

Increasing Productivity for poverty Reduction
TC Abstract
RG-T2402

I. Basic project data

▪ Country/Region:	Regional
▪ TC Name:	Increasing Productivity for Poverty Reduction
▪ TC Number:	RG-T2402
▪ TC Type:	Research and Dissemination (RD).
▪ Team Leader/Members:	Laura Ripani (SCL/LMK), Team Leader; Bernardita Saez (LEG/SGO); Camila Mejia (SCL/LMK); Ana Lucia Barragan (SCL/LMK); Ethel Muhlstein (SCL/LMK); Danilo Fernandes (LMK/CBR).
▪ Reference to Request: (IDB docs #)	
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	N/A
▪ Date of TC Abstract:	August 23, 2013
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Mexico, Jamaica, Brazil, Bahamas, Honduras, Chile.
▪ Executing Agency and contact name:	Inter-American Development Bank (IDB), Labor Markets and Social Security Unit (SCL/LMK), Laura Ripani, laurari@iadb.org .
▪ IDB Funding Requested:	USD\$ 600,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes execution period):	30 months
▪ Required start date:	
▪ Types of consultants (firm or individual consultants):	Individual
▪ Prepared by Unit:	Labor Markets and Social Security Unit (SCL/LMK)
▪ Unit of Disbursement Responsibility:	Social Sector (SCL), through (SCL/LMK)
▪ Included in Country Strategy (y/n);	N/A
▪ TC included in CPD (y/n):	
▪ GCI-9 Sector Priority:	Poverty Reduction and Inequality

II. Objective and Justification

As the 2013 World Development Report highlights, jobs are the main source of income for the majority of households and a key driver of poverty reduction. In effect, jobs are the most important determinant of living standards around the world. For the vast majority of people, their work is the main source of income, especially in the poorest countries. Therefore, jobs-related events are the most frequent reasons for families to escape or fall into poverty. A recent study decomposing changes in poverty by sources of income confirm the fundamental contribution of change in labor earnings¹. In 10 of 18 countries considered for the analysis, labor

¹ Covarrubias and others (2012), for the World Development Report 2013.

income explains more than half of the change in poverty, as measured by the US\$2.50-a-day poverty line. In another five countries, it accounts for more than a third of the reduction in poverty. Nevertheless, the connection between jobs and poverty reduction is not mechanical, and not all transitions out of poverty require a change in the type of work undertaken. In Latin America, a key to ensure that a great part of the population will be able to escape poverty and increase their income will be to address lagging productivity. This will require more productive firms using more productive workers with better labor force skills: according to the OECD 48% of the students entering the labor market are unable to comprehend a basic text and 62% cannot perform simple numerical calculations. Manpower Inc. reports Latin America as the region of the world where employers most encounter a “skills gap”².

An important consequence of low productivity growth is a labor market in which almost 140 million workers (58 percent of employment) are working in the informal sector without any protections against old age poverty, sickness, unemployment or workplace accidents. Promoting human capital is then essential for productivity growth; better thinking and skilled workers makes possible the development and adoption of technological and organizational changes that cause productivity to increase. Higher skills are associated with higher earnings and a higher probability to remain on the job. Promoting better skills, particularly at the middle and low end of the distribution, also improves the distribution of income, particularly because skills gaps are highest among the poor and vulnerable. Additionally, developing permanent exchange forums between employers, education providers and the Government, in order to jointly design skills development systems where employees can reinforce and learn new skills will be fundamental. In this sense, Private-Public Partnerships (PPPs) can play an essential role in developing and enhancing skills in Latin America. Successful examples in other regions (i.e. UK, USA, New Zealand, Australia and Korea) have shown that the combination of efforts and dialogue between the private and the public sector can lead to more pertinent training and better employment outcomes.

The main objectives of this TC are: (i) understanding the main causes of the skills and productivity gaps in the region, with a better understanding of how to improve the skills for the poorest; (ii) analyzing obstacles for change, and potential regional innovations to overcome them through PPPs, with the support from countries outside the region that have experience in the development of these strategies (such as Australia, New Zealand and Korea); and (iii) implementing pilot programs in at least three countries in the region, based on best practices of PPPs for training in firms, in countries outside of the region.

III. Description of activities and outputs

Component 1: Improving Skills for the Most Vulnerable Population. This component will include two studies that will aim to understand how to improve the skills of the most vulnerable in the population, and how to match those skills to those demanded by the private sector. The first study will be an analysis of skills mismatch and will include a set of recommendations to improve labor training and training in firms especially for the most vulnerable population. The second study will be an analysis of international best practices on PPPs in labor training. The main idea of this study will be to understand how other countries through public-private partnerships are tackling the skills gap and promoting the investment of the private-sector in training their labor force. This study will include a study trip to Korea in order to analyze the

² 2012 Talent Shortage Survey www.manpowergroup.us

Vocational Education for Employees Program (EVEP), which is one of the programs of the Korean University of Technology and Education (KUT). This program offers short training courses to employees of the firms participating in the program. The model involves three parts: a big firm, clusters of SMEs that are outsourced by the big firm and the KUT. All three parts contribute, by providing their technical know-how, employees to be trained or the equipment and infrastructure for the classes. At the same time all three are benefited by this transfer of knowledge, better quality in their products and employees with better skills. Firms such as Samsung Hyundai Steel, MOBIS, ABB, Hanil E-Hwa, and YURA are already applying this model.

Component 2: Regional Dialogue and Dissemination activities. This component will include a regional dialogue with delegates from the public sector and representatives from the private sector. The objective of this dialogue will be to share the best practices on PPPs in labor training. Given the main conclusions of this dialogue, a consultant will design a pilot and perform a feasibility analysis for the implementation of this pilot in three countries of the region. These pilots will focus on PPPs in labor training.

Component 3: Pilots in 3 countries of the Region. As a result of the feasibility studies undertaken under component 2, this component will finance the implementation of 3 PPPs pilots in labor training in three different countries of the region.

IV. Budget

Indicative Budget

Activity/Component	Description	IDB/Fund Funding (US\$)
1.1 Skills mismatch	Analysis of skills mismatch and a set of recommendations to improve training practices, especially for the most vulnerable population.	100,000
1.2 Case Studies on PPPs	Analysis of international best practices on PPPs in labor training and study trip to Korea in order to analyze the Vocational Education for Employees Program	100,000
2.1 Regional Dialogue	Regional dialogue on PPPs in labor training with delegates from the public sector and representatives from the private sector.	120,000
2.2 Design of Pilots and Feasibility Study	Design of a pilot of PPPs in labor training and feasibility analysis for the implementation of this pilot in three countries of the region.	80,000
3.1 PPPs Pilots	Implementation of 3 PPPs pilots in labor training in three different countries of the region	200,000

V. Executing agency and execution structure

Given the diversity of actors that this TC aims at supporting and its regional scope, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their dissemination in the region. The Labor Markets and Social Security Unit (SCL/LMK) will have technical responsibility, coordination, direction and supervision of this TC, working closely with national governments.

VI. Project Risks and issues

There are no risks associated with the execution of this technical cooperation.

VII. Environmental and Social Classification

Based on the Environmental and Social Safeguard Filter, the proposed technical assistance has been classified as category C. Safeguard filter forms: [IDBdocs-#38019472](#).