the Secretariat of Labour and Social Security is also pursuing a training programme as an active labour market policy.

Due to the shortcomings in compliance with labour legislation and in the coverage and relevance of TVET systems, there are many public programmes and activities involved in the training of unemployed and active workers that do not have human resources development as their primary objective.

Recognizing that there is a heterogeneous universe of TVET institutions and programmes, the Mexican government has made several efforts to establish institutional coordination mechanisms that will link the various programmes and activities in order to avoid duplication of efforts and take advantage of complementarities and synergies.

These efforts have been limited by the diversity of objectives and success criteria for the various programmes. Initially the different TVET systems were targeted at distinct populations and operated with various intervention mechanisms, but they shared the objective of expanding and improving their beneficiaries' knowledge and abilities. However, the adjustments made in recent years have meant that acquiring job skills is no longer their primary objective. Today they have other criteria for evaluating their performance,

such as the course completion rate, the placement rate of their beneficiaries or the survival rate of the self-employment projects they support.

The programmes that seek to enforce labour standards measure their achievements in terms of the proportion of firms that have training plans and that provide proof of training to their workers, without examining whether they have improved their job skills.

The achievements of the economic promotion programmes that have a training component are evaluated in terms of their impact in boosting the productivity of the supported firms, without any specific consideration of the degree to which they have improved the job skills of the employees.

Active employment policies that have a training component are intended to enhance the employability of workers, and their achievements are assessed in terms of the proportion of workers who find employment, without examining whether they have improved their job skills as a result of the training. It must be reiterated that effectiveness in terms of employability is greatest when employers are involved in the training and are able to observe workers' attributes, which may bear no direct relationship to the job skills acquired in the training but are important for their performance in the workplace, such as discipline, sociability, creativity and motivation.

Moreover, the success of TVET programmes is not evaluated in terms of the job skills required by their graduates, but rather in terms of the completion rate. Thus, what is measured is the proportion of programme participants who obtain a certificate of completion of studies, even though this does not necessarily mean that they have enhanced their job skills, their employability or their productive capacity.

To facilitate and reinforce linkages among TVET institutions and programmes with varied objectives, there are two complementary options for public intervention.

One option is to encourage on-the-job training without the need to involve the Secretariat of Labour and Social Security in its delivery. The Mexican government in fact has virtually eliminated public funding earmarked directly for the training of active workers, and that is consistent with this public intervention option. Yet it has also cut back public resources not only for supervising enforcement of the employer obligation to train, but also for motivating and facilitating the training of workers by their employers, making it likely that observance of this legal obligation will remain low. Ensuring that active workers improve their job skills will therefore remain a challenge.

On the other hand, if programmes that do not have TVET as their main objective are not to involve themselves in training tasks, it is important that the TVET systems should respond to the specific needs of those programmes,

in terms both of coverage and of quality and relevance. To this end there will have to be better coordination between the institutions that deliver TVET and the agencies responsible for improving the functioning of the labour market, the performance of businesses, and the welfare of employees and self-employed workers. As long as their beneficiaries lack adequate job skills, these agencies will pursue their own training activities, and the heterogeneous and uncoordinated universe of institutions and programmes engaged in TVET will persist.

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Chapter XI

The Dominican Republic’s agenda for development to 2030: coordination of public policies for technical and vocational education and training

Oscar Amargós

Introduction

Since the early 1970s it has been argued—in official documents, as well as by researchers, employers’ and workers’ organizations and other sector representatives—that the Dominican Republic needs a system of technical and vocational education and training that is coordinated, coherent, inclusive, equitable and of high quality and that will respond to the current and future challenges inherent in preparing and training the workforce essential to promoting the country’s economic and social development.¹

While there has been significant progress with respect to what this chapter will refer to as the national system of technical and vocational education and training (TVET), there are some persistent weaknesses and challenges in several of the subsystems that make up that national system,

¹ See for example the Organic Law on the National Development Strategy of the Dominican Republic to 2030, the National Pact for Education Reform in the Dominican Republic (2014-2030) and Decree 237-15 of August 2015, creating the National Productivity and Competitiveness Initiative.

especially in terms of organizing the available supply of education and training and integrating it into a system.

The institutions that comprise the national TVET system are facing some new challenges, many of them derived from the diversity of demand on the part of employers, as well as of persons seeking to improve their qualifications and thereby obtain a decent job or self-employment.

Vocational education and training is recognized as one of the factors that can greatly influence countries' efforts to improve their productivity and competitiveness, and to enhance the employability and hence the social development of persons who receive it.

From a macro viewpoint the Dominican Republic, like other Latin American countries, needs a quality education system that will guarantee the right of all its inhabitants to attain the level of compulsory education enshrined in the Constitution. In particular, it needs a national TVET system that will be relevant in three respects: it must relate to the needs of employers and of workers, and it must be consistent with the country's development strategy.

This chapter addresses the demand for and the supply of qualifications in the Dominican Republic, and describes its ranking in the world competitiveness classification with respect to the accumulated human capital of its workforce and the services linked to its educational development. It also examines the supply of vocational education and training and its level of organization and coordination, taking as a benchmark the concept of the national qualifications framework (ILO, 2004). Lastly, it reviews the state of progress with development of the national vocational education and training system, and offers a series of recommendations that could form part of the national agenda for coordinating public TVET policies to the year 2030.²

A. Technical and vocational education and training and the system that provides it: a brief conceptual analysis

Considering the specific case of the Dominican Republic, the tradition and the official denominations, it is important to specify the meaning that will be assigned to the two key concepts to be found throughout this report: the concept of technical and vocational education and that of technical and vocational training.

² This chapter is a summary of a broader study that included a review of official documents setting out the general and specific policies of the institutions directly responsible for the design and implementation of technical and vocational education and training services, laws and regulations, official reports of national and international agencies, databases and studies on demand and supply, as well as interviews or consultations with relevant stakeholders in the national system of technical and vocational education and training. See Amargós (2016).

In the General Education Act 66-97 of the Dominican Republic, technical and vocational education is the term used for the branch of secondary schooling geared to training students “for the performance of qualified occupations at the intermediate level”. It is defined as the modality that combines general education with technical and vocational education, leading to the development of basic general, specific and cross-cutting skills applicable to the workplace. It readies individuals for employment and for pursuing formal education at the post-secondary level. When it is offered in tertiary or higher education, it is referred to as technological education or higher technical education.

Technical and vocational training has the same purpose as technical and vocational education in terms of employment, but it is focused on developing specific occupational skills and it presupposes that participants have a minimum level of general education. It is also frequently referred to as occupational training, vocational capacity-building, or training for the workplace, among other terms. Both technical and vocational education and technical and vocational training are considered as preceding employment when they are targeted essentially at young people who have not yet joined the workforce.

In short, this chapter applies the term “technical and vocational education and training” (TVET) to all the forms of systematized learning that are intended to equip persons for work (before they enter the labour market), as well as the on-the-job training that is provided in the workplace.

The Dominican Republic has a significant number of players involved in the area of TVET. The official agencies directly related to the service are the Ministry of Education, the Ministry of Labour, the Ministry of Higher Education, Science and Technology, and the National Institute of Technical and Vocational Training (INFOTEP). Each entity is defined, in the relevant legislation, as the lead agency in either the pre-university or the university education system, or the vocational training system. However, the current context requires a more comprehensive view of the system that goes beyond the particular mission of each lead entity.

The central idea here is that TVET is part of a specific system that may be called the “broader system”, which transcends the scope of each institution. This system is a structure comprising the lead institutions identified, and its essential purpose is to define and implement policies and strategies for developing and qualifying the human capital required by the country through processes of standard-setting, training, evaluation and certification of the occupational skills of persons in a context of lifelong learning.

In addition to institutions specialized in TVET, the system also includes as integral components the government entities involved with economic

and social development and employment policies, business and labour associations, and the direct providers of this service, public and private. In the future, the system is also likely to include agencies that certify occupational skills and vocational qualifications. These stakeholders too must be involved in defining, implementing, monitoring and evaluating public policies on TVET.

B. The overall context: performance of the main sectors of the economy, employment and the demand for qualifications

An imperative of the national TVET system is to accommodate the demand for occupational qualifications, in a timely manner and with the required quality. Those responsible for designing policies must at all times observe the behaviour of factors such as technological, occupational, social and demographic trends that have a direct bearing on the configuration of demand (CEDEFOP, 2011, p. 19), especially in light of the key role that an educated workforce plays in countries' competitiveness.

This chapter identifies two types of demand, depending on its source (the employer or the population that is working or looking for work): employers' demand for qualifications, and the social demand for qualifications. As cross-cutting themes of this classification, demands can be analysed from the quantitative dimension (number of persons working and potential vacancies available) and the qualitative dimension (occupations, levels of qualification and denomination of training). Similarly, an analytical matrix can be constructed for stratifying demand according to sectors and branches of the economy, fields, families of occupations, and territory, among other aspects. In the specific case of the social demand for qualifications, distinctions can be drawn depending on the type of population, course, speciality or subject area.

1. Demand for and supply of occupational qualifications

The National Labour Force Survey 2014 (ENFT) provides information on the working and unemployed population, disaggregated to the three-digit level,³ according to the International Standard Classification of Occupations (ISCO-88). According to that source, the country has 112⁴ occupational fields,

³ Occupational fields or subgroups, according to the International Standard Classification of Occupations (ISCO).

⁴ An occupational field comprises one or more occupations. It corresponds to the three-digit subgroup ordering used in the International Standard Classification of Occupations (ISCO) of the International Labour Organization (ILO).

such as “electrical and electronic equipment mechanics and fitters” and “nursing and midwifery professionals”. Occupational fields or subgroups are also classified by their levels of skills or qualifications.

In 2014, a total of 2,513,682 persons in the Dominican Republic were engaged in occupations relating to the 27 occupational fields with the greatest growth prospects.⁵ In 2020, there will be an estimated 3.0 million persons in these occupational fields, suggesting an increase in the demand for workers with qualifications of level 2 (intermediate technicians) and 3 (advanced, non-university technicians). This figure represents the quantitative demand for qualifications for the four years included between 2016 and 2020.

When it comes to the social demand for qualifications, five population segments have been identified:⁶ (i) young people (this category is defined basically by age); (ii) vulnerable young people; (iii) young people with disabilities; (iv) micro- and small entrepreneurs; and (v) adults.

In the case of young people (i.e. persons between the ages of 15 and 24 years)⁷ who declare themselves economically active, the unemployment rate is double that for the total economically active population. This high proportion is indicative of the problems they face in entering the workforce, and especially in finding quality employment. TVET programmes are seen as a means to enhance their likelihood of successfully joining the labour market (see table XI.1).

Among vulnerable young people, around 390,000 were neither attending school nor working in 2050. To this group must be added those who, although working, have not completed secondary school: they represent 386,000 persons at risk of not finding a decent job.

The third segment considered is young people with disabilities. Of the total number of persons with disabilities, 43% are 60 years of age or older, and training them would not be a priority. On the other hand, 27% of that total, or 189,000 individuals, are between the ages of 10 and 39 years, and this group, besides being targeted by other policies, must be accorded special attention in TVET programmes.

⁵ For more information see Amargós (2016).

⁶ The figures estimated for each population segment are indicative of their size, and should not necessarily be taken as equivalent to the potential quantitative demand for technical and vocational education and training.

⁷ According to the United Nations definition of young people.

Table XI.1
Dominican Republic: selected occupational indicators for the total economically active population and the economically active population between 15 and 24 years of age, 2015
(Quantities and percentages)

Indicators	Economically active population aged 15 years and over	Economically active population aged 15-24 years	
Employment rate (percentages)	55.8	34.8	
Unemployment rate (percentages)	14.0	30.5	
		Numbers	Percentages
Population between 15 and 24 years of age		1 982 855	-
Persons not attending school		830 745	41.9 (of total population aged 15-24 years)
Persons occupationally active who are not attending school		613 811	73.9 (of those not attending school)
Employed persons who are not attending school		439 762	52.9 (of those not attending school)
Persons who are neither in education nor employment but are seeking work		174 049	21.0 (of those not attending school)
People not in education and not seeking work (academically and occupationally inactive)		216 934	26.1 (of those not attending school)

Source: Prepared by the author on the basis of data from the 2015 National Labour Force Survey of the Central Bank of the Dominican Republic.

The demand for qualifications on the part of micro- and small entrepreneurs, who represent an employment-generating sector, deserves attention from the TVET system. According to the 2013 FondoMicro Survey, the country has a total of 791,236 micro-, small and medium-sized enterprises. Of that total, 18,337 are classified as small and medium-sized firms, and the rest are micro-enterprises.

The fifth segment —adults— comprises persons over 24 years of age who are occupationally active. This group can be divided into: (i) working persons who need to update their technical skills, and (ii) unemployed persons seeking to re-enter the labour market.

Qualitative demand refers essentially to the occupational profile required for each position in a company or public service entity. Employers in the formal sector insist that candidates for the positions they offer must have an intermediate or secondary school education, as a minimum. Moreover, recent studies (Amargós, Hasbún and Pérez, 2015) find that approximately 20% of employers prefer candidates who have specific education or training (TVET). However, according to the National Labour Force Survey, of the total number of workers in the formal sector of the economy (1.8 million) some 38.8% have less than 12 years of schooling, and thus do not possess the level of human capital demanded by employers.

