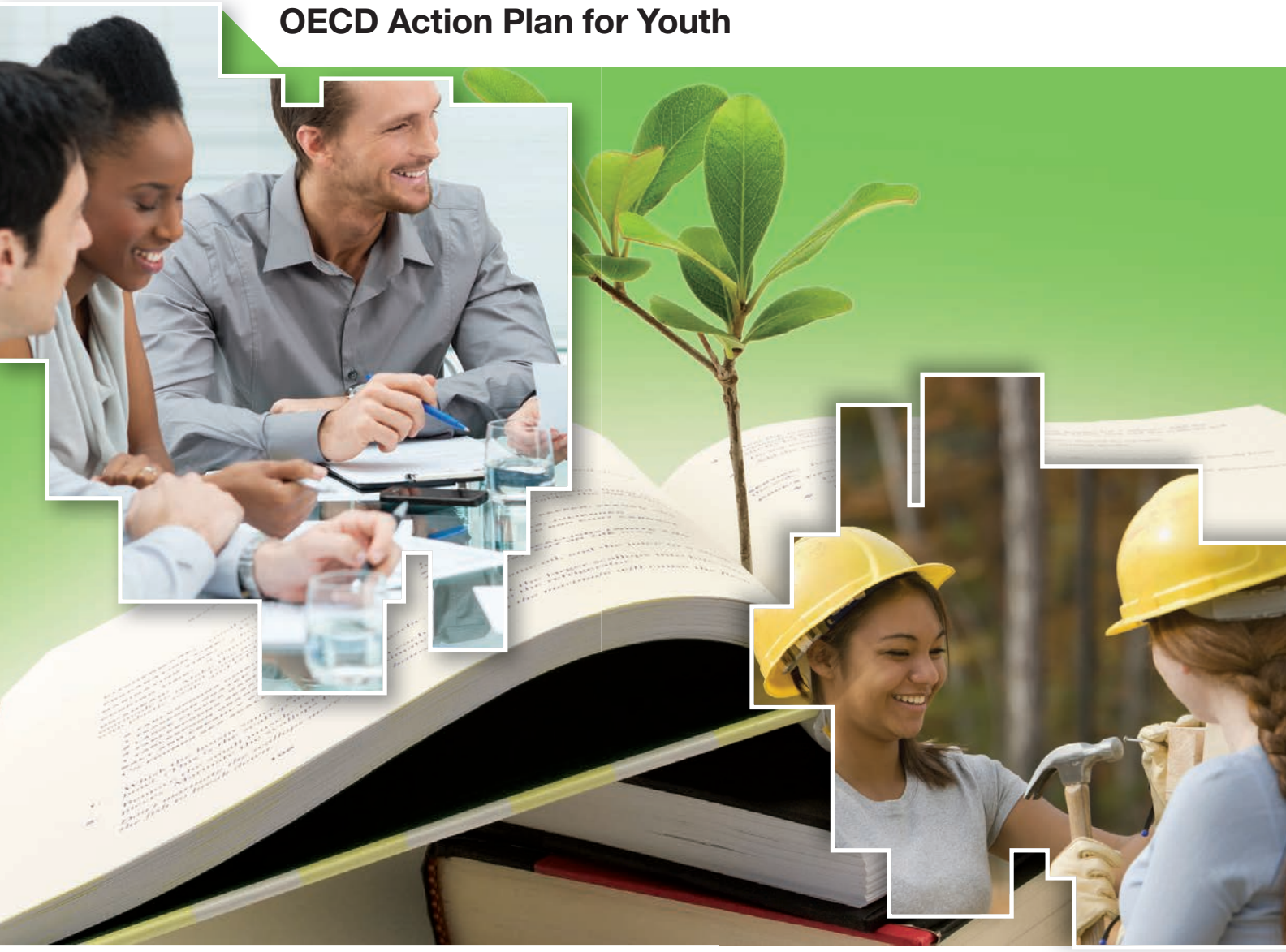
Investing in Youth
BRAZIL

OECD Action Plan for Youth



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Investing in Youth: Brazil

BETTER POLICIES FOR BETTER LIVES

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Foreword

As highlighted in the OECD Action Plan for Youth, successful engagement of youth in the labour market is crucial not only for their own personal economic prospects and well-being, but also for overall economic growth and social cohesion. Therefore, investing in youth is a policy priority in all countries, including Brazil, and requires concerted action to develop education systems and labour market arrangements that work together well.

Following the launch of the OECD Action Plan for Youth in May 2013, the OECD is working closely with countries to implement the plan's comprehensive measures in their national and local contexts and to provide peer-learning opportunities for countries to share their experience of policy measures to improve youth employment outcomes.

This work builds on the extensive country reviews that the OECD has carried out previously on the youth labour market and vocational education and training (*Jobs for Youth*, *Learning for Jobs* and *Skills beyond School*), as well as on the OECD Skills Strategy.

The present report on Brazil is the first in a new series on *Investing in Youth* which extends the OECD's work on youth employment and skills to the major emerging economies. The report provides a detailed diagnosis of the youth labour market and education system in Brazil from an international comparative perspective, and offers some policy options to help improve school-to-work transitions. It also provides an opportunity for other countries to learn from the innovative measures that Brazil has taken to strengthen the skills of youth and their employment outcomes.

The work on this report was mainly carried out within the Employment Analysis and Policy Division of the Directorate for Employment, Labour and Social Affairs (ELS). The report was prepared by Stijn Broecke under the supervision of Mark Keese (Head of Division) and Glenda Quintini. Research assistance was provided by Alberta Spreafico; statistical assistance by Sylvie Cimper and Thomas Manfredi; and editorial assistance by Rossella Iannizzotto. The report benefited from the many useful comments provided by Stefano Scarpetta (ELS Director) as well as by staff in the Education and Skills Directorate.

