

**LABOR MARKET ANALYSIS AND BARRIERS TO  
PRODUCTIVITY IN ARGENTINA  
(AR-T1096)**

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## **Labor Market Analysis and Barriers to Productivity in Argentina TC Document**

### **I. Basic project data**

- Country/Region: Argentina/CSC
- TC Name: Labor Market Analysis and Barriers to Productivity in Argentina
- TC Number: AR-T1096
- Team Leader/Members: Team Leader – Consuelo Ricart (SCL/LMK) / Maria Victoria Fazio (SCL/LMK); Manuel Urquidi (SCL/LMK); Mariel Sabra(MIF/CAR); Gumersindo Velazquez (FMP/CAR);Gustavo Sierra (FMP/CAR); Javier Bedoya (LEG/SGO); Ethel Muhlstein (SCL/LMK); and Ana Lucía Barragán (SCL/LMK).
- Date of TC abstract authorization: August 23, 2012.
- Donor: Special Program for Employment, Poverty Reduction and Social Development in Support of the Millennium Development Goals (ORC/SOF) Beneficiary: Ministry of Labor, Employment, and Social Security (MLESS).
- Executing Agency and contact name: Ministry of Labor, Employment, and Social Security (MLESS) through the Under-Secretariat of Technical Programming and Labor Studies (USTPLS) - Frida Perla Szwarcberg ([fszwarcb@trabajo.gob.ar](mailto:fszwarcb@trabajo.gob.ar)). See Aide Memoire - Identification Mission (August, 2012): <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37097749>
- IDB funding requested: US\$700,000
- Local counterpart funding, if any: N/A
- Disbursement period: 36 months.
- Execution period: 35 months.
- Required start date: December 15, 2012.
- Types of consultants: Individual consultants and firms.
- Prepared by Unit: SCL/LMK.
- Unit of Disbursement Responsibility: CSC/CAR.
- TC Included in Country Strategy: Yes
- TC included in CPD: Yes (GN-2661-2, Annex II, page 29).

### **II. Objectives and Justification of the TC (estimated length: 1 page)**

The main objective of this Technical Cooperation (TC) is to support the Government of Argentina (GOA) in their efforts to generate new data and analysis of innovative policies and to set specific policy and evaluation guidelines that can lead to actions and further knowledge in the region for increasing employability, effectiveness of training, and productivity of the labor force in formal sector jobs.

After the crisis of 2001, Argentina recovered GDP growth in subsequent years based on an increase of export competitiveness. Between 2003 and 2011 the country experienced 7.8% annual growth rate accompanied by increases in employment (unemployment decreased from 22% to 7%) and real wages (5.4% annual).<sup>1</sup> Despite this positive growth scenario, and the reduction in poverty rates thanks to

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<sup>1</sup> Source: Ministry of Economy (MECON), National Statistical Institute (INDEC) and Central Bank (BCRA).

accompanying social policies, there are three main challenges remaining for improving the socio-economic inclusion of the labor force in terms of: employability, productivity, and labor informality (especially in rural areas (between 60 and 70%, depending on the type of crop).

For the past five years Argentina has been investing in innovative policies aimed at increasing employability and productivity in formal sector jobs that appear to have potential and merit consideration to inform the design of training and social security policies in the region. The GOA created a Strategic Plan: *Argentina 2020*, which comprises various programs for fostering productive innovations in strategic economic sectors and for developing new skills of the labor force. The strategy is complemented by new policies for extending the social security coverage to all workers. Most of these programs and policies appear to be achieving the goals for which they were created, but there is a lack of evaluation mechanisms to understand their social and economic effects. This TC will provide new analysis and data that can contribute to the design of monitoring and evaluation mechanisms of these policies and to extending knowledge on their effects on training for employability, productivity and increasing social security coverage.