2. Gender and the demand for qualifications

Statistics indicate that women are in the majority in TVET. Of all students enrolled in intermediate and secondary-level TVET in the academic year 2012/13, 61.8% were women, while 54.4% of participants in training programmes of the National Vocational Training Institute in 2014 were women.

A number of reasons can be adduced to explain why women are in the majority in TVET. An initial hypothesis is that, as adolescents and young people become older, a significant proportion of men, especially the poorest ones, will drop out of school and look for work to help support their family. The second hypothesis has to do with the type of specialties or courses currently offered through TVET programmes.

Judging from the available training courses and streams, the greatest opportunities for study are those relating to crafts, nursing, book-keeping, garment-making, commerce and services—in other words, trades or occupations that are stereotyped as “for women”. In fact, a look at the gender composition of participants in areas related to the so-called “hard technologies” (such as industrial and automotive engineering, electricity and electronics) shows that women are significantly underrepresented in these areas.

3. National competitiveness and technical and vocational education and training

In a context of economic globalization, having an educated and skilled workforce with technical aptitudes and “soft skills” is an important factor for enhancing national competitiveness. According to the Global Competitiveness Index 2014-2015, the Dominican Republic ranks at 101 out of a total of 144 countries included in the report, sponsored by the World Economic Forum.

The Global Competitiveness Index uses 12 pillars to classify each country. Pillar 5—higher education and training—assesses the availability and the impact that secondary and higher education and training services should have in enhancing national competitiveness. On a scale that runs from 1 (very low) to 7 (very high), the Dominican Republic earns a score of 3.7 for pillar 5, and is ranked at 99 among the 144 countries considered.

Table XI.2 shows the results for each component of pillar 5.

Table XI.2
Dominican Republic: score and ranking for pillar 5 (higher education and training)
of the Global Competitiveness Index 2014-2015
(Score on a scale of 1 to 7, and rank among 144 countries)

Pillar component	Score	Ranking
5.01 Secondary education enrolment rate, gross (<i>percentages</i>)	75.9	97
5.02 Tertiary education enrolment rate, gross (<i>percentages</i>)	24.1	75
5.03 Quality of the education system	2.6	132
5.04 Quality of math and science education	2.1	142
5.05 Quality of management schools	3.6	109
5.06 Internet access in schools	3.5	104
5.07 Local availability and quality of specialized research and training services	4.1	74
5.08 Extent of staff training	3.9	86
Overall score and ranking for the pillar	3.7	99

Source: World Economic Forum (WEF), *The Global Competitiveness Report 2014-2015*, K. Schwab (ed.), Geneva, 2014.

Note: The score is based on a scale that runs from 1 (very low) to 7 (very high).

In comparison with other countries of Latin America, the Dominican Republic's score is below the regional average (4.1): it is only slightly higher than that of Nicaragua (3.2), Paraguay (3.3), Haiti (3.4), Guatemala (3.6) and Honduras (3.6), and falls far short of Chile (5.1) and Costa Rica (5), which are the lead countries in the region (see table XI.3).

Table XI.3
Latin America (19 countries): ranking and score for pillar 5 (higher education and training) of the Global Competitiveness Index 2014-2015
(Score on a scale of 1 to 7, and rank among 144 countries)

Country	Ranking and score for the pillar		Ranking and score on two subindices of the pillar			
	Rank	Score	5.07 Availability of research and training services		5.08 Extent of staff training	
	Rank	Score	Rank	Score	Rank	Score
Argentina	45	4.8	65	4.2	95	3.7
Bolivia (Plurinational State of)	97	3.7	97	3.7	115	3.5
Brazil	41	4.9	47	4.5	44	4.3
Chile	32	5.1	46	4.5	52	4.2
Colombia	69	4.4	71	4.1	83	3.9
Costa Rica	37	5.0	28	4.9	21	4.7
Dominican Republic	99	3.7	74	4.1	86	3.9
El Salvador	94	3.9	43	4.5	71	4
Guatemala	103	3.6	54	4.4	28	4.6
Haiti	109	3.4	140	2.7	130	3.2
Honduras	100	3.6	80	4.0	38	4.4

Table XI.3 (concluded)

Country	Ranking and score for the pillar		Ranking and score on two subindices of the pillar			
			5.07 Availability of research and training services		5.08 Extent of staff training	
	Rank	Score	Rank	Score	Rank	Score
Jamaica	83	4.1	86	3.9	59	4.1
Mexico	87	4.0	60	4.3	74	4
Nicaragua	114	3.2	123	3.3	88	3.8
Panama	66	4.4	63	4.2	47	4.3
Paraguay	112	3.3	133	3.0	105	3.7
Peru	83	4.1	87	3.9	93	3.8
Uruguay	49	4.7	75	4.1	80	3.9
Venezuela (Bolivarian Republic of)	70	4.3	132	3.1	124	3.3
Average score		4.1		4.0		4.0

Source: World Economic Forum (WEF), *The Global Competitiveness Report 2014-2015*, K. Schwab (ed.), Geneva, 2014.

Note: The score is based on a scale that runs from 1 (very low) to 7 (very high).

The ranking and score of the Dominican Republic, when compared with those for other countries of Latin America, suggests that the country needs to boost its efforts at improving education and human capital development. In terms of its ranking, it stands ahead of only Honduras (100), Guatemala (103), Haiti (109), Paraguay (112) and Nicaragua (114), and lags by 67 places behind Chile (32, the regional leader) and 62 places behind Costa Rica.

C. Supply of technical and vocational education and training: organization, certifications, coverage and coordination

Intermediate or secondary-level vocational education comes under the supervision and control of the Ministry of Education, while post-secondary and advanced education and training is overseen by the Ministry of Higher Education, Science and Technology. Technical and vocational training is the responsibility of the National Technical and Vocational Training Institute (INFOTEP). For the description and analysis of the two models, three dimensions are considered: (i) curriculum organization, (ii) diplomas or certifications, and (iii) coverage.

TVET has traditionally been organized by sector and branch of economic activity (industry, trade and services). Currently, however, the guiding criterion is the concept of the “occupational family”, understood as the bridge that links the productive world and education.

At the intermediate or secondary level, the training available covers 16 occupational families and 25 subject areas, and the training cycle lasts for two years, embracing a total of 2,880 hours. Graduates are awarded a technical diploma in the specialty. With this qualification, students may move on to higher studies if they wish.

Technical and vocational education at the intermediate level is offered in the so-called “polytechnic centres” or “technical high schools”, which are supervised and supported by the Department of Technical and Vocational Education. In contrast to the general approach, in order to provide training in most of the occupational families or specialties, the centres must have specialized laboratories and workshops where students perform their practical assignments. Throughout the country there are 189 of these centres, of which 125 are public, and most of them offer technical and vocational education exclusively.

With around 7% of total enrolment, the coverage of technical and vocational education in the Dominican Republic is relatively low (see table XI.4). In several Latin American countries, the proportion of students at the secondary level enrolled in technical education is close to 20% or more: for example, in Argentina it is 35%, in Chile 25%, in Costa Rica 18%, and in El Salvador 51%.⁸

Table XI.4
Dominican Republic: students enrolled in secondary education, by sex,
according to stream, school year 2012/2013
(Numbers and percentages)

Stream	Males		Females		Total	
	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total
General	253 341	47.6	279 155	52.4	532 496	92.7
Technical and vocational	15 840	38.2	25 621	61.8	41 461	7.2
Arts	195	31.8	419	68.2	614	0.1
Total	269 376	46.9	305 198	53.1	574 571	100.0

Source: Prepared by the author, on the basis of Ministry of Education of the Dominican Republic, *Anuario Estadístico 2012-2013*.

During the period 2011-2014, a total of 386,228 students graduated from secondary education, for an average of 96,557 per year. For the school year 2013/14, of the total of graduates, 76,186 came from the general stream and 17,499 from technical and vocational education (see table XI.5).

⁸ See the respective education statistics yearbooks for the countries mentioned.

Table XI.5
Dominican Republic: students completing the fourth year of secondary education, by stream, 2010-2014
(Numbers and percentages)

Stream	2010-2011		2011-2012		2012-2013		2013-2014		Total for the period	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
General	80 240	81.3	78 077	80.8	78 655	80.9	76 186	81.3	313 158	81.1
Technical and vocational	18 462	18.7	18 554	19.2	18 555	19.1	17 499	18.7	73 070	18.9
Total	98 702	100	96 631	100	97 210	100	93 685	100	386 228	100

Source: Prepared by the author, on the basis of information from the Education Centres Management System of the Ministry of Education, 17 March 2015.

The organization of technical and vocational education at the higher level follows the traditional pattern of university studies. It would be best if the curriculum of advanced technical institutes were designed and structured on the basis of technical standards for occupational skills.

In total, 19,800 young people are enrolled in TVET at the secondary and higher levels in this type of formal pre-employment programme. Considering the annual number of persons entering the labour market, and the fact that roughly 36% of these new entrants require qualification at levels 2 and 3, the potential demand for initial training that the national TVET system would have to meet each year is estimated at 43,000: the current supply thus covers only 46% of the country's needs (Amargós, 2016).

When it comes to vocational training, the INFOTEP curriculum offers three types of education and training plans: (i) technical courses, (ii) technical careers, and (iii) "master technician" training. Course content is typically organized into modules, and the "learning by doing" principle is applied.

Participants who complete a module of the pre-established training itinerary are awarded a certificate of professional competence or a technician's diploma, depending on the type of education and training plan. The duration of the study plans varies according to the specialty or occupation and the type of training. Modules run for 30 to 250 hours of instruction, while the complete itinerary entails 400 to 1,600 hours.

In 2014, a total of 601,000 persons participated in training activities sponsored by INFOTEP, with an average duration of 77 hours. Some 68% of those enrolled reported that they were unemployed and were seeking to enhance their employability, while the remaining 32% wanted to supplement or broaden their skills for performing their functions and tasks.⁹

When it comes to on-the-job training, if it is assumed that around 20% of the economically active population should be served, on average, then the supply of technical and vocational education (the INFOTEP model) in 2014 was enough to meet only 65.8% of potential demand. If intermediate and higher-level technical education is also included, the national TVET system, through its pre-employment and on-the-job training programmes, is serving approximately 67% of potential demand, which is estimated at 1 million individuals, according to 2014 figures.¹⁰

As to the qualitative dimension, there is currently a mismatch in the Dominican Republic between demand and supply. Employers report difficulties in obtaining the human capital they need in order to fill available positions for specialists in electronics, mechanics or air-conditioning.

⁹ Unpublished data of the Labour Market Research and Statistics Department of INFOTEP.

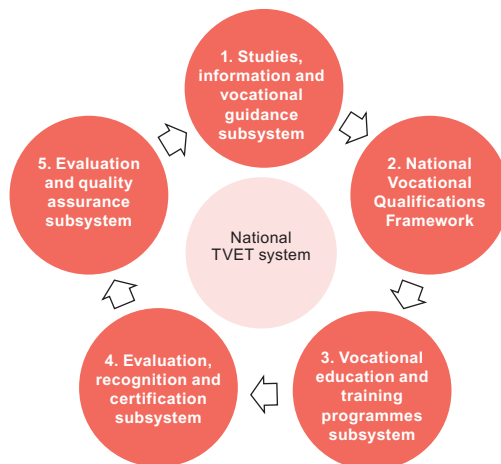
¹⁰ This refers to the proportion of the economically active population with 12 years of schooling or more, which is the minimum education level required at entry by employers in the formal sector.

Lastly, there is a high degree of disconnect or fragmentation in the provision of education and training within the same area or occupational family, with respect to the content, duration and denomination of study programmes. The lack of a National Vocational Qualifications Framework, endorsed by all the TVET providers, impedes efforts at the joint construction of training itineraries among the system's institutions. However, both the Department of Technical and Vocational Education of the Ministry of Education and INFOTEP are developing a process for curricular review of a significant portion of their offerings, with a focus on workplace skills and occupational families. This decision constitutes encouraging news, and could be the point of departure for future coordination and recognition of training itineraries.

D. Towards a new and comprehensive view of the national technical and vocational education and training system

The fundamental purpose of the national TVET system is to define and implement policies and strategies for preparing and updating human capital at qualification levels 2 and 3 through a process of standard-setting, education, training, evaluation and certification, within a context of lifelong learning. The system embraces five components or subsystems, as indicated in diagram XI.1.

Diagram XI.1
The national system of technical and vocational education and training



Source: Prepared by the author.

In the light of their common interest in its objectives, the integrated national TVET system could comprise the Ministry of Education, the Ministry of Higher Education, Science and Technology, the Ministry of Labour, the Ministry of Economy, Planning and Development, INFOTEP, the vocational schools, the occupational schools and accredited private training entities, representatives of employers' and workers' organizations, and non-governmental organizations that offer TVET programmes. Other government entities that are responsible for supplying inputs for the definition of policies and other services such as the employment guidance offered by the Ministry of Labour could also be part of the system.

A review of the attempts that have been made in recent years in the three lead institutions (Ministry of Education, Ministry of Higher Education, Science and Technology and INFOTEP) to construct an interconnected common systemic vision,¹¹ taking as reference their 10-year plans (2008-2018), reveals an approach that is rather endogenous and to a certain point exclusive.