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Acronyms and abbreviations

ABRES	*Asociação Brasileira de Estágios* (Brazilian Association of Internships)
ANEB	*Avaliação Nacional da Educação Básica* (National Evaluation of Basic Education)
ARWU	Academic Ranking of World Universities
ANRESC	*Avaliação Nacional do Rendimento Escolar* (National Evaluation of School Performance)
BRL	Brazilian real
BVJ	*Benefício Variável vinculado ao Adolescente* (Variable Benefit for Adolescents)
CBI	*Confederação Brasileira da Indústria* (Brazilian Confederation of Industry)
CBO	*Classificação Brasileira de Ocupações* (Brazilian Occupational Classification)
CCT	Conditional Cash Transfer
CEPAL	*Comisión Económica para América Latina y el Caribe* (Economic Commission for Latin America)
Ciett	International Confederation of Private Employment Agencies
CLT	*Consolidação das Leis do Trabalho* (Consolidated Labour Code)
CRAS	*Centro de Referência da Assistência Social* (Social Assistance Reference Centre)
DIEESE	*Departamento Intersindical de Estatística e Estudos Socioeconômicos* (Trade Union Department of Statistics and Socioeconomic Studies)
ECEC	Early Childhood Education and Care
EJA	*Educação de Jovens e Adultos* (Youth and Adult Education)
EMA	Education Maintenance Allowance
ENADE	*Exame Nacional de Desempenho de Estudantes* (National Exam of Student Performance)
ENCCEJA	*Exame Nacional para Certificação de Competências de Jovens e Adultos* (National Youth and Adult Competency Certification Exam)
ENEM	*Exame Nacional do Ensino Médio* (National Upper Secondary Education Exam)
EU	European Union
EU-SILC	European Union Survey on Income and Living Conditions
FGTS	*Fundo de Garantia por Tempo de Serviço* (Guarantee Fund for Length of Service)
FIES	*Fundo de Financiamento ao Estudante do Ensino Superior* (Higher Education Student Support Fund)
FUNDEB	*Fundo de Manutenção e Desenvolvimento da Educação Básica* (Basic Education Maintenance and Development Fund)
FUNDEF	*Fundo de Desenvolvimento do Ensino Fundamental* (Fundamental Education Development Fund)
GEM	Global Entrepreneurship Monitor
GTO	Group Training Organisation
IBGE	*Instituto Brasileiro de Geografia e Estatística* (Brazilian Institute of Geography and Statistics)
ICT	Information and Communnications Technology
IDEB	*Índice de Desenvolvimento da Educação Básica* (Basic Education Development Index)
ILO	International Labour Office
IMF	International Monetary Fund
INEP	*Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira* (National Institute for Educational Studies and Research)
IPEA	*Instituto de Pesquisa Econômica Aplicada* (Institute of Applied Economic Research)
INSS	*Instituto Nacional do Seguro Social* (National Social Security Institute)
ISC	International Scientific Committee

MDE	*Ministério do Desenvolvimento Social e Combate à Fome* (Ministry for Social Development and War Against Hunger)
MEC	*Ministério da Educação* (Ministry of Education)
MTE	*Ministério do Trabalho e Emprego* (Ministry of Labour and Employment)
NEET	Neither in Employment, nor in Education or Training
PES	Public Employment Service
PETI	*Programa de Erradicação do Trabalho Infantil* (Programme for the Eradication of Child Labour)
PISA	Programme for International Student Assessment
PME	*Pesquisa Mensal de Emprego* (Monthly Labour Force Survey)
PNAD	*Pesquisa Nacional por Amostra de Domicílios* (National Household Survey)
PNAES	*Plano Nacional de Assistência Estudantil* (National Student Assistance Plan)
PNE	*Plano Nacional da Educação* (National Education Plan)
PROGER	*Programa de Geração de Emprego e Renda* (Employment and Income Generation Programme)
PRONAF	*Programa Nacional de Fortalecimento da Agricultura Familiar* (National Family Agriculture Programme)
PRONATEC	*Programa Nacional de Acesso ao Ensino Técnico e Emprego* (National Vocational Education and Employment Programme)
ProUni	*Programa Universidade para Todos* (University for All Programme)
RAIS	*Relatório Anual de Informações Sociais* (Annual Report on Social Indicators)
SAEB	*Sistema de Avaliação da Educação Básica* (Basic Education Evaluation System)
SENAC	*Serviço Nacional de Aprendizagem Comercial* (National Service for Commercial Apprenticeship)
SENAI	*Serviço Nacional de Aprendizagem Industrial* (National Service for Industrial Apprenticeship)
SENAR	*Serviço Nacional de Aprendizagem Rural* (National Service for Agricultural Apprenticeship)
SENAT	*Serviço Nacional de Aprendizagem do Transporte* (National Service for Transport Apprenticeship)
SESC	*Serviço Social do Comércio* (Commerce's Social Service)
SESI	*Serviço Social da Indústria* (Industry's Social Service)
SESCOOP	*Serviço Nacional de Aprendizagem do Cooperativismo* (National Sertive for Co-operative Apprenticeship)
SEST	*Serviço Social do Transporte* (Transport's Social Service)
SIMPLES	*Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e Empresas de Pequeno Porte* (Integrated Tax and Contribution Payment System for Micro- and Small Enterprises)
SINAES	*Sistema Nacional de Avaliação da Educação Superior* (National System for the Evaluation of Higher Education)
SINE	*Sistema Nacional de Emprego* (Public Employment Service)
SRTE	*Posto de Atendimento das Superintendências Regionais do Trabalho e Emprego* (local Ministry of Labour and Employment office)
TEA	Total early-stage Entrepreneurial Activity
TWA	Temporary Agency Work
UI	Unemployment Insurance
UNESCO	United Nations Organization for Education, Science and Culture

Executive summary

In recent years, Brazil has combined strong economic performance with consistently falling unemployment rates. Despite this, young people in Brazil face significant labour market difficulties: they are over three times more likely to be unemployed than adults; the proportion of youth neither in employment, nor in education or training (NEET) is higher than in OECD countries; a very large portion of the unemployed have been out of a job for a year or more; the quality of jobs held by youth is often poor; job turnover high; and strong inequalities persist along gender, geographical and racial lines.

