

TC DOCUMENT

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Generating labor markets indicators for measuring productivity gaps in LAC
▪ TC Number:	RG-T2591
▪ Team Leader/Members:	Alejandro Izquierdo (RES/RES), team leader; Veronica Alaimo (LMK/LMK), co-team leader; Myriam Escobar (RES/RES); Sofía Meléndez (RES/RES); Jimena Llopis (RES/RES); Betina Hennig (LEG/LEG)
▪ Taxonomy:	Research & Dissemination
▪ Date of TC Abstract authorization:	April 09, 2015
▪ Beneficiary:	Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela
▪ Executing Agency:	The IDB through the Department of Research and Chief Economist (RES/RES)
▪ Donors providing funding:	Special Program for Employment, Poverty Reduction and Social Development in Support of The Millennium Development Goals (SOF)
▪ IDB Funding Requested:	US\$196,000
▪ Local counterpart funding:	Not applicable
▪ Disbursement period:	30 months (execution period: 24 months)
▪ Required start date:	June 15th, 2015
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	RES and Labor Markets Unit (SCL/LMK)
▪ Unit of Disbursement Responsibility:	RES
▪ TC included in Country Strategy:	No
▪ TC included in CPD:	No
▪ GCI-9 Sector Priority:	Social Policy for Equity and Productivity

II. Objectives and Justification of the TC

- 2.1 Policymakers in the region and IDB Staff need a methodology to determine sectoral priorities and ways to quantify their impact when designing Country Strategies (and associated Country Development Challenges (CDC) documents), yet current methodologies available cannot fully account for this. In part, this is due to lack of reliable and consistent data for a sufficiently large number of countries and sectors that can be used to design such methodologies. Clearly, the area of labor markets is a priority to consider, but the fact that some labor market indicators are not complete for several countries in the region, reduces the chances of including labor markets in this methodology.

- 2.2 The most recent update to the IDB's Institutional Strategy highlights "*low productivity and innovation*" as a key challenge facing Latin America, based on evidence suggesting that much of the gap in income per-capita levels between Latin American countries and the US is not due to a lack of factor accumulation, but rather, to a fall in productivity levels vis-à-vis those of the US.¹ As such, determining priorities in terms of the relevance of different sectors –i.e. labor markets, education, infrastructure, financial depth, innovation, etc.– in enhancing productivity and reaching larger income per-capita levels is fundamental for both policymakers in the region as well as for the Bank.
- 2.3 As a result, the Research Department of the IDB, in collaboration with several operational departments of the Bank, is working on a large project of Productivity Determinant Priorities (PDPs) to bridge gaps, both in data and methodologies, so that sectoral priorities can be identified and serve as guidance for IDB staff and regional policy makers when designing policies and country strategies². Based on more than 100 indicators grouped in 8 sectors³ for 19⁴ LAC and 32 OCDE countries, this innovative pilot project will allow tracking performance in every sector of concern. Within every sector, there are between 10-12 relevant indicators that have been identified⁵. This is not the case for labor markets, where key indicators are missing such as non-contributory pensions and social programs, coverage and budget of active labor market policies, training programs, etc. It is fundamental to obtain sectoral data that is currently missing so that a more comprehensive framework can be implemented, providing both reasonable benchmarks against which countries can be compared, as well as reasonable benchmarks to which countries can aspire, and a ranking of priorities based on the impact that each of the analyzed sectors has on the likelihood of reaching higher income per capita levels. Most of the other sectors either have more complete data or financing through other IDB funds (i.e. ESW or TC) to gather and complete new datasets. Apart from Labor markets, there are other 2 sectors- Innovation and Regulation- where ESW and TC funds are financing the production of data.
- 2.4 Given the relevance of labor market performance in enhancing per-capita incomes, the objective of this TC is to finance the generation of labor market-related data in selected Latin American and Caribbean countries where data is missing, in order to contribute to the construction of a comprehensive database for the region. Not only will this data serve as an input for the exercise outlined above, but it will also contribute to the generation of a sectoral database that will allow regional policymakers to conduct comparative analysis

¹ As stated in IDB's 2010 DIA "The Age of Productivity."

² Once the PDPs project is concluded, RES will collaborate with the country economist and the REA in charge of elaborating the country strategy to jointly identify the priority areas for each country.

³ The 8 sectors identified are; Telecommunications, Capital Markets, Education, Health, Infrastructure, Innovation, Integration and Trade and Labor markets. A new sector, Regulation, will be added once data collection is completed for the countries in the sample.