In this context, the GOA has requested TC funds and the Bank's expertise in to help reinforce the analysis of active labor market and social security policies that the MLESS is executing. In particular, the TC will contribute to: (i) build new capacities in the Ministry of Labor, Employment and Social Security (MLESS) by implementing new methodologies and analysis; (ii) design evaluations of active labor market policies (*Programa Crédito Fiscal* or Fiscal Credit Training Program<sup>2</sup>) and social security policies for increasing the formalization of labor in rural areas (the program *Convenios de Corresponsabilidad Gremial* or Collective Agreements of Co-responsibility<sup>3</sup>); (iii) understand the determinants of productivity and the link between labor informality and productivity; (iv) understand the wage differentials across and within economic sectors that can contribute to the analysis of sources of income inequality; (v) set guidelines for macroeconomic and industrial and labor policies related to productivity and competitiveness, by producing information on the economic structure of firms and factors affecting productivity that are relevant to the *Argentina 2020* Strategy on Industrial and Training policies; (vi) provide guidelines for specific labor market policies related to employment training and to social security policies for increasing access of workers to social security benefits; and (vii) disseminate the knowledge gained from the set of public labor and social security policies in Argentina amongst other member countries and within the Bank.

Jobs are the key source of income and well-being for workers and their families. Therefore, improving analysis and policy guidelines for enhancing employability of workers and the characteristics of jobs is central to social and economic development. By advancing knowledge for labor and social security policies, the objectives of this TC are aligned with the GCI-9 sector priority of “*social policy for equity and development*” under the overarching objective of sustainable reduction of poverty and inequality (results 3.1.5 Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity and 3.1.6 Number of jobs added to formal sector).

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<sup>2</sup> The Fiscal credit incentive training program (Crédito Fiscal) is a labor market policy designed with incentives to foster on-the-job training programs in the private sector directed to both the employed and unemployed, and that presents the unique opportunity to be evaluated for the first time. This type of fiscal incentives programs for training have been identified as one of the most effective type of active labor market policies in a meta-analysis for OECD countries by Kluve J. (2010). 'The effectiveness of European active labor market programs'. *Labour Economics*. 17 (6): 904-918.

<sup>3</sup> The Convenios de Corresponsabilidad Gremial are part of the government strategy to reduce labor informality and improve labor conditions of workers in rural areas. The policy introduces an innovation for enforcing the employers to pay contributions to social security for their workers with a mechanism that collects the payments at the moment of collecting their total produce. Although the main household survey data in Argentina (EPH) does not include rural areas, there is evidence that labor conditions are very precarious in rural areas. Given the lack of information in rural areas, this component will contribute to increase knowledge about these areas of the country.

This TC is also aligned with: (i) the Country Strategy in which the second priority is “to promote social and economic inclusion”, by integrating labor market policies for increasing employability of vulnerable groups (especially poor and youth), increasing the link between workforce training and productive sector’s needs, and increasing productivity; and (ii) the strategic priority of the Labor Markets and Social Security Unit (SCL/LMK) of investing in the analysis of instruments and institutions to enhance the functioning of active and passive labor market policies, extending the access to social security and to training programs for improving labor market conditions.

### III. Description of activities/components and budget

**Component 1. Study and survey on wage differentials, training, productivity, and informality (US\$491,295).** To be executed by the Under-Secretariat of Technical Programming and Labor Studies (USTPLS) within the MLESS.

**Subcomponent 1.1. Analyzing the link between wage differentials and productivity and the analysis of the Fiscal Credit Training program.** The activities for this subcomponent include: **A. Developing a study on the relationship between productivity and wages**, complemented by a series of workshops through which experts will provide feedback and discuss the determinants of productivity to enhance the design and the analysis of the employers’ survey to be conducted under this component. These workshops are expected to take place every 6 months during the execution period. **B. Defining a sampling framework design for the employers’ survey.** The design will rely on the dataset of the Observatory of Employment (OEDE) that includes information from all registered private sector firms on: sector, age and size. **C. Designing and collecting data for the Wage and Productivity Employers’ survey.**<sup>4</sup> USTPLS, in coordination with the Bank and with support of individual consultants, will design the instruments for conducting the Wage and Productivity survey at the firm level. The survey will include information on firms, employers and employees’ characteristics, and unique information on the determinants of wages and productivity, as well as other relevant information related to hiring and training practices within the firms. The data collection will be conducted mainly by MLESS staff and a group of enumerators, field supervisors and coordinators. The final output of this activity will be a dataset checked for consistency and a report on the statistical description of the survey. The survey activities are planned to start on May 2013 and could take about 18 months. **D. Analyzing the impact of the Fiscal Credit Training program.** This will be executed by USTPLS staff in collaboration with Bank experts. Given that the original design of this program did not consider an experimental impact evaluation component, the first step will be to analyze the available administrative data of the program and cross it with administrative registries of firms (panel data from 1996-2011). This analysis will provide initial evidence on the effects of the program on employment and wages paid by the beneficiary firms and it will provide the basis for the future experimental design for the evaluation of this program. The analysis is expected to be completed by the end of 2013. **E. Drafting the final report of the study on wage differentials, productivity, and informality for publication and dissemination.** The report will integrate all the previous activities and the determinants of productivity. This report should be completed by the second quarter of 2015.