To assist young people in making more successful transitions into the world of work, Brazil has made significant and laudable efforts to increase access to, as well as the quality of, education and training. Large increases in funding have been accompanied by attempts to achieve a more equitable allocation of resources, attract better teachers into the profession, and offer increased incentives for young people to attend school. Vocational training programmes have been given a boost through the ambitious PRONATEC programme and, with *ProJovem*, Brazil also has a large programme in place to try and re-engage disadvantaged youth with the education system, raising their educational attainment and better preparing them for the world of work. Policies aimed at youth have benefited from increased coherence since the publication of the National Youth Policy (*Política Nacional de Juventude*) in 2005 and the National Agenda on Decent Work for Youth (*Agenda Nacional de Trabalho Decente para a Juventude*) in 2011.

Despite this significant progress, much remains to be done if young people are to get off to a good start in the labour market. On the supply side, education expenditure as a percentage of GDP remains low by international standards. The recent decision to allocate a large portion of Brazil's oil royalties to education will help improve this situation, however further efforts will need to be made to ensure that these resources are more equally distributed, both geographically as well as across education levels, and more efficiently spent. The quality of education remains a major cause for concern, the curriculum lacks relevance for many students (partly due to a very low share of vocational education), and grade repetition is high. As a result, many students lose interest and drop out of school.

On the demand side, there are indications that many youth lack the skills required by employers – confirming that educational attainment overall remains low. While Brazil has a relatively flexible labour market and employment protection legislation is unlikely to be a major barrier to youth employment, the high cost of hiring faced by firms may explain why certain youth (and in particular the low-skilled and disadvantaged) encounter difficulties finding work. Employers also receive little support in meeting the costs of taking on apprentices, and so the number of apprenticeships in Brazil remains far below expectations. Finally, there are insufficient incentives in place to encourage firms and young workers to invest in more durable working relations, contributing to high turnover.

Finally, despite the existence of a public employment service and unemployment insurance, very few young people in practice benefit or make use of these services. In particular, first-time jobseekers are not eligible for any financial support to assist them in finding work. Also, besides the *ProJovem* programme, which is primarily a classroom-based training programme, Brazil boasts very few active labour market policies targeted at youth. In particular, there is a virtual absence of entrepreneurship development and support programmes. Moreover, where services exist for young people (including the *ProJovem* programme), they tend to be dispersed and poorly co-ordinated, and awareness of them is low.

Key policy options

In response to these remaining challenges, the following directions for policy should be considered:

- *Increase the amount of educational expenditure and improve the efficiency and equitableness of such spending, so that all young people leave school with the skills needed in the labour market*. In particular, improvements in the quality of education, a reduction in drop-out rates, and increases in the proportion of youth graduating from vocational education and apprenticeships will be required. Ensuring more young people gain relevant work experience through structured internships would also ease the transition from school into work.
- *Create more favourable conditions for employers to hire and invest in youth* by: ensuring that education and training are better aligned with labour market needs; reducing the cost to employers of hiring certain categories of youth (the low-skilled and long-term unemployed, as well as those on training contracts), either through lower social security contributions, targeted wage subsidies, or a sub-minimum "training" wage; providing incentives for investments in training; increasing the length of trial periods; and relaxing rules around the use of temporary agency work.
- *Provide additional assistance to young people in finding and holding on to high-quality jobs* by: strengthening the public employment services so they can provide increased job-search assistance and other relevant services to youth; creating a one-stop shop where youth can obtain information and advice on all programmes and services available to them; actively reaching out to disengaged youth and intervening early; providing financial assistance to young jobseekers; promoting and supporting entrepreneurial activities; and encouraging the labour market participation of young women by providing more high-quality childcare.

Assessment and policy options

How are young Brazilians faring in the labour market?

Over the last decade, the Brazilian economy has grown at an average rate of 3.5% per year. Labour market conditions reflect this strong economic performance. Unemployment rates have fallen consistently and have reached their lowest levels since the new series began in 2002. In September 2013, the unemployment rate in Brazil's six largest metropolitan areas stood at 5.4%, down from 13% in September 2003.

Despite these favourable conditions, youth (those aged 15-24) perform significantly less well in the labour market than adults. Although the employment rate of Brazilian youth is higher (and the unemployment rate lower) than the OECD average, young people in Brazil are over three times more likely to be unemployed than adults. In 2012, nearly one-quarter of the Brazilian working-age population was aged between 15 and 24; yet more than 46% of the unemployed were young. Also, a very large portion of the young unemployed have been out of a job for a year or more, suggesting that some young people face significant difficulties in finding a job.

Youth unemployment rates rose significantly at the end of the 1990s, and the gap with adults has barely narrowed since. Increasing female labour market participation, a swelling youth cohort, and structural change shifting jobs from manufacturing to the service sector (leading to increased turnover), have all contributed to this rise in youth unemployment.

Youth in Brazil are also significantly more likely to be neither in employment, nor in education or training (NEET) than on average in the OECD, and this is primarily a female phenomenon. In 2012, one in four young women in Brazil was neither in employment, education or training. Although this may represent a choice for some, lack of high-quality and affordable childcare; scarcity of full-day schooling; and barriers to employment for women in the labour market are likely to be explanatory factors.

Strong inequalities in labour market outcomes for youth also exist along geographical and racial lines. The likelihood of a young, black woman living in the Northeast of Brazil being unemployed is 28.6%. This compares to an unemployment rate for white males living in the South of 7.6%.