The three institutions have one single purpose: to respond to the demand for occupational qualifications on the part of employers and society in order to support economic and social development in the Dominican Republic. Yet despite the formal declarations that frequently emanate from these entities, expressing a determination to move forward in building a new vision, their activities in the areas of common interest would seem to be driven, perhaps unwittingly, by their particular corporate vision, without taking into account how the efforts of each entity could add value to those of the others. One example would be to establish a common definition of study plans with respect to specific training (technical skills) according to the levels of qualification.

A review of the development status of each component or subsystem makes it possible to assess the progress made and the outstanding challenges for achieving a new, comprehensive vision of the system.

1. Studies, information and vocational guidance subsystem

This subsystem is key to the structuring of the national TVET system. Its task is to provide the data and knowledge needed for informed decision-making by the public, by employers, and by TVET providers.

A review of the available studies (ENDECA, 2003; INFOTEP, 2012 and 2013; Ministry of Labour, 2004; Guzmán, 2008; Amargós, Hasbún and

¹¹ For example, the meeting of the Presidential Forum on Excellence in Dominican Education, held in January 2007, recommended development of a 10-year plan for the strategic development of the Dominican education system, based on the three subsystems (intermediate and higher technical education, and technical and vocational training).

Pérez, 2015) shows that the Dominican Republic has experience in applying methods for determining the demand for vocational qualifications. However, most of those methods are geared to providing quantitative information, while analysis of the qualitative dimension of present and future demand is relatively recent.

It may also be said that the training delivery entities have taken the results of these studies into account in their decisions. However, in the area of technical and vocational education, the process of including or deleting a given offering, for example, is relatively slow. Most of the specialties currently offered have been in place since 1995, when Ordinance 1-95 was approved, or even earlier. Twenty years after the introduction of that rule, programmes are being revised and the possibility of including new offers is being evaluated.

INFOTEP is making efforts to adjust its programmes in line with signals that, according to its own studies, point to the relevance and advisability of including or eliminating certain offerings (Amargós, 2016).

2. National Vocational Qualifications Framework

The last 20 years have witnessed a worldwide tendency to restructure education and training in line with what are called national qualifications frameworks. This generalized tendency was given a boost by ILO Recommendation 195 of 2004 on human resources development.

In the Dominican Republic, the relevance and necessity of developing such a framework has been recognized since 2003, when the Strategic Development Plan for Dominican Education 2003-2012 proposed for the first time the notion of a national qualifications framework. Today there is broad consensus on the need to move forward with its development.

3. Occupational qualifications subsystem

As described above, this subsystem constitutes the operational component, and consists of all official and private entities providing TVET.

The main challenge for the coming years is to develop the ability to respond, in both quantitative and qualitative terms, to the demands of young people and adults, employers and entrepreneurs, and society in general. In quantitative demand terms, the distance separating this subsystem from the ideal goal was described in previous sections. The national TVET system needs to double the current supply of pre-employment training, and then some, as it currently covers only 46% of potential demand, and it will have to achieve a 52% expansion of supplementary or continuing training, which now covers 65.8% of estimated demand.

4. Subsystem for evaluation, recognition and accreditation of occupational qualifications and skills

This subsystem refers to a set of instruments and activities for evaluating, recognizing and accrediting the occupational qualifications acquired through formal and informal education and training or cumulative workplace experience.

It is not a question of validating or recognizing the academic diplomas issued by the educational entities empowered to do so. Those certificates can, under certain circumstances, be demanded as prerequisites for the recognition and accreditation of qualifications.

Since its creation, INFOTEP has been delivering certifications and diplomas of occupational qualification to persons participating in its training activities, and it is also authorized to grant similar accreditation to persons who decide to undergo the corresponding evaluations, regardless of the institution where they earned their qualification. The experience acquired by that entity, through its acquired learning recognition service, can be regarded as a step forward in the development of this subsystem.

The Dominican Republic still lacks a benchmark instrument for identifying the labour categories within which employment in each sector and occupation is structured. This instrument would be a catalogue of qualifications which, among other advantages, would make it possible to verify whether the diplomas and certifications granted by INFOTEP, the Ministry of Education and higher education institutions accredited by the Ministry of Higher Education, Science and Technology to provide TVET correspond to labour market requirements, according to levels of qualifications.

5. Subsystem for evaluation and quality assurance of the national technical and vocational education and training system

The quality of TVET is a matter of constant concern for the entities involved in its regulation, control and provision, as well as for employers and other sectors. In the case of intermediate-level vocational education, the Ministry of Education has for more than 10 years been pursuing efforts to improve quality by redefining all study plans and incorporating the approach of curriculum design by occupational skills.

In 2005, INFOTEP obtained ISO 9001 certification,¹² thus demonstrating its concern to meet the standards that such an endorsement presupposes. However, it is quite another matter to prove that graduates have the technical, cognitive and social skills required to perform specific functions and tasks.

¹² International Standards Organization (ISO), International standard for quality management applicable to organizations.

Among the stakeholders in the national TVET system there is agreement on the need to ensure the quality of TVET services and to adjust them constantly to the needs of the labour market. For the evaluation and certification of TVET providers, the lead entities (Ministry of Education, Ministry of Higher Education, Science and Technology and INFOTEP) have the corresponding standards for evaluating and certifying whether the entity or centre, public or private, is in a position to offer TVET programmes.

E. Financing of technical and vocational education and training

The provision of TVET in the Dominican Republic is financed essentially from three sources: (i) specifically earmarked parafiscal contributions (article 24 of Law No. 116, creating INFOTEP); (ii) the general budget of government; and (iii) donations, loans and contributions by employers and beneficiaries.

The country is investing 6.25 billion pesos (US\$ 136.6 million) annually to serve 690,778 persons, an amount that represents 9,047 pesos (US\$ 200) for each direct beneficiary of TVET programmes.

If the goal is to meet potential demand (pre-employment and on-the-job), estimated at 1 million persons, the Dominican Republic would have had to invest around 9.893 billion pesos (US\$ 216.5 million) in 2015. On this basis, the funds budgeted for 2016 would cover 70.3% of estimated requirements.

F. Recommendations for moving towards a comprehensive vision of the system

This section summarizes the main recommendations that emerge from the findings discussed in this chapter.

1. Technical and vocational education and training demand and supply

- The first recommendation is of an instrumental nature. In order to estimate the demand for TVET from the quantitative and qualitative viewpoints, conventional classification criteria would have to be used (dimensions such as occupation by sector and branch of activity, occupational families, occupational fields and occupations, and spatial distribution of demand, among others). However, the recommended approach is to take into account employers' demand for qualifications, as well as the social demand for qualifications, as this would yield a better understanding of the nature of the demand and, consequently, better criteria for targeting the supply.

- In the quantitative dimension, the challenge is to increase the available supply gradually until it is in balance with potential demand.
- As to the qualitative dimension, to reduce potential gaps between demand and supply, methodologies for determining TVET demand need to be refined, and the subject areas or specialties revised to incorporate new denominations, updating study programmes and improving the infrastructure or resources for teaching those specialties of greatest impact on the country's economic and social development.
- When it comes to coordinating curricula, the essential point is that their design should be based on the standard of competence for the occupational role. Using appropriate methodologies, fundamental occupational skills and specific techniques should be identified for the different occupational families and levels of qualification.
- In terms of equivalence and accreditation of diplomas and certifications, the current context suggests that these should be analysed in direct relation to labour market requirements. The point is not so much to compare the parities and the value that they would have for academic advancement within the framework of the Dominican education system's regulations, but rather to determine whether similar diplomas awarded by different organizations have the same value on the labour market.
- In general terms, vocational education and training should be driven by employer demand. In the country's current context, this type of educational supply generates favourable outcomes or externalities for the participant population. It promotes social inclusion and reduces social inequality, and at the same time enhances people's employability or equips them with qualifications for self-employment. The ideal supply is one that recognizes that the sources of demand for qualifications, whether they be employers or society, are heterogeneous.

2. A comprehensive vision of the national technical and vocational education and training system

(a) The studies, information and vocational guidance subsystem

- Use combined methods and sources for forecasting vocational qualification needs. These studies should combine the quantitative and qualitative dimensions so as to identify new occupations and their respective profiles and identify anticipated changes in existing occupation profiles.

- Negotiate understandings among the specialized units of the public entities that frequently conduct labour market studies (Ministry of Economy, Planning and Development, Ministry of Education, Ministry of Labour, Ministry of Higher Education, Science and Technology, INFOTEP, National Statistics Office (ONE) and Central Bank of the Dominican Republic) on the variables in question in order to provide information needed by all entities and persons with a common interest in the national TVET system.
- Give priority to updating the National Occupations Dictionary as a tool for conducting sector studies to forecast the demand for qualifications.
- Strengthen the National Employment Service by incorporating the information services of the entities providing TVET and the agencies providing information and guidance services.

(b) The National Vocational Qualifications Framework

- Support the proposal prepared by the Ministry of Education with the help of the Spanish Agency for International Development Cooperation (AECID). This initiative includes the technical, social and political dimensions and implications inherent in developing such a framework, and identifies the steps that must be taken to develop it.

(c) Evaluation, recognition and accreditation of occupational qualifications and skills

Starting from current international experience and the progress achieved by INFOTEP, particularly through the acquired learning recognition service, the main challenges with this subsystem are to:

- Define gradually the benchmark for evaluating, recognizing and accrediting qualifications. This benchmark will be constituted by the technical standards for workplace skills.
- Prepare a national qualifications catalogue to identify the vocational qualifications present in the national production system, and a modular catalogue of vocational education and training that will identify the training associated with the qualifications in the first catalogue.

(d) Quality assessment and assurance

- Define, and have the regulatory entities adopt, a common framework for quality assurance that allows for sharing of standards and indicators in the different processes, from planning, implementation, monitoring and evaluation of outcomes to feedback for redefining or expanding public TVET policies.

- Explore the feasibility of having a government-linked entity responsible for constructing a catalogue of qualifications present in the production system, as well as for the training associated with those qualifications, with the power to evaluate and propose improvements in the quality of TVET.

3. Financing

There is a need to increase investment, as a charge to the general government budget, in secondary and post-secondary technical and vocational education, and at the same time to create effective monitoring mechanisms to ensure that the resources invested in the programmes, both those from the government budget and those from the specific contributions pursuant to Law No. 116, are commensurate with the existing and foreseeable demand for qualifications on the part of employers, and that they can meet the social demand for qualifications.

4. General recommendation

A coordination board should be established, linked to the Plenary Assembly of the National Pact for Education Reform. Its immediate task, based on acceptance of the specific recommendations formulated here, would be to define the road map for the national TVET system to the year 2030.

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Chapter XII

The national system of technical vocational education and training in the Philippines: a review and ideas for reforms

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Introduction

Skills upgrading and development have both short- and long-term roles to play in capacity-building efforts. Long-term skills development necessarily entails continuous skills upgrading, and this takes on even greater importance in the presence of rapidly changing technology. To the extent that technical vocational education and training (TVET) increases the productivity and incomes of the poor, it also serves the long-term objective of attaining greater equity. In the short-term, skills upgrading enhances the employability of the

¹ The views expressed here are those of the authors and do not necessarily reflect the positions of the institutions to which they are affiliated professionally. The assistance provided by the social services staff of NEDA, led by Director Erlinda Capones, is gratefully acknowledged, as is the assistance furnished by the Technical Education and Skills Development Authority (TESDA) and particularly by Executive Director Marissa Legaspi (Planning Office) and Executive Director Maria Susan de la Rama (Certification Office) and the members of their staffs. The authors also wish to express their gratitude for the valuable comments made by Jenny Grainger, Liz Bowen Clewley and the participants in the stakeholder meetings and the national conference. Any errors are the responsibility of the authors.

unemployed and facilitates the transfer to new occupations of persons who are currently employed but are underproductive. The role of the National System of Technical Vocational Education and Training (NSTVET) in all of these areas is of critical importance.

This chapter reviews the current status of the Philippine NSTVET and, on the basis of that review and analysis of the performance of the existing system, the following recommendations are made: (i) there should be a greater focus in the Technical Education and Skills Development Authority (TESDA) on regulation and information provision; (ii) greater emphasis should be placed on enterprise-based training; (iii) training should be continuously adapted to ensure that it is relevant to industry needs; (iv) a more performance-based orientation should guide the allocation of public training funds; (v) the targeting of financial assistance for TVET should be improved and the amount of such funding should be sufficient; (vi) the quality of community-based training must be ensured; (vii) data generation and dissemination need to be improved; (viii) monitoring and evaluation capacity should be strengthened; and (ix) the image of TVET needs to be enhanced.

This study is organized as follows. The next section provides a description of the characteristics of an improved profile for NSTVET as described in sectoral reviews. This is followed by a description of the characteristics and an analysis of the performance of the existing Philippine NSTVET. The concluding section sums up a number of recommendations for reforms of the National System.

A. Characteristics of an improved system

This section describes what are seen as desirable objectives for the National System of Technical Vocational Education and Training (NSTVET) of the Philippines based on summaries of recommendations that have emerged from sectoral reviews.

1. An accurate estimate of the demand for technical vocational education and training services

Good planning can only be based on a reliable estimate of the demand for technical vocational education and training (TVET) services at the skill level. However, skills are constantly evolving, as are TVET services. This means that continuous monitoring and consultations with firms—the ultimate users of these skills—are essential.