**Subcomponent 1.2. Design and methodology for the analysis of production chains with high incidence of labor informality.** The list of activities includes: **A. Designing the methodology for the study.** This

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<sup>4</sup> The Labor Markets and Social Security Unit (SCL/LMK) supported the implementation of surveys of this type during 2011 and 2012 in five countries (The Bahamas, Honduras, Panama, Uruguay and Colombia).

includes defining a conceptual framework for two case studies that will analyze the incidence of informality and its link to productivity in different phases of the production process in the textile and ICT<sup>5</sup> sectors. **B. Developing a study on the textile sector production chains and processes.** The textile sector presents high levels of labor informality and VAT evasion. This activity includes data collection at key phases of the production chain to identify labor conditions, hiring and training practices, costs and productivity levels in each phase. **C. Developing a study on the ICT sector production chains and processes.** The software sector presents high levels of heterogeneity in terms of labor conditions and characteristics of the firms in the sector. This activity also includes data collection during key phases of the production chain to identify labor conditions, hiring and training practices, costs and productivity levels in each phase. **D. Drafting the final comprehensive report of the analysis for publication and dissemination that will integrate all the previous activities and the two case studies.** The first draft of the report is expected to be completed by the first semester of 2014 and the final draft by the end of 2014.

**Component 2. Designing a monitoring and evaluation strategy for assessing the impact of labor formalization strategies in rural areas (extension of social security coverage):** Collective Agreements of Co-responsibility (**US\$193,705**). To be executed by the USTPLS within the MLESS in coordination with the Secretariat of Social Security of the MLESS and IDB staff for supervision.

The activities for this component include: **A. Collecting data on key variables of labor conditions in rural areas (mainly agriculture).** The main variables to be collected are wages, productive organization, harvest, employment levels, auto consumption activities, family work, and child labor (expected by the end of 2014). **B. Mapping of economic activities in rural areas** (expected by the end of 2014). **C. Developing a diagnostic report on labor conditions in rural areas** (expected by the end of 2014). **D. Designing a systematic data collection strategy for this program** (expected by the end of 2013). **E. Designing a monitoring and evaluation plan for the program.** This activity involves baseline data collection in new regions, mainly in rural areas, and in various economic activities. This will provide the basis for the design of an impact evaluation of this program. Such an evaluation could contribute to understanding the effects of this program on social security coverage, wages, employment, labor conditions, among other outcome indicators (the mechanism for evaluation should be in place by the first semester of 2014; final report of the evaluation is programmed for the first semester of 2015).

#### Indicative Results Matrix

Activity	Expected Outputs	Expected Results
<b>Component 1. Study and survey on wage differentials, productivity, and informality</b>		
<b>Component 1.1: Analyzing the link between wage differentials and productivity and the analysis of the Fiscal Credit Training program</b>		
A. Developing a study on the relationship between productivity and wages	- Determinants for employer survey. - 4 workshops to discuss the advances of the final report with the USTPLS team.	By the end of the project, it is expected to have unique information that is necessary for understanding the determinants of productivity and wages
B. Defining a sampling framework design for the employers' survey	- Sampling strategy for the Survey defined.	
C. Designing and collecting data for the Wage and Productivity Employers' survey	- Survey instrument to conduct firm-based survey designed.	
D. Analyzing the impact of the Fiscal Credit	- Methodology for experimental impact	

<sup>5</sup> Information and communications technology (includes software sector).