The quality of jobs held by Brazilian youth is poor on average compared with those held by youth in the OECD. Informal employment, despite significant declines in recent years, is still high (affecting nearly one in two youths). Turnover is equally high, with eight transitions into and out of formal employment each year for every five youth employed, and is a significant factor in explaining high unemployment rates. Although temporary agency work and (in particular) fixed-term contracts are highly regulated in Brazil, and therefore relatively uncommon, youth are more likely to be employed on such contracts.

Helping youth make the transition to work

Policies aimed specifically at helping youth make more successful transitions from school to work are relatively recent in Brazil. It was only in 2003 that the first national programme to assist youth in finding their first job (*Programa de Estímulo ao Primeiro Emprego* – First Job Stimulus Programme) was set up, the National Youth Policy (*Política Nacional de Juventude*) was released in 2005, and the National Agenda on Decent Work for Youth (*Agenda Nacional de Trabalho Decente para a Juventude*) in 2011.

Brazil's youth policy has a very strong education-first emphasis[1] and significant efforts have been made to increase access to, as well as the quality of, education and training – with the objective of providing youth with a better start in life. Education is a strong predictor of labour market outcomes, and the returns to education are considerably higher in Brazil than in any OECD country, suggesting that further investments in education are warranted. In Brazil, those with tertiary qualifications earn over 2.5 times more than those with upper secondary education, while those who do not gain an upper secondary qualification earn almost 50% less than those who do.

Education policy has benefited from large increases in funding (from 10.5% of total public expenditure in 2000 to 18.1% in 2010) and has been built around a number of key pillars: *i)* a more equal allocation of public funding for education through the means of redistributive national education development funds (*Fundo de Desenvolvimento do Ensino Fundamental* – FUNDEF, and its successor *Fundo de Manutenção e Desenvolvimento da Educação Básica* – FUNDEB); *ii)* attempts to increase the quality of teachers through an emphasis on training and qualifications, as well as better remuneration for teachers; *iii)* better measurement of educational outcomes, the setting of targets, and the introduction of more accountability; and *iv)* increasing incentives to attend school by awarding cash transfers to poor households conditional on school enrolment (*Bolsa Família*).

These investments have resulted in significant progress in educational attainment and quality. Enrolments of 4- and 5-year-olds in Early Childhood Education and Care (ECEC) have increased by 52% between 2000 and 2012 and 98% of 6-14 year-olds are now enrolled in school. The proportion of individuals who attain upper secondary education has doubled within a generation, and the number of enrolments in tertiary education has increased by 71% between 2003 and 2011. Brazil is the country which achieved the largest performance gain in the PISA mathematics test (an international assessment of 15-year-olds' competencies) between 2003 and 2012, while booking significant improvements in reading and science as well. Equality of access has also improved significantly: whereas in 2001, just 13% of 15-17 year-olds in the lowest income quintile were enrolled in school, by 2011 this proportion had nearly tripled.

1. The National Agenda on Decent Work for Youth also stresses three other areas of intervention: *i)* achieving a decent study/work/family life balance; *ii)* active and dignified insertion into the labour market; and *iii)* social dialogue.

Remaining challenges and policy options

Ensuring that youth leave education with the skills required in the labour market

Despite the significant progress achieved in recent years, much of it was from a low baseline, and much more remains to be done to help youth in Brazil make successful transitions from school into quality jobs.

Although Brazil already dedicates a relatively large portion of public expenditure on education, this expenditure is below the OECD average as a percentage of GDP. By comparison, Argentina, Chile and Mexico spend above the OECD average. Brazil's spending per student at both primary and secondary levels is considerably below what the average OECD country spends, and spending on ECEC is also lower.

The quality of education in Brazil remains a major cause for concern, reflected in the fact that Brazilian 15-year-olds continue to trail their peers in OECD nations on the PISA reading, mathematics and science tests, despite significant improvement in these scores over the past decade. This poor quality of education is largely due to: *i)* the low number of hours of instruction received by the average Brazilian child; and *ii)* difficulties encountered in making teaching a truly rewarding and attractive career choice, as well as in getting the most out of existing teachers. For most students in Brazil, the school day is very short (less than four hours) – only 8.3% are enrolled in full-day fundamental schooling (corresponding to primary and lower secondary education).[2] Attracting good teachers is also problematic as teaching is not considered a desirable career path by the vast majority of Brazil's youth (despite recent efforts to increase teacher salaries, someone with a tertiary qualification still earns nearly 50% more by choosing an alternative career path).

Poor quality schooling, combined with a curriculum which lacks relevance for many students and one of the highest rates of grade repetition amongst countries that participated in the PISA tests, results in a large portion of young people dropping out of school. 8.1 million Brazilians aged 15 to 24 did not finish fundamental education and over a third of 20-24 year-olds leave school without attaining an upper secondary qualification – twice the average rate observed across the OECD.

The very low share of vocational education in total enrolments and the strong focus on academic programmes may help explain the large portion of students who drop out of school for lack of interest. In OECD countries, the proportion of upper secondary students enrolled in vocational programmes is, on average, three times greater than in Brazil.

In addition, the number of apprenticeships is extremely low. In 2012, a mere 260 000 apprentices were hired – representing less than 1% of the youth population aged 15-24. Yet the international evidence shows that countries that have a strong dual apprenticeship system exhibit much smoother transitions from school to work.

2. In Brazil, basic education is referred to as "fundamental" education (comprising primary and lower secondary education. In Brazil, the term "basic" education covers pre-school and upper secondary education as well. In order to avoid confusion, the Brazilian terms will be used throughout this report.

Bolsa Família, a cash transfer conditioned on children's enrolment in schools, has played an important role in improving enrolment rates. Nearly 100% of children aged 6 to 14 are now in school and an additional benefit is now provided to incentivise the enrolment of 16- and 17-year-olds. Given high rates of drop-out, however, it may be worth re-designing this benefit so that it rewards completion and attainment instead.