⁴ The PDPs project has started with a sample of 19 LAC countries due to lack of available data for Barbados, Belize, Guyana, Haiti, Suriname, The Bahamas, and Trinidad and Tobago. Depending on budget availability, further efforts can be made in the future to complete the database for the Caribbean countries mentioned.

⁵ Indicators of the PDPs project were chosen by IDB sector specialists in collaboration with RES. The idea was to detect indicators that affect productivity within each sector and with available data for OCDE countries.

across LAC countries in the key labor market areas described above⁶. Producing and accessing high quality comparable information is key to support in-depth policy analysis which is necessary for the Ministries of Labor to decide on sector regulation and policy design and implementation. Having a sectoral and comparable database will help policymakers to better identify bottlenecks and quantify the gaps observed –i.e. skills; pension coverage; incentives to formality, and the use of public resources. These data are currently unavailable for a subset of countries in the region, and are not collected on a comprehensive and comparable basis. This gap justifies the need of financing through Technical Cooperation (TC) funds to enrich datasets for the undergoing study of PDPs, otherwise several countries would have to be excluded from the ranking exercises to be performed, and would therefore lack a proper assessment of labor markets priorities.

- 2.5 This TC is aligned with GCI-9 lending programs for poverty reduction and equity enhancement, and sector priority of social policy for equity and productivity.⁷

III. Description of activities/components and budget

- 3.1 This TC will have one component dedicated to building a set of indicators on Labor Markets. It will finance hiring of international and local consultants to gather the required information to build the following indicators:

1. Active Labor Policies (ALP) indicators. This activity will collect and systematize information on active labor market policies. In particular, two subcomponents will be gathered. The first one is public expenditures in ALP, which is missing for Bolivia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Jamaica, Nicaragua, Paraguay, Panama, and Venezuela. The second one is expenditure of national training institutions, which is missing for Bolivia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and, Venezuela . This information is available for the countries not mentioned above either through a World Bank's report,⁸ or, for a few additional countries, through information gathered by the information system developed by the Labor Markets Unit (SIMS, its acronym in Spanish).

2. Social security indicators. This activity will collect and systematize public expenditures in non-contributory pensions (NCP) and estimate the cost of other non-contributory social programs (NCSP). The first indicator is still unavailable for Dominican Republic, Guatemala, Honduras, Nicaragua, Panama, and Peru. The second indicator is completely new and is only currently available for Mexico (Levy, 2008), and Argentina (IDB, 2015). As it is now well established by work done for the 2010 DIA on productivity, industries with a large pool of informal workers tend to have low productivity levels. If workers and employers can chose

⁶ The products of this TC will contribute to a major regional project to understand the determinants of productivity enhancement and growth. This study will allow for better country diagnostic and will serve as input for country dialogue, identification of sector priorities in country strategies, and eventually origination of new projects/operations.

⁷ Improving the functioning of labor markets for higher productivity and increased social security coverage.

⁸ Cerutti, P; A. Fruttero; M. Grosh, Margaret; S. Kostenbaum; M.L. Oliveri; C. Rodriguez Alas; V. Strokova. 2014. "Social assistance and labor market programs in Latin America: methodology and key findings from the social protection database." Social protection and labor discussion paper; no.1401. Washington, DC: World Bank Group.

between formal and informal employment, the decision is influenced by the costs associated with formal employment, and in the case of workers, the type and generosity of non-contributory programs available to those not benefiting from social security. The specific question to be addressed is the size of non-contributory social programs in Latin America and the Caribbean countries. This measurement is a key variable of interest in itself because of its relevance when analyzing policies that may affect outcomes in labor markets and, by extension, in productivity levels.

- 3.2 The need of country expertise will be essential for obtaining fiscal information to estimate these variables. At the same time, it is necessary to ensure comparability across countries. To that end, the TC will finance local consultants with relevant knowledge of the countries as well as international consultants that will be responsible for centralizing information and ensuring consistency across countries. Work will be organized as follows⁹:
- Local consultants will provide country knowledge to determine programs to be included in each indicator and provide public expenditure information both on active labor market and social security indicators.
 - An international research assistant will collect and systematize inputs from local consultants in an integrated regional database.
 - An international expert will provide guidance to ensure consistency and comparability of indicators across countries.