Labour market information and tracer studies are key inputs for correct estimates of the demand for TVET services, since they provide data on what skills are needed and how these skills are utilized in the labour market (ADB, 2004). In addition, it may well be that NSTVET needs to expand the scope of the services that it provides. At the Third International Congress on Technical and Vocational Education and Training (UNESCO, 2012), it was emphasized that the demand for TVET is no longer confined to skill requirements for work but instead encompasses lifelong learning needs as well. In addition, TVET services need to be adapted to fit the requirements of an ever more rapidly changing and unpredictable world. This means that more emphasis needs to be placed on learning how to learn and how to adapt, rather than on the type of learning required for specific occupations. There is also a need to balance generic learning skills, social skills and vocational skills. As the globalization process advances, the social skills needed to work successfully in multicultural environments will be increasingly important. Finally, there is also a need to develop multiple pathways for school-to-work transitions that will facilitate the changeover from general to vocational education and from and between formal, non-formal and informal approaches.

2. Access for workers in general

TVET should be accessible to three types of clients: (i) the unemployed; (ii) persons who are currently employed but who want to increase their income; and (iii) employed persons who want to re-tool. A good NSTVET system should be able to address all these different training needs. Access is not just about the availability of training per se but should also be defined in terms of the availability of financing for those who want training. Financing can take the form of grants-in-aid for the poor or loans for the non-poor.

3. Access for workers from vulnerable groups

A fee-based TVET system discriminates against those who have no means of paying for those services. This provides the rationale for developing financing schemes to provide greater access to vulnerable groups such as the unemployed, the underemployed and the poor. NSTVET should also be accessible to specific groups of people, such as women, youth, persons with low levels of education and persons with disabilities.

4. Access for small and medium-sized enterprises

A very strong industry orientation is one of the critical characteristics of a good NSTVET. It should be designed to support increases in productivity on the shop floor. A common concern is that small and medium-sized enterprises (SMEs) may not have the financial capacity or the training resources required to provide the type of training that will boost their productivity in order to make them competitive and allow them to grow. Accessibility for SMEs is a particularly desirable characteristic for NSTVET.

5. Quality-control mechanisms, including certification of programmes and competencies

When TVET is provided mainly by the private sector, there is the accompanying need for effective quality-control mechanisms. This is the primary role of government in the area of TVET. Yet the government cannot do this on its own. For quality-control and certification mechanisms to be effective, business firms need to understand the value that they bring to the table. Sophisticated certification mechanisms that do not convince firms of their effectiveness will be useless. An ongoing effort should be made to monitor the effectiveness of certification mechanisms using one primary success indicator: the value that business firms ascribe to them in the course of their recruitment processes and other operations.

6. Funding the system

The funding system should clearly delineate what should be privately funded and what should be publicly funded. Returns beyond the basic education level accrue mainly to the individual, hence the argument that TVET should, for the most part, be privately funded and that the role of government should be confined to those elements that provide public goods. Providing effective regulatory services and information on the TVET system are clearly public goods. This approach is increasingly becoming accepted as the best means of delimiting the government's primary function in TVET (UNESCO, 2012). If a government finds it necessary to take action that goes beyond these basic functions, then its activities should be guided by the principles of public finance. There are two reasons for government intervention: equity and efficiency. Equity objectives are a justifiable reason for a government to provide financing that will improve the employability and increase the incomes of the poor and members of vulnerable groups. In addition, efficiency objectives are often used, for instance, to justify the financing of expensive cutting-edge technology training that is clearly a source of public goods, as well as helping workers to shift from low-productivity to high-productivity

forms of employment. There is, of course, the added proviso that, even if the government is justified in intervening, it has to show that it is doing so at the lowest possible cost.

One of the important tasks that has to be performed in order to facilitate efficient financial planning is the development and standardization of the unit costs of TVET, particularly in the case of the most commonly offered skills (ADB, 2009a). Transparency in terms of the costs of training will help students determine which type of skills training they can afford. This will also help firms and policymakers to decide which specific types of skills training they should support.

The use of performance-based training funds can be effective in promoting relevance, equity and flexibility (ADB, 2004).

With demand for TVET services expanding, making the most of existing resources should be paramount. The opportunity for using online systems for training service delivery should be fully explored (UNESCO, 2012).

7. Organizational structure and coordination across institutions

The government should primarily be involved in regulation and information provision rather than in training service delivery, which should mainly be left to the private sector. This is the basic principle underlying the organization of TVET systems.

Interaction between government, TVET Institutions, firms and workers should take place at all levels, including the industry/sectoral and local levels, rather than being limited to national bodies like the Technical Education and Skills Development Authority (TESDA) Board. General mandates at the national and sectoral levels should be geared towards core content and competencies, but there should be room for the adaptation of these core contents and competencies in order to address local needs (Kis and Park, 2012).

8. Links with other labour market policies

Given the nature of TVET, it needs to be responsive to signals from the labour market. This presupposes that useful labour market information is readily available. This also means that representatives of business firms, technical and vocational institutions (TVIs) and the government must meet regularly to review training regulations in order to ensure that they are relevant to the needs of industry. At these meetings, the participants should also discuss which skills training modules need to be expanded and which ones need to be de-prioritized based on labour market signals (such as employment rates and wage levels).

The reform of TVET services should not be approached as a separate undertaking but rather as an integrated component of a coordinated response to the many economic, equity and transformational challenges facing society (UNESCO, 2012). The aim is for TVET to contribute to economic growth, social equity, inclusion and the sustainable transformation of society.

B. A review of the characteristics of the existing National System of Technical Vocational Education and Training in the Philippines

1. Basic structure

(a) Modes of service delivery and types of programmes

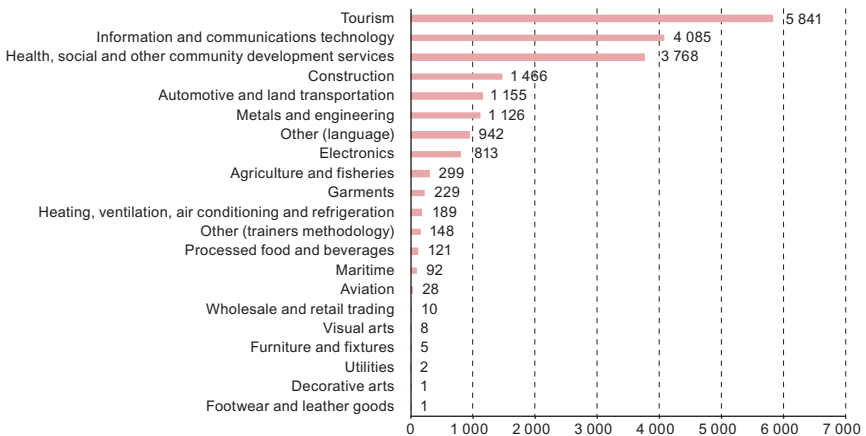
There are three major modes for the delivery of TVET training: institution-based (school-based and centre-based), enterprise-based and community-based services. Institution-based programmes involve the direct delivery of TVET services by public and private providers, including TESDA-administered schools and centres. Enterprise-based programmes are TVET programmes that are implemented within companies or firms, with examples being apprenticeship programmes, dual training systems and learnership programmes. Community-based TVET programmes are primarily run in partnership with local government units (LGUs) and non-governmental organizations. These programmes are usually based on local skill requirements and the resources available in the area concerned.

It would have been informative to provide data on the different types of courses that are offered in each delivery mode. Unfortunately, there is no readily available database that provides information on training courses by delivery mode. TESDA has data on the programme offerings of TVET institutions but does not, in general, list the offerings of community-based providers. TESDA, however, pointed out that most community-based providers partner with institution-based providers in conducting training. It can therefore be presumed that the course offerings of the institution-based providers are substantively similar to the course offerings of community-based providers. As of July 2015, the TESDA compendium of institution-based providers with accredited programmes listed 4,609 institutions² offering

² Branches of the same institution are treated as separate institutions.

20,329 programmes. Figure XII.1 shows that the top three sectors in the course offerings are tourism, information and communications technology (ICT) and health, social and other community development initiatives. Incidentally, these have been some of the fastest-growing sectors of the economy in recent years. The next most popular group of course offerings deal with the more traditional TVET sectors of construction, automotive and land transportation, and metals and engineering.

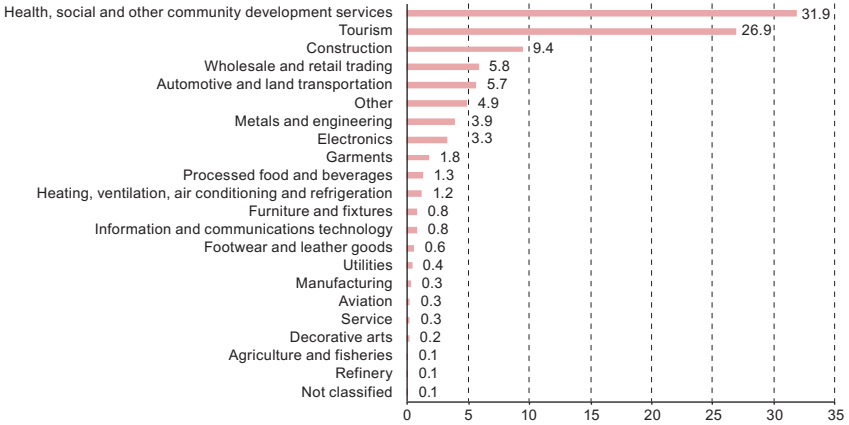
Figure XII.1
Distribution of programme offerings of institution-based providers, by sector, 2015
(Numbers)



Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

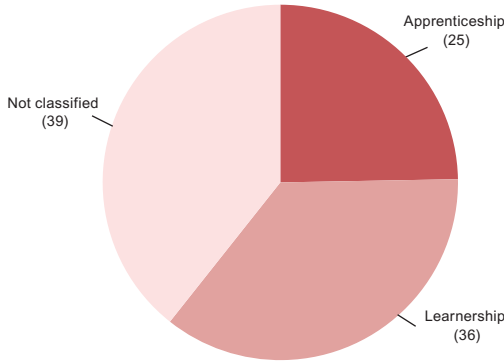
TESDA has a database on enterprise-based training providers and enrolment figures for 2014 and 2015. While the data are only for two years, these firms are offering these programmes on a regular basis. The database lists 421 firms offering 1,208 programmes. The distribution of programmes by sector is slightly different from the distribution for institution-based providers. The enterprise-based training modules also had health, social and other community development services (32%) and tourism (27%) as the top offerings (see figure XII.2), but ICT—the other top offering in enterprise-based programmes—is in the bottom half of the distribution. In terms of types of programmes, it is unfortunate that 39% are not classified (see figure XII.3). Of the 61% that have been classified, 36% are learnership programmes and 25% are apprenticeship programmes. Dual training programmes are not identified as such in the database.

Figure XII.2
Distribution of enterprise-based programmes, by sector, 2014-2015
(Percentages)



Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

Figure XII.3
Distribution of enterprise-based programmes, by type, 2014-2015
(Percentages)



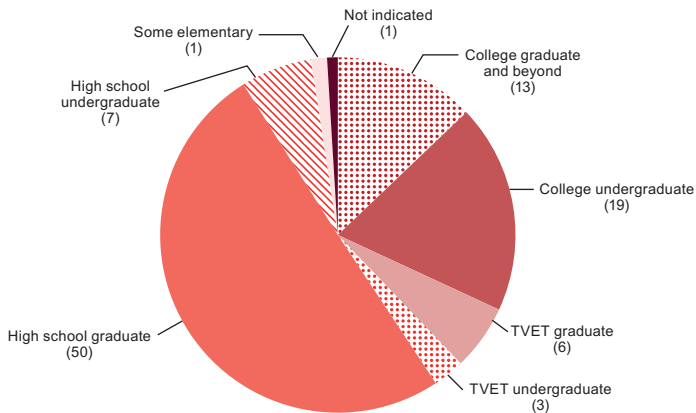
Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

(b) TVET clients

Who are the primary clients of TVET services? In the Philippines, like elsewhere, TVET is generally considered to be imparted in post-secondary courses, even though some of the courses offered in the programme may not, as is shown later, require that students have completed their secondary

education. This common stylized view is largely validated by data from the most recent Impact Evaluation Study (IES), which covers 2012 graduates.³ As expected, the majority were high school (secondary) graduates (50%) when they took the TVET course, but there are a considerable number of college undergraduates (19%) and even college graduates (13%) who take TVET courses as well. Some 9% are previous TVET graduates (6%) and TVET undergraduates (3%). There are even high school undergraduates (7%) (see figure XII.4). Thus, TVET participants cover virtually the entire range of educational backgrounds even though the majority are secondary school graduates.