Finally, inequalities in educational access and attainment across regions are still striking in Brazil, and they occur all along the educational cycle. The Southeast of Brazil spends five times as much per child enrolled in ECEC as does the North, and more than six times as much as the Northeast. Fundamental education completion varies by as much as 17.5 percentage points between the best- and worst-performing regions. The proportion of young people starting tertiary education is twice as high in the South/Southeast as it is in the North/Northeast.

Spending across different levels of education is also highly unequal, with a disproportionate amount being absorbed by a small and elitist public tertiary education system. Only 11.6% of 25-64 year-olds hold a tertiary degree, compared with the OECD average of 31.5%. Yet, Brazil's spending per tertiary student is above the OECD average (in absolute terms). As a result, the quality of such education is relatively high: six Brazilian universities appear in the Shanghai Academic Ranking of World Universities (all of them public). This stands in stark contrast with the ranking of Brazil in the PISA assessments.

In response to these remaining challenges, the following directions should be considered:

- *Gradually increase investments in education to raise the proportion of GDP spent on education towards the OECD average.* In 2010, Brazil spent around 5.6% of its GDP on education, below the OECD average of 6.3%, despite having a much larger youth population than most OECD countries. The recent decision to allocate a large portion of oil royalties to education will enable the country to move in this direction.
- *Ensure investments in education are made fairer.* In order to achieve this, Brazil could:
  - *Retain (if not strengthen) the commitment to equalising educational expenditure across the country.* FUNDEB pools educational funds at the state level and then redistributes them across municipalities in proportion to the number of enrolments. However, because FUNDEB is funded out of state and municipality tax revenue, the total resources pooled will vary significantly from state to state, with the richer states ultimately spending more per pupil than the poorer ones. One radical proposal to increase the redistribution of educational resources and create a more level playing field would be to transform FUNDEB into a truly national fund, with the redistribution happening at national rather than at state level. To ensure that resources are not withdrawn from schools in a sudden manner, such a reform could be introduced gradually. An alternative, and politically more acceptable option, would be to raise the FUNDEB spending floor.
  - *Seek to redress the current imbalance between per-student spending on basic education on the one hand, and that on tertiary education on the other* (without, necessarily, reducing expenditure on the latter). This could be achieved through the introduction of cost-sharing in tertiary education for those who can afford it, and subsidise only those who cannot. Apart from introducing a greater element of fairness in the allocation of public funds, such policies would free up resources which could be spent on creating additional university places for poor students and/or on financing higher spending in fundamental education.

- *Continue to invest in improving the quality of education.* It is what students actually learn rather than the number of years they spend in school that matters. In order to increase the quality of education Brazil could:
  - *Increase the proportion of young people who benefit from full-day schooling.* In particular, full-day schooling should ensure that students receive additional support in literacy and numeracy in order to equip them with the basic skills required in the labour market.
  - *Take further steps to improve the quality of teaching* by ensuring that teaching is perceived as a rewarding and high-status career attracting the most qualified graduates. Increasing teacher pay will be critical here: in Brazil, someone with a tertiary education qualification will still earn 50% more if choosing an alternative career path. For teachers already serving, rigorous evaluation exercices, the use of professional development plans, clear career structures and progression, as well as continuous professional development to improve and/or maintain subject knowledge will be needed to improve the quality of teaching. In addition, Brazil has put in place a number of experiments with performance-related pay for teachers. These should be monitored and evaluated carefully and, if successful, rolled out more widely.
  - *Reward high-performing schools and help poor performing schools improve.* Brazil has made tremendous progress in carrying out and disseminating the results of student assessments. Such information could now be used to reward the best-performing schools, where good performance is defined in terms of value-added (i.e. by adjusting for students' socio-economic background). Although such measures would creative an additional incentive for improvement, they should be accompanied by other interventions aimed at helping poor performing schools identify the causes of their poor performance and setting up action plans to make the necessary improvements.
- *Reduce drop-out rates and increase the proportion of youth gaining at least upper secondary qualifications.* Education is a strong predictor of labour market outcomes and yet 50% of youth in Brazil have left education by the time they turn 18. In order to keep young people in school for longer:
  - *Make school more interesting and relevant to young people* by introducing more subject choice and, in particular, placing a greater emphasis on vocational education. Vocational education should be introduced at an earlier stage in order to maintain interest for the less academically minded, and transitions between academic and vocational programmes should be clarified and made easier so as not to track young people too early and close doors and future opportunities. Introducing more flexibility in how qualifications are acquired (for instance by introducing a modular system by which qualifications are acquired via a process of credit accumulation) might make education more attractive to young people and reduce the chances of permanently dropping out.
  - *Reduce reliance on the practice of grade repetition.* 36% of 15-year-olds in Brazil report having repeated at least one year – one of the highest such rate amongst all countries that participated in the 2012 PISA tests. Yet the evidence suggests that grade repetition is harmful rather than beneficial to educational attainment.

  - *Ensure early detection of individuals at risk of dropping out and provide individual, tailored support.* Tutoring in particular has been shown to be an effective policy to improve student performance. The new programme announced by the Ministry of Education (*Programa Nacional de Adequação de Idade/Ano Escolar*) is a much welcomed development.
  - *Consider changing or extending the conditionalities of* Bolsa Família *in order to provide incentives to achieve higher educational attainment and completion*, *rather than just enrolment.* In addition, consider paying the variable benefit for adolescents directly to young people rather than to their parents, as this would have a positive impact on their independence and aspirations – although this should not be done without a careful analysis of its impact on the intrahousehold allocation of resources.