Activity	Expected Outputs	Expected Results
Training program	evaluation designed.	within firms and the factors affecting employability (including training practices and labor force skills) for policy recommendations. In addition, relevant evidence for starting up the evaluation of the Fiscal Credit Training Program which will provide innovative evidence on this type of incentives for on-the-job training.
E. Drafting the final report of the study on wage differentials, training, productivity, and informality for publication and dissemination	- Development of final publication of the study, which integrates all activities of Component 1.1.	
<b>Component 1.2: Design and methodology for the analysis of production chains with high incidence of labor informality</b>		
A. Designing the methodology for the study	- Methodological and conceptual framework for the case studies designed.	By the end of the project, established design and methodology of productive chains analysis. And unique set of knowledge based on combined qualitative and quantitative analysis on the labor conditions and productivity within chains of the production chain.
B. Developing a study on the textile sector production chains and processes	- Design and implementation of study on the textile sector production chains and process.	
C. Developing a study on the software sector production chains and processes	- Design and implementation of study on the software sector production chains and process.	
D. Drafting the final comprehensive report of the analysis for publication and dissemination that will integrate all the previous case studies	- Development of final comprehensive publication that includes conclusions from both case studies.	
<b>Component 2. Designing a monitoring and evaluation strategy for assessing the impact of labor formalization strategies in rural areas (extension of social security coverage)</b>		
A. Collecting data on key variables of labor conditions in rural areas (mainly agriculture)	- Data collected on key variables: wages, productive organization, harvest, employment levels, auto consumption activities, family work and child labor.	By the end of project, established mechanisms for collecting data and methodological base for conducting experimental impact evaluations that will provide first evidence on this innovative policy for improving labor conditions in rural areas.
B. Mapping of economic activities in rural areas	- Design and implementation of mapping of economic activities in rural areas.	
C. Developing a diagnostic report on labor conditions in rural areas	- Report on labor conditions in rural areas delivered.	
D. Designing a systematic data collection strategy for this program	- Data collection strategy developed.	
E. Designing a monitoring and evaluation plan for the program	- Plan for monitoring and evaluation designed.	

### Indicative Budget (US\$)

Activity/ Component	Description	IDB/Fund Funding (ORC/SOF)	Counterpart Funding	Total Funding
<b>Component 1. Study and survey on wage differentials, training, productivity, and informality</b>				
Individual consultants	(i) Wage and Productivity Employers' Survey; and (ii) Productive chains studies (a. textile sector; and	421,600	0	421,600

Activity/ Component	Description	IDB/Fund Funding (ORC/SOF)	Counterpart Funding	Total Funding
	b. software sector)			
Travels	Plane tickets and per diem	17,095	0	17,095
Editing and printing materials	Reports and studies	37,600	0	37,600
Dissemination Including workshops	Support for dissemination activities, including seminars and/or workshops	15,000	0	15,000
<b>SUBTOTAL</b>		<b>491,295</b>	<b>0</b>	<b>491,295</b>
<b>Component 2. Designing a monitoring and evaluation strategy for assessing the impact of labor formalization strategies in rural areas (extension of social security coverage)</b>				
Individual consultants	(i) Diagnostic of the current social security situation of rural workers; (ii) Identification of rural workers social and labor profile; and (iii) Development of Monitoring and evaluation tools	164,260	0	164,260
Travels	Plane tickets and per diem	29,445	0	29,445
<b>SUBTOTAL</b>		<b>193,705</b>	<b>0</b>	<b>193,705</b>
<b>Others</b>				
Audit	External audit process	15,000	0	15,000
<b>SUBTOTAL</b>		<b>15,000</b>	<b>0</b>	<b>15,000</b>
<b>TOTAL</b>		<b>700,000</b>	<b>0</b>	<b>700,000</b>

The proposed TC will be supervised by the Bank. SCL/LMK will collaborate with the substantive units of the MLESS in the design and implementation and quality control of the studies.