Figure XII.4
Distribution of TVET graduates, by level of educational attainment
prior to training, 2012
(Percentages)

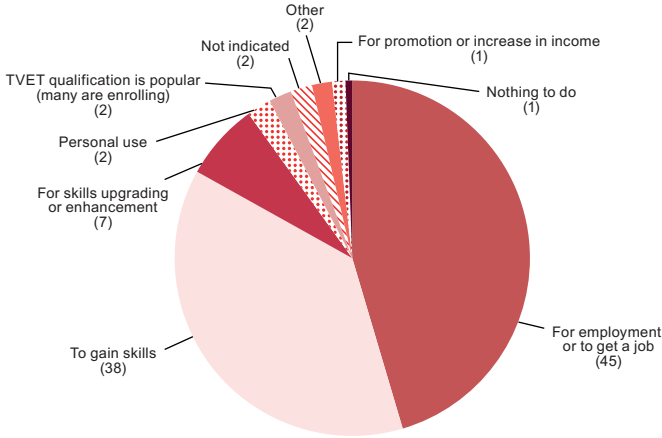


Source: Technical Education and Skills Development Authority (TESDA), "2013 Impact Evaluation Survey (IES)", Manila, 2013.

There are a number of different reasons why people take TVET courses. According to the 2013 Impact Evaluation Survey, the reason given the most often (45%) is for employment, the next most frequent is to gain skills (38%), while skills upgrading is a distant third (7%) (see figure XII.5). The reasons cited also provide some explanation as to why even people with college educations take TVET courses.

³ While the best data would be enrolment rates, this information is not readily available.

Figure XII.5
Distribution of TVET graduates, by reason for taking TVET courses, 2012
(Percentages)



Source: Technical Education and Skills Development Authority (TESDA), “2013 Impact Evaluation Survey (IES)”, Manila, 2013.

(c) Enrolment and graduation

The disaggregation of enrolment and graduation rates in 2014 shows that institution-based training accounts for approximately half of both total enrolment (51%) and the number of graduates (50%) (see table XII.1). Community-based programmes come in as a close second (46% and 50%, respectively), while the enterprise-based programmes account for only a very small proportion (3%) of total enrolment and of the total number of graduates.

An increasing proportion of enrollees and graduates appear to be attending or to have attended institution-based courses. In terms of enrolment, the proportion accounted for by this delivery mode rose from 29% in 2005 to 51% in 2014, while the proportion of community-based trainees fell from 68% in 2005 to 46% in 2014. Two reasons were offered by TESDA⁴ for this decline. One is that some of the community-based programmes offered by local government units (LGUs) and non-governmental organizations (NGOs) may have been upgraded to meet the requirements of training regulations, in which case they become classified as institution-based services. The other explanation is that the reporting of training offerings by NGOs and other government agencies may have changed in terms of its coverage over the years. As would be expected, a similar pattern can be observed for graduates.

⁴ Personal communications with Executive Director Marissa Legaspi, Planning Office, TESDA.

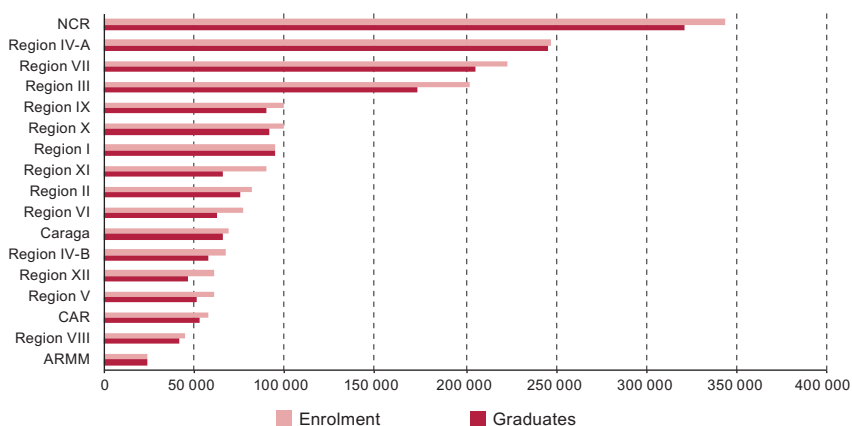
Table XII.1
Enrolment and graduation, by mode of delivery

Delivery mode	2005		2010		2014	
	Number	Percentages	Number	Percentages	Number	Percentages
Enrolled	1 683 382	100.0	1 568 617	100.0	2 003 417	100.0
Institution-based	487 086	28.9	860 919	54.9	1 028 005	50.6
Enterprise-based	59 003	3.5	86 978	5.5	69 138	3.4
Community-based	1 137 293	67.6	620 720	39.6	936 274	46.0
Graduates	1 154 333	100.0	1 344 371	100.0	1 785 679	100.0
Institution-based	334 757	29.0	671 488	49.9	833 659	46.7
Enterprise-based	101 550	8.8	73 352	5.5	57 417	3.2
Community-based	718 026	62.2	599 531	44.6	894 603	50.1

Source: Corporate Affairs Office and Labour Market Information Division (LMID) of the Planning Office, Technical Education and Skills Development Authority (TESDA).

In terms of regional distribution, the bulk of the enrollees and graduates are in the National Capital Region, the nearby regions of Southern Tagalog (Region IV-A) and Central Luzon (Region III), and in the Central Visayas region (Region VII) (see figure XII.6).

Figure XII.6
Distribution of TVET enrollees and graduates, by region, 2013
(Numbers)



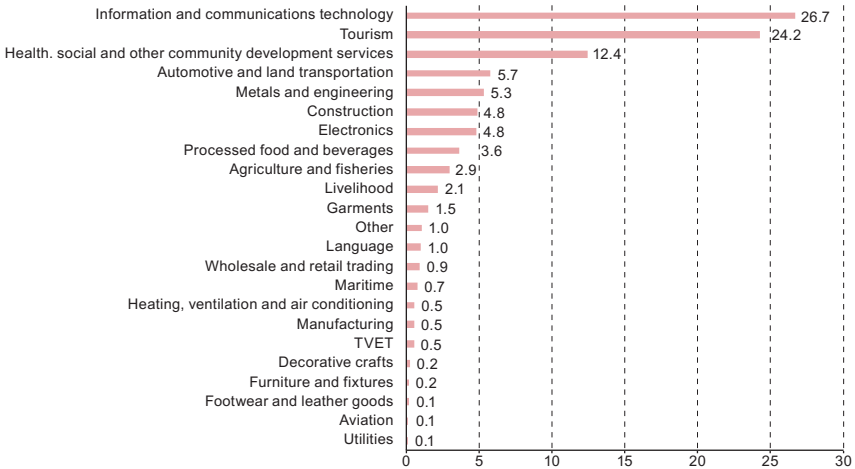
Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

Note: NCR: National Capital Region; CAR: Cordillera Administrative Region; ARMM: Autonomous Region in Muslim Mindanao.

(d) Sectoral orientation

Data from the tracer study for 2012 graduates shows that the sectoral orientation of recent TVET graduates corresponds to the fastest-growing sectors of the economy, namely ICT (26.7%), tourism (24.2%) and health, social and other community development services (12.4%) (see figure XII.7). It is interesting to note that the sectoral distribution does not change regardless of whether the purpose of taking TVET courses is for employment or to gain skills.

Figure XII.7
Sectoral orientation of graduates, 2012
(Percentages)



Source: Technical Education and Skills Development Authority (TESDA), “2013 Impact Evaluation Survey (IES)”, Manila, 2013.

(e) TVET institutions

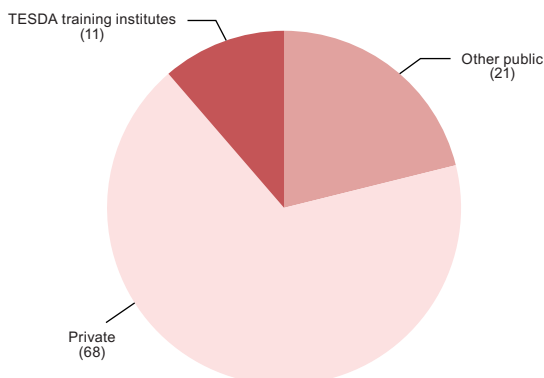
The number of private technical and vocational institutions (TVIs) rose from some 3,096 in 2001 to 4,600 in June 2015 (see table XII.2). This perhaps accounts for the increase in the proportion of enrolees and graduates in institution-based training courses. Table XII.2 also shows that the TVET industry is dominated by the private sector, and this trend has strengthened in recent years as the proportion of private TVIs has climbed from 61% in 2001 to 90% in 2015. However, a comparison of the number of graduates shows that the contribution of public institutions amounts to 32% of the total, with TESDA training institutes accounting for 11% and other public institutes for 21% of that percentage (see figure XII.8). This indicates that public TVIs are substantially larger than private TVIs.

Table XII.2
Number of TVET providers, by type

	2001		2010		As of June 2015	
	Number	Percentages	Number	Percentages	Number	Percentages
Public	1 220	39	422	10	440	10
Private	1 876	61	3 906	90	4 160	90
Total	3 096	100	4 328	100	4 600	100

Source: Certification Office of Technical Education and Skills Development Authority (TESDA), *Philippine TVET Statistics 2005-2011*, Manila.

Figure XII.8
Distribution of graduates, by type of technical and vocational institution, 2012
(Percentages)

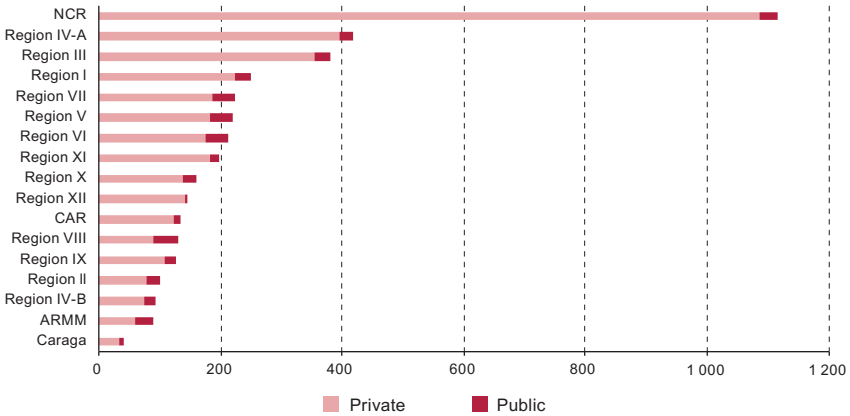


Source: Technical Education and Skills Development Authority (TESDA), "2013 Impact Evaluation Survey (IES)", Manila, 2013.

In terms of the regional distribution, there is a heavy concentration of students in the National Capital Region (28%) and the nearby provinces of Region IV-A (10%) and Region III (9%) (see figure XII.9). This partly explains the distribution of enrollees and graduates given in Figure XII.4, which shows that the regions that had the most enrollees and graduates were those with the largest number of providers.

It is important to point out that Peano and others (2008) have reported that only 53% of the community-based training providers have their own training centres. It must also be borne in mind, however, that, as mentioned earlier, community-based providers usually partner with institution-based providers when they conduct training.

Figure XII.9
Number of TVET providers, by region and by type, 2013
(Numbers)



Source: Technical Education and Skills Development Authority (TESDA), *Philippine TVET Statistics 2005-2011*, Manila.

Note: NCR: National Central Region; CAR: Cordillera Administrative Region; ARMM: Autonomous Region in Muslim Mindanao.

2. Governance and management

TESDA is mandated by law to be the regulatory body for technical and vocational education training institutions. Republic Act No. 7796 authorizes the TESDA Board to “primarily be responsible for formulating and continuing, coordinated and fully integrated technical education and skills development policies, plans and programs”. The 22-member TESDA Board is therefore the highest-ranking policymaking body in this area.⁵ It is chaired by the Secretary of Labour and includes representatives of the government, private firms and workers’ organizations. The Board guides the development of the TVET sector on the basis of the National Technical Education and Skill Development Plan (NTESDP). The third and latest cycle of the Plan covers the period 2011-2016.

TESDA manages the TVET sector by regulating the operations of private technical vocational institutes (TVIs). It also participates directly in training delivery by operating several TESDA training institutes (TTIs). As of 2015, TESDA managed 122 training institutes consisting of 16 regional training centres, 45 provincial training centres, 18 agricultural schools, 7 fishery schools, 31 trade schools and 5 specialized institutions. Its regulation

⁵ Republic Act No. 7796 originally established a 12-member board but also provided that its membership could be increased. Currently, the TESDA Board membership is as follows: eight ex-officio government representatives, six labour representatives, four employers, two representatives of business and investment, and two representative of education and training institutions.

of TVIs is based on mandatory programme registration. Before a Certificate of Programme Registration is issued, site visits are conducted.

TESDA also provides technical assistance for community-based training programmes. In cooperation with local government units, NGOs and other organizations or individuals, it provides training modules, related equipment, supplies and materials, recommends qualified trainers and co-signs training certificates.

3. Quality assurance⁶

There are several instruments used by TESDA to ensure the quality of TVET services from the supply side. They include: (i) mandatory programme registration; (ii) promulgation of training regulations; and (iii) trainer certification. In the post-graduation stage, TESDA oversees competency assessment and certification processes and the accreditation of assessment centres and assessors.

(a) Mandatory programme registration

TESDA performs quality assurance functions at several levels. The TESDA Act of 1994 (Republic Act No. 7796) empowers TESDA to establish and maintain a system for accrediting, coordinating, integrating, monitoring and evaluating formal and non-formal TVET programmes. In fulfilment of this mandate, the TESDA Board established the Unified TVET Program Registration and Accreditation System (UTPRAS), which requires all programmes offered in public and private TVIs, regardless of whether or not they are subject to training regulations, to be registered.