- *Ensure that education and training are better aligned with labour market needs*, including:
  - *Increasing the proportion of youth graduating from quality vocational education and apprenticeships.* The PRONATEC programme, with its focus on overcoming financial barriers and addressing the lack of provision, is a step in the right direction – but emphasis will need to be placed on the quality and relevance of the courses on offer, and bursaries and free places will have to be targeted appropriately on those most in need. In order to increase the number of apprenticeships, additional incentives for employers should be introduced through either the provision of subsidies, reductions in social security contributions, or the introduction of a "training" wage below the national minimum wage and payable for the duration of the apprenticeship.
  - *Increase the proportion of youth gaining work experience through the means of internships.* Only 11% of tertiary and 3.1% of secondary students in Brazil currently do an internship. More students should be given the opportunity to do so and spend time in the workplace in order to acquire relevant skills and experience which the labour market values. As in the case of apprenticeships, it would make sense to allow younger people (aged 14 and 15) to gain work experience while studying. The practice of making internships an integral part of courses should be generalised. Companies hiring interns should be monitored more closely to ensure that interns have adequate working conditions and useful learning experiences.

Creating favourable conditions for employers to hire and invest in youth

Macroeconomic conditions are a major determinant of youth labour market outcomes (including formality), and the health of the labour market will, to a large extent, depend on the conditions Brazil creates for continued economic growth and making it more inclusive. Nevertheless, strong macroeconomic conditions on their own will not be sufficient to guarantee good employment outcomes for youth if they lack the skills required by employers or are costly to employ.

High returns to education indicate that the demand for higher level skills is outstripping the supply of these skills. Therefore there is a need for further investments in education. Moreover, employers in Brazil are considerably more likely than those in other countries to say that they face problems in filling jobs. There may be an issue about specific technical skills (for instance, an extremely low proportion of tertiary students graduate in science, engineering and agriculture), but employers also find it difficult to find young people with the right socio-emotional ("soft") skills.

A number of findings indicate that the cost of hiring youth in formal jobs in Brazil is high by international standards, which may hinder the demand for young workers (or, at least, encourage informal employment). As a result of large increases in the minimum wage (the value of the real minimum wage more than doubled between 2000 and 2013), the average earnings of young people have increased significantly faster than those of adults. In 2012, the minimum wage was equivalent to around 69% of the national median earnings of full-time workers – considerably higher than what is observed in most OECD countries (47% on average). However, despite a relatively large body of research on the effects of the minimum wage in Brazil, there has been no analysis of minimum wage policy in recent years on the employment outcomes of young workers.

The tax wedge (the gap between total labour costs faced by employers and the net take-home pay received by employees) in Brazil is similar in size to that of many OECD countries. However the make-up of the tax wedge is very different in Brazil, with the greatest share of the burden falling on the shoulders of employers in the form of social security contributions – which could negatively impact on employment, particularly in the presence of a wage floor (as is the case in Brazil). Employer labour tax and contributions as a share of company profits tower above the OECD average and those encountered in some other emerging economies. In addition to high social security contributions, firms in Brazil face a very high profit tax meaning that they face the highest total tax rate (as a percentage of commercial profit) amongst the group of OECD countries and emerging economies considered in this report. As part of the *Brasil Maior* programme, social security contributions have recently been reduced in 40 sectors – however these are not targeted specifically at youth.

Employment protection, on the other hand, is unlikely to be a major obstacle to youth employment – except, perhaps, in the extent to which it limits temporary agency work, which can act as a springboard for youth into more permanent and better quality jobs (including in Brazil). Employment protection on regular contracts in Brazil is below the OECD average: employment relations can be terminated at will, as long as the required notice period (which is short by OECD standards) and the indemnity pay are respected. Regulation of temporary agency work, on the other hand, is on the strict side compared with OECD countries, with restrictions on its use, duration and the number of renewals – although legislation is currently being revised to relax some of these restrictions. However, given the laxness of employment protection on permanent contracts, this is unlikely to matter much for youth employment.

Severance pay in Brazil functions by means of an individual savings account (the Guarantee Fund for Length of Service, or *Fundo de Garantia por Tempo de Serviço* – FGTS) into which employers pay the equivalent of 8% of the employee's earnings each month. The fund can be accessed by workers upon unjustified dismissal, and additionally a fine equivalent to 40% of the accumulated fund is paid by the employer directly to the worker. Although such schemes are regarded as best practice in the area of severance pay by the OECD, certain features of the FGTS create perverse incentives for workers to induce their own dismissal and are likely to generate higher turnover. In particular, the fund has been poorly managed in the past by the government, leading to poor (or even negative) returns; and the fact that the penalty is paid directly to the employee generates an incentive on the latter to induce their own dismissal. In addition, the value of severance pay for workers with four years of tenure is high by OECD standards and may create incentives for employers to dismiss workers earlier rather than later, further contributing to high turnover, particularly among those with shorter job spells and the young.

Turnover is also likely to be high because firms and individuals lack incentives to invest in one another, thereby generating longer employment relations, which can be detrimental to the long-term careers of youth. To counter this, Brazil is subsidising the training of workers through a couple of mechanisms. One of these is *FIES Empresa*, an extension of a student loan programme to companies which enables them to take out loans to cover the cost of training. Also, since 2011, firms in Brazil have been able to deduct training costs from taxes. Both these measures should provide stronger incentives for firms to invest more in their workforce, although neither is specifically aimed at youth.

