

TC ABSTRACT

I. Basic project data

▪ 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); Jimena Llopis (RES/RES); Sofía Meléndez (RES/RES)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Research & Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	Not applicable.
▪ Reference to Request: (IDB docs #)	Not applicable.
▪ Date of TC Abstract:	03/11/2015
▪ Beneficiary:	Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela
▪ Executing Agency and contact name	RES/RES
▪ IDB Funding Requested:	US\$ 196,000
▪ Local counterpart funding, if any:	Not applicable.
▪ Disbursement period (which includes execution period):	18 months
▪ Required start date:	April 15, 2015
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	RES and SCL/LMK
▪ Unit of Disbursement Responsibility:	RES
▪ Included in Country Strategy (y/n);	No
▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	Social Policy for Equity and Productivity – Labor Markets

II. Objective and Justification

- 2.1 Policymakers in the region and IDB Staff need a methodology to determine and quantify sectoral priorities when designing Country Strategies (and associated Country Development Challenges (CDC) documents), yet current methodologies available cannot 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 to include 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 US¹. 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 The Research Department of the IDB, in collaboration with several operational departments of the Bank, is working on a large project of Determinants of Productivity to bridge gaps both in data and methodologies so that sectoral priorities can be identified. Based on more than 100 indicators, this innovative pilot project will allow tracking performance in every sector of concern. Within every sector, there are between 10-12 relevant indicators. This is not the case for labor markets, where key indicators are missing such as informality and non-contributory pensions, active labor market policies, training programs, etc. It is fundamental to obtain sectoral data that is currently missing so that a complete framework can be implemented, providing both reasonable benchmarks against which countries can be ranked, 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. Several of these sectors either have complete data or the financing to gather new data; however, this is not the case for labor markets.
- 2.4 Given the relevance of labor market performance in enhancing per-capita incomes, this TC seeks to finance the generation of labor markets-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 these 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 analyses across Latin American and Caribbean countries in the key labor market areas described above. 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 TC funds to complete datasets for the undergoing study of Determinants of Productivity, 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 Given its focus on labor markets-related data collection, this TC is in line of the IDB's sector priority on Social Policy for Equity and Productivity, specifically with the labor markets section.

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

III. Description of activities and outputs

3.1 **Component 1. Set of indicators on Labor Markets:** This component will finance hiring of international and local consultants to gather the required information to build the following indicators.

Indicators to be built:

1. Active Labor Policies indicators. This component will finance hiring of international and local consultants to collect and systematize public expenditures in active labor market policies in selected countries of the region– in particular, information on expenditure of national training institutions and other active labor market policies such as intermediation services and training programs targeted to vulnerable groups. This information is available for a few countries in the information system developed by the labor markets Unit (SIMS, its acronym in Spanish) and is missing for Bolivia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and, Venezuela.

2. Social security indicators. This component will finance hiring of international and local consultants to collect and systematize public expenditures in non-contributory pensions and to estimate subsidies to informality. The first indicator is still missing for Dominican Republic, Guatemala, Honduras, Nicaragua, Panama and, Peru. The second indicator is completely new and is only currently available for Mexico (Levy, 2008). 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. Behind large informality lies a series of subsidies to informality, typically introduced in labor and social security markets (as recent research at IDB suggests). The specific question to be addressed is the size of those subsidies 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.

IV. Budget

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1. Gather the required information to build: 1. Active Labor Policies indicators 2. Social security indicators	Individual consultancies, services from firms	US\$196,000		US\$196,000
Total		US\$ 196,000		US\$ 196,000

V. Executing agency and execution structure

- 5.1 The Bank through RES/RES will execute this technical cooperation, given the regional scope of planned activities, outputs and outcomes, with the technical advice of LMK.
- 5.2 **Procurement.** For the contracting of individual consultants, the project team will observe Human Resources selection procedures (AM-650); and for consulting firms, as well as in the case of non-consulting services contracts, the Corporate Procurement Policy and Procedures (GN-2303-20).

VI. Project Risks and issues

- 6.1 The risk that the consultants or the international firms hired for the data collection will not successfully gain access to the data, could undermine the TC's objective. To mitigate these risks, the team will rely on country economists and specialists located in country offices to gain access to information. Another mitigation strategy will be to hire local consultants that are familiar with readiness of information and availability, and have knowledge on the specific government agencies that gather the required data.

VII. Environmental and Social Classification

- 7.1 There are no environmental or social risks associated with activities outlined in this TC, therefore its environmental classification is C.