Before a TVI can offer a programme, it has to comply with programme registration requirements. Besides the necessary business permits, the review of the programme application includes on-site inspections and curriculum evaluations. Once the requirements have been met, a Certificate of Programme Registration is issued.

(b) Promulgation of training regulations

The TESDA Qualification Standards Office convenes experts from the relevant industries to formulate training regulations. These training regulations are a package of minimum standards on competency, national qualification and training, together with assessment and certification arrangements. The regulations are revisited and updated every three to five years or even earlier if there are significant changes in the programme. After the training regulations are issued, a training programme will be classified as either “with training regulations (WTR)” or “with no training regulations

⁶ The discussion in this section draws heavily from Orbeta and others (2015).

(NTR)". Table XII.3 shows that, out of 20,329 registered programmes as of July 2015, 18,466 (91%) had training regulations in place, which was up from the 85% figure reported for 2010 (TESDA, 2011).

Table XII.3
Registered TVET programmes, 2015

Type	Number	Percentages
With training regulations	18 466	91
No training regulations	1 863	9
Total	20 329	100

Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

(c) Trainer certification

Trainers undergo a certification process. They are expected to have, as a minimum, the National Certificate and are then expected to earn a trainer's certificate. There are several levels of trainer training: (i) Trainer Methodology Level I (Trainer/Assessor); (ii) Trainer Methodology Level II (Training Designer/Developer); (iii) Trainer Methodology Level III (Training Mentor); and (iv) Trainer Methodology Level IV (Master Trainer). Data from the TESDA Certification Office show that 20,816 training certificates had been issued as of July 2015. According to TESDA, this does not mean that there are that many trainers because one trainer can have several certificates.

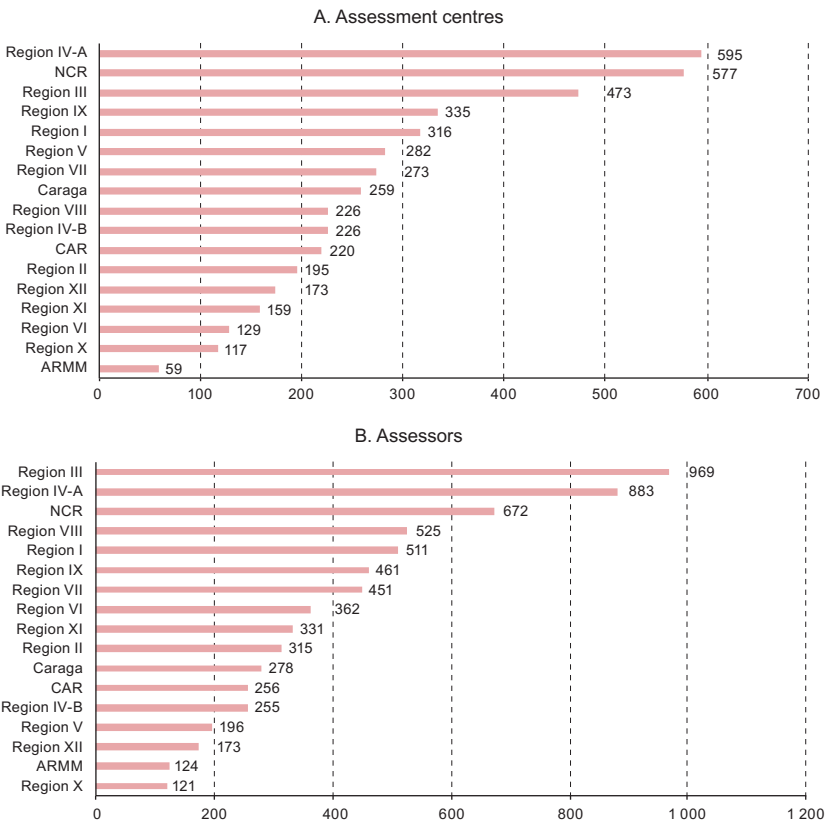
The assessment process fulfils the external validation function. Graduates are encouraged to earn the National Certificate, which accredits that they possess a specific skill set.

(d) Assessment and certification

The competencies of middle-level skilled workers are vetted by the Philippine TVET Competency Assessment Certification System (PTCACS). The system is designed to ensure that skilled workers possess the necessary competencies to perform the relevant job in accordance with industry requirements. The assessment areas and the methodology that is used are defined in the training regulations. The National Certificate is issued by TESDA when the candidate has demonstrated the required level of competence in an assessment session covering the identified skill areas for a given qualification. If a candidate fails to demonstrate competence in all the required units or clusters of units, a Certificate of Competency is issued for the specific units in which the graduate has demonstrated competence. Reassessments are allowed in areas in which the candidate failed to qualify within a two-year time frame. Candidates who have two consecutive failures are advised to go through a refresher course before taking another assessment.

TESDA accredits assessment centres and competency assessors. Assessments can only be performed in accredited assessment centres or designated assessment venues. In addition, assessments can only be carried out in the presence of a TESDA representative. As of July 2015, there were 4,614 assessments centres and 6,883 accredited assessors. The regional distributions of assessment centres and assessors are shown in figure XII.10. As may be seen from the figure, the top three regions in terms of enrolment and graduation (National Central Region, Region IV and Region III) are also the top regions in terms of the number of accredited assessment centres and assessors. Region VII, one of the top producers of graduates, is farther down on the list in terms of the number of assessment centres and assessors.

Figure XII.10
Distribution of assessment centres and assessors, by region, 2015
(Numbers)



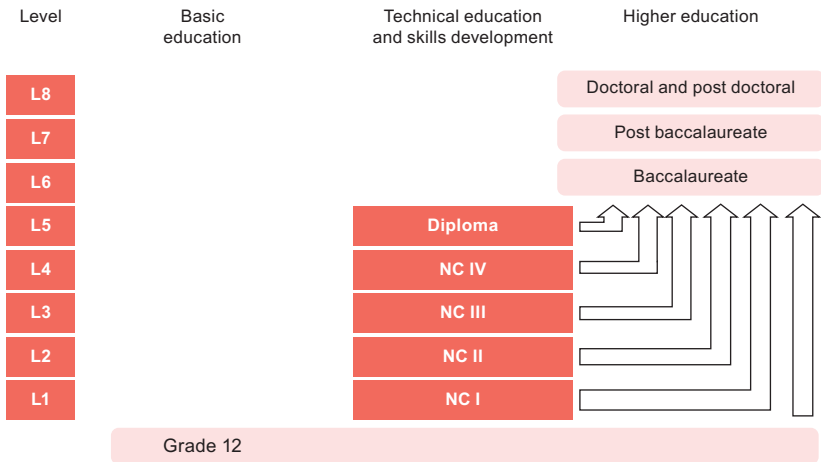
Source: Certification Office of the: Technical Education and Skills Development Authority (TESDA) of the Philippines.

Note: NCR: National Central Region; CAR: Cordillera Administrative Region; ARMM: Autonomous Region in Muslim Mindanao.

C. TVET and the Philippine Qualifications Framework

The Philippine Qualifications Framework (PQF) was instituted by means of Executive Order No. 83 of 2012,⁷ which also authorized the establishment of the PQF National Coordinating Committee and directed that it be chaired by the Deputy Minister for Education and include representatives of TESDA, the Commission on Higher Education, the Department of Labour and Employment and the Professional Regulation Commission. The Framework was established with the following objectives: (i) to adopt national standards and levels for outcomes of education; (ii) to support the development and maintenance of pathways and equivalences which provide access to qualifications and assist people to move easily and readily between the different education and training sectors and between these sectors and the labour market; and (iii) to align the Philippine Qualifications Framework with international standards in order to support the national and international mobility of workers through increased recognition of the value and comparability of Philippine qualifications. The Framework has eight levels, which are outlined in diagram XII.1. TVET certificates correspond to levels 1 through 5.

Diagram XII.1
The Philippine Qualifications Framework



Source: Technical Education and Skills Development Authority (TESDA) of the Philippines.

In response to the promulgation of the Framework, one of the major reforms instituted by TESDA was the introduction of competency-based TVET systems. In partnership with industry, it developed competency standards and made them an official part of the training regulations. These

⁷ See [online] <http://www.gov.ph/2012/10/01/executive-order-no-83-s-2012/>.

standards are benchmarked against industry and international standards. They also serve as the basis for curriculum development, training delivery, competency and other assessments and certifications.

D. Analysis of the performance of the existing system

1. Estimation of the demand for TVET services

Unfortunately, there seems to be no commonly accepted estimate of the demand for TVET services. What are available, however, are enrolment and graduation data reported by TESDA which reflect TVET demand and supply. Table XII.2 shows that the number of enrollees in 2014 was a little over 2 million and that the number of graduates for that same year was some 1.8 million. As was mentioned earlier, the distribution across regions of enrollees and graduates mirrors the distribution of TVIs (see figures XII.6 and XII.9). In addition, the distribution of graduates by sector also shows that the bulk of graduates are in the growth areas of ICT, tourism, and health and social services (see figure XII.7).

In addition to the enrolment and graduation data, another source of an estimate of the demand for TVET services is the number of students who have completed a TVET course. It was not until 2012 that the Labour Force Survey began to collect information on respondents of working age (15 years and above) who have graduated from a TVET course.⁸ Prior to that time, the only basis for an estimate was the data on the highest grade completed by the respondents, which would underestimate the number of people who have taken TVET courses because those who have attended college or are college graduates will not cite TVET courses as the highest grade that they have completed. The results of the January round of the 2013 Labour Force Survey indicate that the number of people who had completed a TVET course amounted to 3.2 million (4.8%) of the 66.2 million persons in the working-age population. This estimate is higher than the one cited in Orbeta and Abrigo (2013), where only 3.1% of the working-age population was reported to have completed a TVET course based on 2008 data from the Annual Poverty Indicators Survey (APIS). Another indication that this is indeed an underestimate is that the APIS 2008 data support an estimate of only 147,000 enrollees in post-secondary education for 2008, whereas the

⁸ Earlier rounds of the Labour Force Survey did not include TVET courses as an option for the highest grade completed. Even if this option had been included, as it is in the Annual Poverty Indicators Survey, the results would still underestimate the number of people who have taken TVET courses because those who have some college or are college graduates and above will not mention TVET as their highest grade completed. As noted earlier, data gathered from TVET graduates of 2010 indicate that as many as 19% of TVET graduates were either college undergraduates or graduates before taking a TVET course.

TESDA estimate for that same year is 2 million enrollees. However, even this presumably more reliable estimate appears to be low if the number of TVET graduates amounts to more than 1 million per year.

2. Access by workers

There appears to be no readily available direct measurement of workers' access to TVET. One good access indicator would be the profiles of enrollees and graduates. Unfortunately, no data on which the construction of a profile for enrollees could be based are readily available. The only data at hand that could be used to gauge the degree of workers' access is the profile of graduates provided in the TESDA Impact Evaluation Study. As mentioned earlier, the clients of TVET are not only high school graduates but include a considerable proportion of college graduates and college undergraduates. In terms of employment status prior to training, data on 2012 graduates show that as many as 74% of the graduates were unemployed⁹ before they went into training. As Figure XII.5 shows, the bulk of the trainees embark on training in order to find employment (45%) or to gain skills (38%).

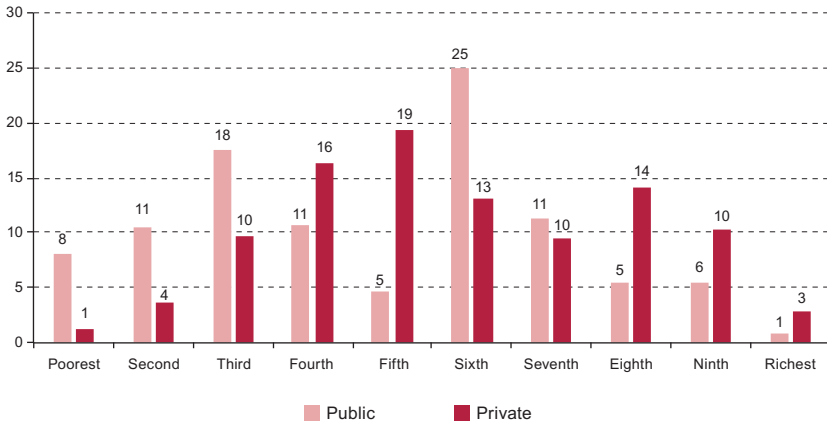
3. Access by vulnerable groups

No discernible degree of sex discrimination appears to exist in terms of access to TVET courses, since the number of male and female graduates in 2012 was about even (50.6% were males and 49.4% were females). As was to be expected, the majority of the graduates in 2012 were young (15-24 years of age (61%) and 25-34 years of age (23%)). The distribution by socioeconomic status¹⁰ of those enrolled in post-secondary education and those who already had a post-secondary education is clearly skewed against low-income groups (see figures XII.11 and XII.12). While there is some tendency for public TVIs to enrol more people from lower-income groups, the largest proportion of enrollees still come from middle-income strata. The data for the highest grade completed are even more skewed towards higher-income groups. The obvious explanation is that dropout rates among the poor at the elementary-school level are much higher than they are for higher-income groups.