In response to the above challenges, the OECD proposes the following policy options:

- *Consider reducing the cost of hiring youth.* Given that hiring youth in Brazil is relatively costly by OECD standards, lowering the cost of hiring might be expected to lead to an increase in formal employment for youth. There are three ways in which this might be done:
  - *Introduce a sub-minimum wage for youth.* Out of 25 OECD countries which have a statutory minimum wage, half have a sub-minimum wage for youth set at around three-quarters of the adult minimum wage. A sub-minimum wage might make particular sense in the case of apprentices, in which case it would be more appropriately called a "training wage": the lower level of compensation would reflect the fact that, at the beginning of an apprenticeship contract, young people's productivity is lower. Given that, apart from lower contributions to the FGTS (2% instead of the standard 8% of earnings), Brazilian employers receive little support to meet the cost of taking on apprentices, such training wages would result in increased incentives for providing apprenticeship places. However, preference might be given to policy options where youth do not bear the brunt, such as reducing social security contributions and/or wage subsidies (see next two bullet points). These alternative options also do not require a change in the Consolidated Labour Code and might therefore be easier to implement.
  - *Reduce the level of social security contributions on young workers.* Lower social security contributions could be levied on certain categories of young workers (like apprentices or the long-term unemployed) while maintaining their social security rights. Alternatively:
  - *Provide direct hiring subsidies to companies taking on apprentices and youth facing difficulties in finding a job*. Although the evidence suggests that hiring subsidies (and reduction in social security contributions) can be effective at increasing employment, much depends on their specific design features. In particular, one needs to ensure that incentives are such that deadweight losses (subsidies spent on workers who would have been hired even in the absence of the programme) and substitution effects (employers simply substituting unsubsidised workers by subsidised ones, with no net employment creation) are minimised by: *i)* targeting youth; *ii)* rewarding only additional hiring; and *iii)* placing conditions on the proportion of subsidised workers to be permanently absorbed into the firm's regular workforce.
- *Provide further incentives for employers to invest in young workers*, thereby building more durable working relationships and reduce turnover rates. In particular, co-financed training schemes specifically aimed at youth should be designed in order to increase training incentives for both employers and individuals.

- *Increase the length of the trial period in the case of new hires*. In Brazil, the trial period is just three months, which is relatively short compared with the average length of about five months in OECD countries. Increasing the length of the trial period would make employers more willing to hire and experiment with new workers, in particular youth whose productivity may initially not be known with much certainty.
- *Consider relaxing rules around the use of temporary agency work*. Temporary agency work is currently very uncommon in Brazil, but can be a useful way for youth to gain a wide range of work experience and skills that can be used as a springboard into better jobs later on. A new law is being discussed (4302/1998) which would extend the time period for which temporary contracts are allowed, or which would at least allow the duration to vary with the specific objectives of the receiving firm. This is a step in the right direction. However, any reforms will need to be careful to avoid excessive substitution effects as well as a situation in which youth become permanently trapped in temporary jobs.
- *Consider re-designing the FGTS to avoid perverse incentives which increase turnover*. Possible changes to the FGTS include allowing the returns on FGTS accounts to increase proportionately with job tenure and no longer paying firing fines directly to the employee.
- *Actively fight discrimination along gender and racial lines in the labour market*. Women and some racial groups have particularly poor labour market outcomes, both in terms of employment rates and wages, and discrimination in the labour market may explain at least part of these gaps.
- *Allocate more resources to the enforcement of labour standards* in an attempt to increase formal employment. Brazil has only half the number of labour inspectors that the ILO recommends. Increasing the number of inspections and/or increasing fines for breaches of labour regulations should therefore be considered.

Assisting young people in finding and holding on to high-quality jobs

Public employment services (PES) play an important role in matching labour demand and supply through the provision of information, placement and active support services. In practice, however, only a small fraction of Brazilian workers find employment through the PES (*Sistema Nacional de Emprego* – SINE) and placement rates are relatively low. First-time jobseekers in particular are less satisfied with the services provided, and personal contacts and social networks remain important means of finding work.

Unemployment insurance can also play a key role in helping individuals find work. Brazil is relatively unique in being one of the few Latin American countries to have introduced an unemployment insurance system. Recently, increased obligations have been imposed on recipients: *i)* the benefit is now conditioned on recipients not refusing a job offer commensurate with their qualifications and previous earnings; and *ii)* workers claiming unemployment benefit for the third time in ten years are now required to take a professional qualification course. These are welcome developments. However, in the case of youth, the main challenge is that coverage of the unemployment insurance system is relatively low and, since eligibility for the benefit is based on previous contributions, first-time jobseekers are left out altogether.

Welfare benefits can also have an impact on job-search effort and the desire to work. While *Bolsa Família* is world-renowned for its success in reducing poverty and inequality, its effects on work incentives are a little less obvious, both theoretically and empirically. In addition, no research has focused on young recipients of the programme, for whom work incentive effects might be larger.

Active labour market policies are also an important element of any activation strategy. Yet, with the exception of *ProJovem*, they are conspicuously absent from Brazil's youth employment policy which, as has been argued above, is primarily education-focused. Although this report has argued that this emphasis on education and training is well-placed, it has also been argued that youth face particular obstacles integrating in the labour market, and that a large proportion of young people give up and leave the labour force altogether. Specific interventions are therefore needed to bring these young people, who are often disadvantaged, back into the labour force.

ProJovem is Brazil's largest programme aimed at re-engaging disadvantaged youth with the education system, raising their educational attainment, and better preparing them for the labour market. The programme has a number of different strands, each aimed at a separate sub-group of youth (as well as managed by a different line ministry). In general, the programme emphasises the completion of fundamental education as well as the acquisition of a professional qualification, and provides some financial assistance to promote the participation of youth. Such training programmes are a very common intervention aimed at youth, particularly in Latin America. The evidence suggests, however, that these programmes are most useful where they contain a strong on-the-job training component. Yet *ProJovem* is entirely classroom-based, meaning that young people miss out on potentially useful experience and skills gained in the workplace.

Finally, programmes to stimulate entrepreneurship can provide an important stimulus to youth employment in developing and emerging economies. In Brazil, a high proportion of youth are engaged in entrepreneurial activity (at 13%, this is twice as high as in the OECD – 6%). However, in Brazil, only 9% of primary and secondary school children say they received some entrepreneurship training, compared with 22% amongst the OECD countries with available data. In addition, specific lines of credit to support youth entrepreneurs are not available.