#### IV. Executing agency and execution structure

The MLESS is the beneficiary and executing agency of this TC. The MLESS will rely on its Special Projects Coordination Unit of the USTPL to administer the operation and manage all financial and contracting activities for the two year disbursement and execution period. All consultants' contracts and the procurement of goods and works included in this TC will be carried out in accordance with Bank policies GN-2350-9 and GN-2349-9. According to the Bank policy, the beneficiary will present financial statements to the Bank annually within 90 days following the end of the fiscal year. The final project audit report will be presented no later than 90 days after the final disbursement date. The Financial Statement will be audited by an independent auditing firm which is eligible to the Bank (**US\$15,000**).

The technical and substantive aspects of the project will be executed by the USTPLS within the MLESS. For Component 2, USTPL will coordinate with the Secretariat of Social Security of the MLESS. The USTPLS will be responsible for: (i) developing, analyzing, providing technical support, and publishing the studies that will be the products of this TC as inputs for the definition and orientation of the MLESS policies; (ii) surveying and systematizing the studies and findings related to this TC; and (iii) evaluating the impact of the labor market, labor relations, income, and social security programs and policies related to this TC within the MLESS.

The MLESS will rely on in-house specialists and individual consultants to develop the activities. Key external consultancies include: (i) a senior consultant to contribute to the design, analysis and

articulation of the Wage and Productivity Employers' Survey (Subcomponent 1.1 – Component1); (ii) an expert to coordinate the studies on productive chains and processes (Subcomponent 1.2 – Component 1); and (iii) an expert to coordinate all activities related to developing the Monitoring and Evaluation Plan of the Collective Agreements of Co-responsibility Program (Component 2).

The project monitoring strategy includes the submission of progress reports and periodic meetings. The MLESS will submit reports within 30 days following the expiration date of each quarter. This monitoring report will include: the progress made, an assessment of key outputs and outcomes associated to performance indicators from the results matrix, and, when necessary, suggested adjustments for the remaining execution period.

## **V. Project risks and issues**

Typically, in projects that include research and data collection in firms, the risks are related to potential delays in conducting the interviews for the survey, mainly because the time constraints of respondents often affects scheduling and the opportune completion of project surveys. To mitigate these risks, the IDB will provide recommendations that increase the probability of engagement of the respondents (employers) with the response of the questionnaire and will supervise the questionnaire design so that it accounts for the time constraints of the respondents by minimizing the duration of the interviews.

## **VI. Exceptions to the Bank policy**

There are no exceptions to the Bank's Policies in this TC.

## **VII. Environmental and Social Classification (ESG)**

There are no expected negative social or environmental impacts and this project received classification "C." Refer to safeguards: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36938311> and <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36938328>.

### **Annexes:**

- Request for financing:  
Not required for TCs programmed as part of a CPD (see GN-2661-2, Annex II, page 29).
- Procurement Plan:  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246192>
- Terms of Reference:  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37254163>



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PRODUCTIVITY IN ARGENTINA**

**AR-T1096**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under the Special Program for Employment, Poverty Reduction and Social Development in Support of the Millennium Development Goals (SOF), through a communication dated August 29, 2012 and signed by Jane de Souza Silva (ORP/GCM). Also, I certify that resources from the Special Program for Employment, Poverty Reduction and Social Development in Support of the Millennium Development Goals (SOF) are available for up to US\$700,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of six (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 signed)

*nov 30 2012*

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Sonia M. Rivera  
Chief a.i.

Grants and Co-Financing Management Unit  
ORP/GCM

*11/30/2012*  
\_\_\_\_\_  
Date

**APPROVAL**

Approved

(Original signed)

\_\_\_\_\_  
Hector Salazar Sanchez  
Sector Manager a.i.  
Sector Social  
SCL/SCL

*12/3/2012*  
\_\_\_\_\_  
Date

(Original signed)

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Carmen Pagés  
Chief SCL/LMK

DEC - 3 2012

(Original signed)

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Hugo Flores Timorán  
Country Representative CSC/CAR

DEC - 3 2012