⁹ The results of the October round of the Philippine Labour Force Survey indicated that there were an estimated 63.3 million persons of working age (15 years old and over) and that 63.9% (40.5 million) of them were in the labour force. Out of those in the labour force, 93.2% (37.7 million) were employed and 6.8% (2.8 million) were unemployed.

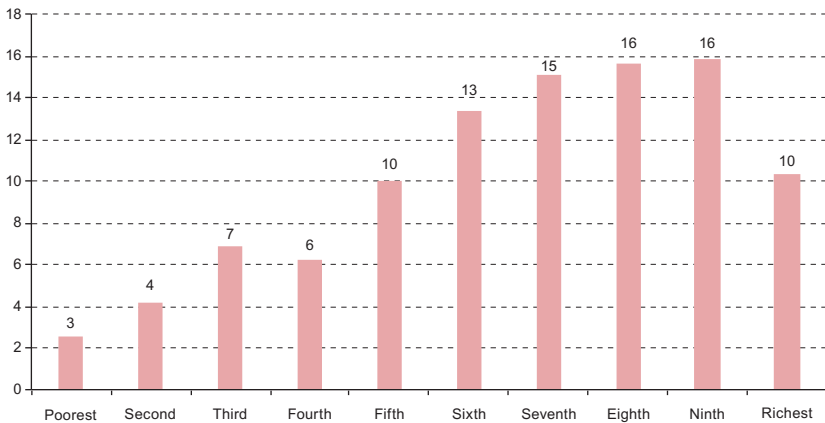
¹⁰ This should be qualified by the earlier comment that this dataset appears to be an underestimate of the number of people who have taken TVET courses. Unfortunately, the Annual Poverty Indicators Survey dataset is the only one that can be used to disaggregate the results for enrolment and for highest grade completed by persons who have taken TVET courses by income groups.

Figure XII.11
Distribution of enrolment in public and private post-secondary courses,
by per capita income decile, 2013
(Percentages)



Source: Philippine Statistics Authority (PSA), *Annual Poverty Indicators Survey (APIS) 2013*, Manila.

Figure XII.12
Distribution of the population aged 15 years and over whose highest grade completed
is at the post-secondary level, by per capita income decile, 2013
(Percentages)



Source: Philippine Statistics Authority (PSA), *Annual Poverty Indicators Survey (APIS) 2013*, Manila.

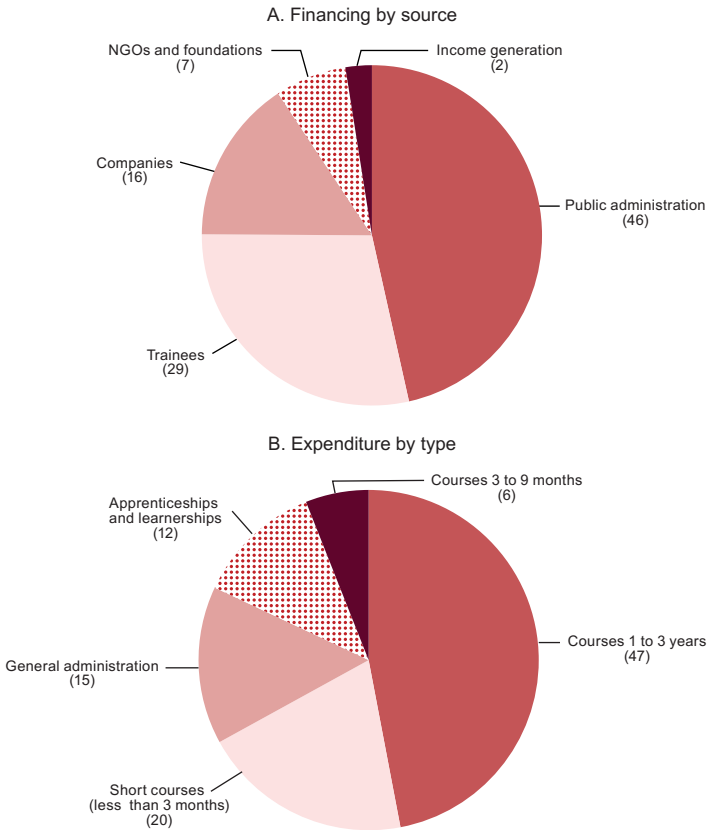
4. Access by small and medium-sized enterprises

As mentioned earlier, the access of the owners and staff of small and medium-sized enterprises (SMEs) to TVET is of critical importance in order to boost their productivity and competitiveness. Unfortunately, there appears to be no readily available data that can be used to gauge the extent of SME access to TVET.

E. Funding the National System

The only study on the sources and uses of TVET financing in the Philippines is the analysis conducted by Peano and others (2008). In terms of funding sources, they found that 46.5% of the resources come from the public sector, with the contribution of local government units amounting to about 14% (see figure XII.15). The 53.5% contribution made by private sources came from trainees (28.6%), firms (15.6%), NGOs and foundations (6.8%) and income generation (2.5%). In terms of the use of funds, the findings show that the largest share is devoted to the longer courses (from one to three years—47%), followed by short courses of less than 3 months in duration (20%), administration (15%), apprenticeships and learnerships (12%) and medium-length courses of from three to nine months (6%) (see figure XII.13).

Figure XII.13
Sources of TVET financing and types of expenditure, 2002
(Percentages)



Source: S. Peano and others, *Investment in Technical Vocational Education and Training (TVET) in the Philippines*, United Nations Educational, Scientific and Cultural Organization (UNESCO), 2008.

Nearly one third (30.4%) of the graduates in 2012 had a scholarship (IES, 2013). This represents a substantial increase from the 17% figure for 2007 graduates (Orbeta and Abrigo, 2013). A majority of the beneficiaries were funded by the Training for Work Scholarship Programme (56.8%), followed by the Private Education Student Fund Assistance (10.3), while the rest (32.9%) benefited from a long list of scholarships, including ones provided by legislators, local government units and private organizations.

Financing for TESDA programmes comes from a variety of sources. Experts associated with the National Technical Education and Skill Development Plan for 2011-2016 report that, for 2008-2010, half (50.4%) of the funding came from contributions from legislators and less than 1% came directly from appropriations from the government budget. An important component of private financing was training fees (28.6%). Other private funding sources are companies who fund apprenticeships and learnership programmes and NGOs and foundations who run short courses.

The extent of the TESDA financing structure's dependence on the contributions made by legislators in recent years is worrisome because it may not support efforts to achieve comprehensive equity and efficiency objectives, as legislators are likely to respond more to the needs of their local constituents rather than to base their contributions on a comprehensive assessment of TVET needs. Another cause of concern is that this structure may not be sustainable.

F. Quality control mechanisms

The main components of the quality control system appear to be in place. As described earlier, the first component of this system is the mandatory registration of all TVET institutions. Before the issuance of the Certificate of Program Registration, compliance with the requirements of existing training regulations is verified. The assessment and certification process leading to the issuance of National Certificates once students have graduated has also been developed and is in place.

One of the issues raised in an earlier review by Orbeta and Abrigo (2013) is that fewer than half of the TVET graduates in 2007 took the assessment test. This situation seems to have been addressed since, as is shown in figure XII.14, the proportion of graduates seeking certification has been increasing steadily from year to year, which is a good indication that this part of the quality control mechanism is being promoted successfully. In fact, certification has now been made mandatory by the TESDA Board, and certification rates are now consistently very high.

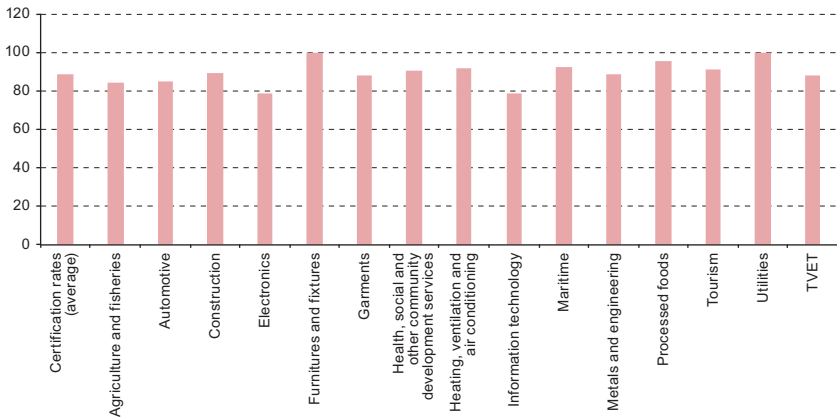
Figure XII.14
Enrolment, graduation, assessment and certification, 2005-2013
(Numbers)



Source: Philippine Statistics Authority (PSA)/Bureau of Labour and Employment Statistics (BLES), *Yearbook of Labor Statistics 2014*, Manila.

Certification rates appear to be uniformly high for all sectors. Current data compiled by the Bureau of Labour and Employment Statistics show that, with the exception of ICT and electronics, which had certification rates of less than 80%, all other fields have quite high certification rates, with two areas of activity (furniture and fixtures and utilities) having perfect certification rates (see figure XII.15).

Figure XII.15
Certification rates, by sector, 2013
(Percentages)

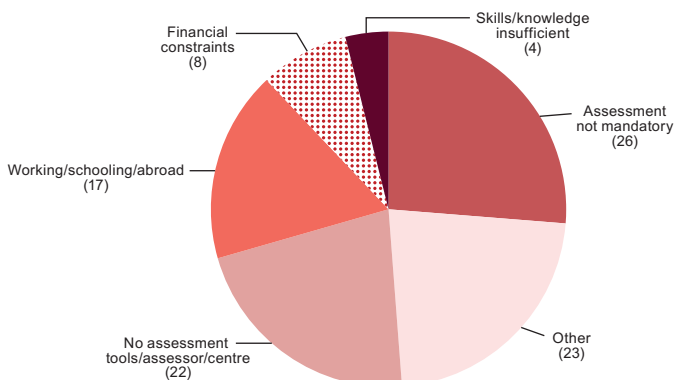


Source: Bureau of Labour and Employment Statistics (BLES), *Current Labour Statistics*, June 2015 [online] <http://www.bls.gov/ces/>.

The system for regulating curricular content appears to be functioning satisfactorily since the institution of the Unified Technical and Vocational Education and Training (TVET) Program Registration and Accreditation System (UPTRAS), which requires that all programmes offered in public and private TVIs be registered. The next step is to work towards 100% coverage both for the registration of course offerings and for the development of training regulations for each course. The data from the study on 2012 graduates show that, while the number of training courses that are covered by training regulations is already 68% of the total, there are still 19% courses that are registered but have no training regulations and 14% that are not registered at all. The data reported by TVET providers show a substantially higher proportion, as 91% of their offerings are covered by training regulations.

It is interesting that the Impact Evaluation Survey data on the 2012 graduates indicate that the main reasons cited for not taking the assessment examinations are that assessment is not mandatory (26%) and that there are no assessment tools, qualified assessor or assessment centre in the area (22%). A smaller number of respondents said that the reason was that they are working, in school or abroad (17%), were held back by financial constraints (8%) or felt that their skill levels were insufficient (4%) (figure XII.16). There is thus a case to be made for working to make assessment mechanisms much more readily available in terms of both skill areas and geographic areas.

Figure XII.16
Reasons for not taking the assessment examinations, 2012
(Percentages)

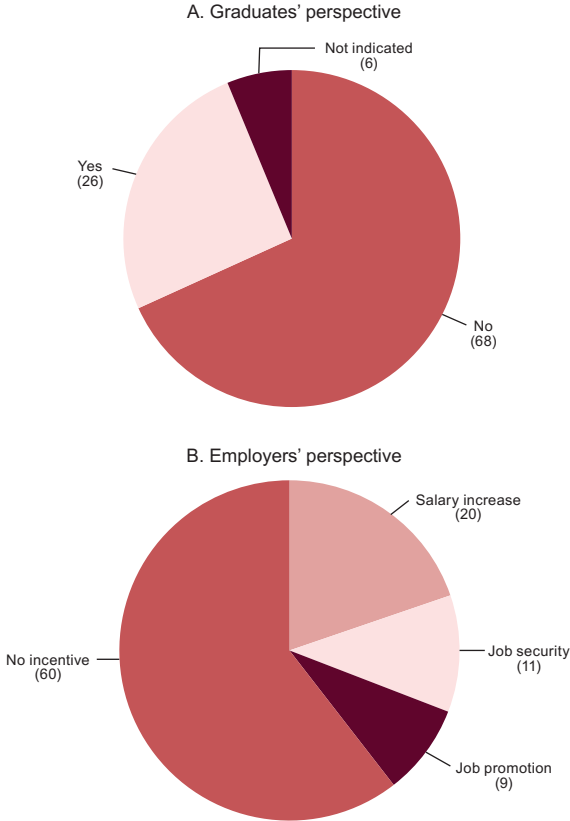


Source: Technical Education and Skills Development Authority (TESDA), "2013 Impact Evaluation Survey (IES)", Manila, 2013.

There is no mechanism for directly measuring how important certification is to firms/employers. A close approximation, however, is provided by the question included in the Impact Evaluation Survey in

which graduates are asked whether their employers provide incentives for certificate (National Certificate/Certificate of Competency) holders. Data from the 2013 Impact Evaluation Survey indicate that 68% of firms/employers do not and only 26% do (see figure XII.17). This clearly points to the need to work harder to make certification a valuable tool for employers and firms. Another indirect indicator is provided by the Employers Satisfaction Survey, in which a similar question is asked. The 2014 round shows that a higher proportion (40%) of employers than reported in the Impact Evaluation Survey provide incentives to certificate holders, including salary increases (20%), greater job security (11%) and more opportunities for promotions (9%) (see figure XII.17B).