Indicative Results Matrix

Expected Results / Outputs	Indicators	Baseline	Target	Expected completion date	Data Source
Result: Number of times knowledge produced has been used as input for programming and strategy documents					
		0	2	12/1/2016	Sector Notes for Country Strategies
Outputs: (Single Component: Set of indicators on Labor Markets)					
Active Labor Policies indicators constructed	1.Public Expenditure on Active Labor Policies (% of GDP) by country	9	19	3/31/2016	SIMS database
	2.Expenditure of National Training Institutions (% of GDP) by country	6	19	3/31/2016	SIMS database
Social security indicators constructed	3. Expenditure on Non-contributory social programs for workers	2	19	3/31/2016	SIMS database
	4.Expenditure on Non-contributory pensions	13	19	3/31/2016	SIMS database

- 3.3 The estimated total cost of this TC is US\$196,000, with financing from the Bank's Ordinary Capital through the Special Program for Employment, Poverty Reduction and Social

⁹ There will be no administrative costs associated to this TC.

Development in Support of the Millennium Development Goals (ORC/SOF). There will be no counterpart funding.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Data gathering of public expenditures on ALP, National Training Institutions, Public expenditures in non-contributory pensions (NCP) and other non-contributory social programs (NCSP). ^{10,11}	18 local consultants (one per country) will be responsible for gathering information on programs to be included, and their respective public expenditures	128,000	128,000
Systematization of national and regional indicators	One research assistant hired in Washington D.C. for 12 months will review regulations and gather information on ALP, National Training Institutions and public expenditure on Non Contributory pensions and social programs	48,000	48,000
Consistency and comparability analysis	One international expert will provide guidance to ensure comparability and consistency across countries	20,000	20,000
TOTAL			196,000

IV. Executing agency and execution structure

4.1 The Bank through the Department of Research and Chief Economist (RES/RES) will execute this TC, with the technical advice of the Labor Markets Division (SCL/LMK). This is justified given the regional scope of planned activities, outputs and outcomes and the Bank's experience –particularly that of the Research Department (RES/RES)– in generating knowledge for the benefit of LAC countries. The implementation of this TC by the Bank will facilitate the exchange and application of knowledge generated by Bank specialists (RES and LMK).

¹⁰ The exact name of these institutions and programs varies country by country and the first task of consultants will be to identify the list of institutions and/or programs for which expenditures need to be acquired and/or calculated, as needed.

¹¹ In countries where the information required is not publicly available and, as a previous step for the first activity stated in this indicative budget, a corresponding non-objection letter may be requested through the IDB offices of each of the corresponding countries as needed.

- 4.2 The Bank will contract individual consultants, consulting firms, and non-consulting services in accordance with the Bank's current procurement policies and procedures.
- 4.3 For the purposes of monitoring and evaluating the implementation of this TC, it is expected to ask local consultants for biannual reports to identify the main achievements and challenges encountered when building indicators, so that the strategy to collect the data can be adjusted when necessary in order to achieve the desired objective. Also, there will be a final report with the results of this TC.

V. Major issues

- 5.1 The risk that the consultants or the international expert hired for the data collection and comparability will not successfully gain access to the data could undermine the TC's objective. To mitigate this risk, the team will rely on IDB country economists, Fiscal and Municipal Management (FMM) and LMK specialists, especially those located in country offices to gain access to information. Another mitigation strategy will be to hire local consultants that are familiar with the readiness of information and availability, and have knowledge on the specific government agencies that gather the required data.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve any exception to Bank policy.

VII. Environmental and Social Strategy

- 7.1 There are no environmental or social risks associated with the activities outlined in this TC, therefore its environmental classification is "C", according to the Environment and Safeguards Compliance Policy (OP-703) (see [Safeguard Screening Form](#) and [Safeguard Policy Filter Report](#)).

Required Annexes:

- Annex I: [Terms of Reference](#)
- Annex II: [Procurement Plan](#)

GENERATING LABOR MARKETS INDICATORS FOR MEASURING PRODUCTIVITY GAPS IN LAC

RG-T2591

CERTIFICATION

I hereby certify that this operation was approved for financing under the Social Fund (SOF) through a communication dated April 9, 2015 and signed by Su Hyun Kim (ORP/GCM). Also, I certify that resources from said fund are available for up to US\$196,000, in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Firmado

06/08/2015

Sonia M. Rivera
Chief
Grants and Co-financing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

Original Firmado

06/08/2015

José Juan Ruiz Gómez
Chief Economist
Department of Research and Chief Economist
RESE/RES

Date