Figure XII.17
Employers that provide incentives for certificate holders, 2012 and 2014
(Percentages)



Source: Technical Education and Skills Development Authority (TESDA), “2013 Impact Evaluation Survey (IES)”, Manila, 2013 and “2014 Employer’s Satisfaction Survey”, Manila, 2014.

An area in which a great deal of work remains to be done is the development of the registry of trainers and assessors and their profiles. Up to now, the data needed to prepare those profiles, which need to be made publicly available, have not been accessible.

The data on the performance of TVIs in terms of graduation and passing rates on the assessment examinations, disaggregated by programme, appear not to have been compiled or issued as yet. This information is of crucial importance as inputs for informed decisions on the part of prospective trainees, regulators and policymakers.

G. Organizational structure and coordination across institutions

By law, TESDA is mandated to manage the entire TVET system. It also operates 122 training institutes scattered throughout the country. It is thus, at one and the same time, both a player and a regulator. This state of affairs has come under heavy criticism (for example, Lanzona, 2008) based on the idea that it gives an undue advantage to TESDA training institutes over private TVIs.

At the policy level, the TESDA Board, the highest policymaking body, is composed of government and private sector representatives. The government representatives are the Secretary of the Department of Labour as Chair, the Secretary of the Department of Education as co-Chair, the Secretaries of the Departments of Trade and Industry, Agriculture, the Interior and Local Government, Science and Technology, the Chair of the Commission on Higher Education and the Director General of TESDA. The private sector members are representatives of employers, labour, education, and business and investment interests. The Board is the primary mechanism for coordination at the policy level.

At the operational level, from the standpoint of the training institutes, coordination is achieved through the development and continuous review of training regulations by industry experts commissioned by TESDA, which also accredits trainers.

For trainees, assessment and certification are conducted in accredited private assessment centres under the supervision of TESDA, which is the authority that actually issues the certification.

TESDA has conducted several consecutive rounds of impact evaluation surveys, which are actually more like tracer studies. This is the source of the basic data used to describe the system in this report. In order to fine-tune this instrument on an ongoing basis and generate more exhaustive analyses of the dataset, TESDA should consider putting out a public use file (PUF) and

inviting researchers to analyse the data as a means of compiling more in-depth information about the TVET system in the country. As has been done with many of the surveys conducted by the Philippine Statistics Authority, making the data more widely available will tend to result in an improvement in the quality of the datasets, as the instrumentation and survey procedure will become known to a larger number of survey specialists and analysts. The primary link between TVET and other labour-market policies is the TESDA Board. It is also worth reiterating that the Board is chaired by the Secretary of Labour, who bears the primary responsibility for the clearance and issuance of labour-market policies.

While there is a constant push for better labour-market information, it is not clear how much of such information has actually been supplied. Understandably, it is even more unclear how much of whatever information is made available has been used to inform decisions concerning training regulations, TVI course offerings and trainee selection.

H. Proposals for improving the Philippine National System of Technical Vocational Education and Training

This section provides a summary of recommendations for improving the National System of Technical Vocational Education and Training (NSTVET). Some of the recommendations emerged from recent sectoral reviews and presentations at TVET congresses. Others reflect proposals made in the more recent literature or are based on the assessment conducted for this review. Still others have come from the stakeholder consultations conducted to elicit comments on earlier drafts of this report.

1. A greater focus on the part of the Technical Education and Skills Development Authority on regulation and information provision

The Technical Education and Skills Development Authority (TESDA) is currently the regulatory authority of NSTVET but, at the same time, it operates 122 training institutions scattered throughout the country. Hence, it is both a regulator and a player. A number of experts have called upon TESDA to focus more on regulation and information provision (Lanzona, 2008; Orbeta and Abrigo, 2013). Regulation and information provision are the main functions of government in the TVET sector. Service delivery is only called for when the private sector chooses not to provide critical training services. If the government needs to be an active service provider,

then it should also make sure that other providers can compete with its programmes (i.e. that they are contestable) so that it will be subject to market discipline, as are the programmes offered by the private sector. The problem with non-contestable programmes is that they will continue to exist even if their performance is of doubtful quality because financing is not tied to performance.

2. Greater emphasis on enterprise-based training

Enterprise-based training is widely accepted as a preferred mode of delivery. In Secretary Baldoz's presentation at the Second TVET Congress in October 2013, she identified the improvement of apprenticeships/internships as a key action agenda. Many analysts (for example, Lanzona (2008); di Gropello, Tan and Tandon (2010); Orbeta and Abrigo (2013)) have argued that enterprise-based training and TVET modalities which involve participation on the part of the relevant firms —such as dual training systems— deserve more emphasis. One obvious reason for this is that this approach results in high employment rates —the ultimate objective of training. However, the data show that this delivery mode also continues to account for the smallest proportion of trainees (3% of enrolment and 3% of graduation in 2014) (see table XII.1).

There are many reasons for this puzzling outcome. One fundamental reason has to do with the incompatibilities of underlying incentives and possible sources of financing. Another important issue is that this delivery mode can also be subject to the influence of strategic corporate behaviour because in-firm wage-training contracts will be difficult to monitor and, hence, difficult to enforce. As a result, it may be viewed as a way for firms to avoid paying commensurate wages and benefits.

The recommendation that ways should be sought for promoting enterprise-based training is a long-standing proposal. A corollary to this recommendation is the review of legislation on apprenticeships and dual training. There is, in fact, a bill (HB 5303) that was recently passed by the House of Representatives which contains proposed amendments to the apprenticeship law.

A better understanding of enterprise-based training is required so that ways of promoting this mode of delivery can be developed. The importance of this mode is expected to increase as rapidly changing technology in the workplace pushes back the technological frontier and, in so doing, leaves schools further and further behind. This delivery mode can also be used by firms to develop proprietary skills that will enable them to maintain their competitiveness.

3. Continuously adapting training to ensure that it is relevant to industry needs

This recommendation has been presented in a number of different forms, many of which were articulated at the Second TVET Congress. For instance, Secretary Baldoz, along with representatives of the tourism and agricultural sectors, called for the continued review of curricula and training regulations. Another recommendation that focuses on the same objective refers to the establishment or convocation of industry councils as a means of ensuring regular labour market signaling. Still another recommendation is for TVET to address specific skill needs on the basis of roadmaps and the identification of important value chains. Still another recommendation is to increase TVI-industry linkages. Finally, di Gropello, Tan and Tandon (2010) have pointed out that a simple way to ensure continued inputs from industry in TVET is to increase the representation of industry on the TESDA Board. The relevance of training should ultimately be measured by the employment rates of trainees following graduation.

4. Greater performance orientation in access to public training funds

The government has had some experience with contracting service provision, as in the case of its arrangement with the Information Technology-Business Process Association of the Philippines (IT-BPAP) for training IT and business process workers. When the government contracts out service provision, the selection of the provider should be based on a competitive process and well-defined performance benchmarks. This presupposes the existence of clear performance standards that can be used to decide whether a beneficiary should continue to have access to government subsidies or not. This also presupposes that effective sanction mechanisms are in place that will prevent providers from receiving government subsidies when their performance is below standard (Lanzona (2008); di Gropello, Tan and Tandon (2010)).

A considerable amount of public financing is available for training services. This situation can be used to help TVET services to achieve certain strategic development objectives. For instance, it can be used to increase industry participation in training through the conclusion of contracts such as the one entered into with IT-BPAP and similar arrangements. However, all of these strategic interventions should be subject to rigorous independent evaluations and should have a clear performance-based orientation.

5. Improve the targeting of financial assistance for technical and vocational education and training and ensure that the amount of funding is sufficient

At the Second TVET Congress, Secretary Baldoz argued for the continued provision of financial assistance for skills training. Meanwhile, Orbeta and Abrigo (2013) have called for a more transparent beneficiary selection process. They contend that more transparent criteria will minimize influence-peddling in the selection of beneficiaries. The objective of financial assistance is to help the poor gain the skills that they need by providing them with access to the training that they would otherwise not be able to afford. Loans for persons with financial constraints but who are not poor should be considered as well. The practice of providing financial assistance to those who do not pass qualifying exams lowers the probability that beneficiaries will satisfactorily complete the programme, thereby promoting wasteful investments.

Another dimension of financial assistance for training is the sufficiency of such assistance to meet the needs of targeted beneficiaries. Many of the grants that are intended to help poor students fall short of their training needs. When financing is insufficient, poor individuals cannot benefit from it, even if they are the primary recipient, because they do not have the necessary resources to top up their insufficient grants or scholarships.

6. Ensure the quality of community-based training

Community-based training competes with institution-based training as the major training delivery mode. As mentioned earlier, many community-based providers do not have their own training facilities, which may raise concerns about their quality. Some experts are worried that these providers may primarily be furnishing supply-driven training. Yet, recent data from the Impact Evaluation Survey on graduates in 2012 show that this delivery mode has the highest employment rate (72.5%) of the three modes, even edging out enterprise-based training (72.2%). One possible explanation for this seemingly puzzling outcome is that this mode is more responsive to community needs than institution-based training is. Another possibility is that, since community-based training is conducted in collaboration with institution-based providers, its quality will be as good as the TVIs with which the community-based provider is cooperating. These are simply hypotheses, however, and more studies are needed in order to come up with a more definitive answer to these questions. For the moment, a systematic effort should be made to ensure that the quality of community-based training is acceptable, if for no other reason than that community-based providers

account for approximately as many graduates as institution-based providers do. The provision by TESDA of assistance on a consistent basis is a step in the right direction.

7. Improve data generation and dissemination

The proposal that TESDA focus more on regulation should go hand in hand with the provision by NSTVET of more complete and accurate information. As shown in this report, it appears that TESDA has data on many components of NSTVET, including data on: (i) graduates, including their profiles based on Impact Evaluation Surveys; (ii) TVET institutional providers, including programme offerings; and (iii) accredited assessment centres and assessors. One of the areas in which NSTVET provides the least information relates to the characteristics of TVIs, trainers, and assessment centres and assessors. Enrolment data, disaggregated by institution and programme, are also not readily available. The enterprise-based provider database needs to be expanded to cover enrollees, graduates and assessment test results. A listing of community-based providers also needs to be drawn up. Completing these missing components of the NSTVET information system is essential in order to enable TESDA to properly perform its primary function of regulating the TVET industry.

Another missing functional characteristic of the NSVET database is the integration of the data needed to facilitate analyses. While data on the main components of NSTVET are available, this information is not currently organized in a way that would facilitate analyses of essential relationships; this is very important in order for TESDA to perform its regulatory function well. For instance, data on TVET institutions are recorded separately from the data on accredited instructors. Data on accredited assessment centres and assessors are also compartmentalized. An improved NSVET information system should be able to trace students from enrolment to graduation and assessment, by programme and by training provider. Data on training providers should be linked with the data on accredited trainers and training resources. Similarly, the data on assessment centres should be linked with the data on assessors and other resources. Finally, trainers and assessors should have access to profile information.

Finally, apart from the internal needs of TESDA, training consumers, training institutes, stakeholders and policymakers also need regular access to the information that will enable them to make informed decisions. Information on such subjects as the following should be regularly provided and disseminated: (i) what types of training are available; (ii) how much it costs to acquire training in specific fields; and (iii) how training providers are performing as measured by competency assessments and employment rates at the programme level.

8. Build capacity for monitoring and evaluation

As TESDA focuses more on regulation and strategic financing, there will be a continuous need to design and test regulatory and financing instruments. There is therefore a need to systematically build capacity in TESDA for the ongoing design of better instruments, instrument testing and the performance of rigorous analyses of their impacts. This includes capacity for both ex-ante regulatory impact analysis and ex-post impact evaluation analysis.

9. Improve the image of TVET

To this day, the image of TVET is poor when compared to that of college and university education. A strategic communication plan should be developed to enhance the image of TVET. Its role in development also needs to be clarified.

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CEPAL Review first appeared in 1976, its aim being to make a contribution to the study of the economic and social development problems of the region. CEPAL Review is published in Spanish and English versions three times a year.

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The world of work is going through far-reaching transformations. Technological changes, comparable in scope only to those of the Industrial Revolution, the

formation of global value chains and the growing integration of goods and services markets affect both production and consumption processes. These transformations have a strong impact on labour markets and pose new challenges for their institutions, including unemployment protection and technical and vocational education and training (TVET), which are crucial to the creation of full and productive employment and decent work for all.

Constantly changing labour markets and the growing heterogeneity of labour relations present major challenges for the design of unemployment protection instruments. In addition, a highly skilled workforce is a key element for any development strategy that aims to base economic growth on innovation and knowledge. Moreover, national technical and vocational education and training systems must meet increasingly diverse demands from both the production sector and persons seeking decent work.

By analysing recent experiences in Latin America and Asia in relation to unemployment protection and TVET systems, as well as the challenges the countries of the two regions face as they develop these labour market institutions, this volume seeks to contribute to the debate on the formation of labour market institutions that foster sustainable development in a changing world of work.

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