The OECD therefore proposes a stronger focus on both active and passive labour market policies in years to come:

- *Strengthen the capacity of the public employment service (SINE) to make it more relevant and attractive to young jobseekers.* Job-search assistance in particular has been shown to be a cost-effective measure for youth as they frequently lack knowledge and/or experience in how to write CV's, dress for interviews, etc. Closer collaboration between SINE and other social services should also be encouraged so that youth become aware of the full range of opportunities available to them.
- *Create a one-stop shop where youth can obtain information and advice about all programmes and services available to them.* Awareness of programmes aimed at youth is low amongst young people in Brazil. There currently does not exist a one-stop shop where young people can obtain information and advice about their options. The Brazilian government has been working on developing a "Youth Station" (*Estação Juventude*) which would do exactly this, and the OECD strongly supports this initiative. In order to be successful, the *Estação Juventude* would have to bring together education and training services (including apprenticeship and other training opportunities), social policies (e.g. *Bolsa Família*), as well as employment services (SINE). Better still, instead of setting up a separate service, the *Estação Juventude* could be co-located with SINE or with social services (*Centro de Referência de Asistência Social*).

- *Reach out more actively to young individuals disengaged (or at risk of becoming disengaged) with the labour market.* Early intervention is important if permanent disengagement from the labour market is to be avoided. One of the challenges is to reach out to the youth who are neither in employment, nor in education and training. Early identification of those individuals likely to drop out from school is therefore key. Again, the *Estação Juventude* could play an important role in reaching out to such individuals through its links with schools and social services.
- *Provide financial assistance to young jobseekers.* Because unemployment insurance is conditional on a contribution history, young and first-time jobseekers receive no financial assistance while searching for a job. This may hinder successful matches, particularly if job vacancies are slightly further afield. A special allowance designed to assist young individuals who have left education in finding work should be considered – similar to the Youth Allowance in Australia, or Jobseeker's Allowance in the United Kingdom. Providing such an allowance through the public employment services would automatically make these services more attractive to young people.
- *Continue to closely monitor the employment effects of* Bolsa Família. Evidence on the work incentive impact of *Bolsa Família* is mixed, but when negative employment effects have been found, they have tended to be small. There is, however, a need to continue monitoring the situation carefully, particularly for young recipients. Tapering the benefit so that it is not withdrawn 100% when families move above the income threshold could help strengthen work incentives.
- *Provide more high-quality childcare facilities and increase the number of full-day school places to make work possible and worthwhile for young mothers.* ECEC and full-day schooling do not just have a positive effect on young people's quality of education, they also allow young mothers to find their way back into the labour market.
- *Introduce a work-based training component to* ProJovem. None of the *ProJovem* programmes (not even *ProJovem Trabalhador*, the most employment-oriented of the four strands) contains a work-based component. Yet, evidence from similar programmes elsewhere show that on-the-job training has the largest impact on subsequent employment outcomes of participants.
- *Bring the responsibility of* ProJovem *under one co-ordinating organ*. *ProJovem Integrado* was created in 2008 by consolidating and bringing together under one umbrella a number of policies aimed at youth. However, the programme continues to be fragmented and its various components are managed almost independently from one another by different line ministries.
- *Promote and support entrepreneurship efforts amongst young people.* This should take the form of training, both in and out of school, mentoring programmes, as well as the provision of specific lines of credit or start-up grants to help young people set up their own businesses.

Chapter 1

Youth and the labour market in Brazil

This chapter provides an overview of how youth are faring in the labour market in Brazil, using key labour market indicators and an analysis of school-to-work transitions, and compares the situation of Brazilian youth to that of young people in OECD countries and some emerging economies.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

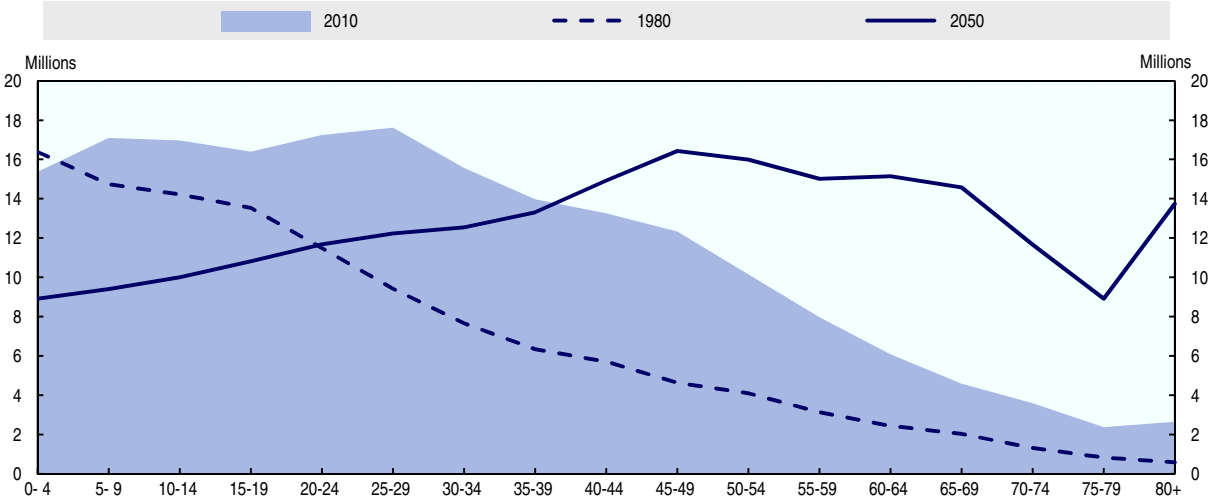
Introduction

This chapter provides an overview of youth in the labour market in Brazil, using aggregate indicators of labour market performance and measures describing school-to-work transitions. By OECD standards, Brazil has a relatively youthful workforce, although this is expected to change rapidly over the next few decades. Employment rates are high and unemployment rates are low amongst Brazilian youth, but they are significantly higher than for adults (more so than in other countries). In addition, the proportion of youth neither in employment, nor in education or training (NEET) is considerably above the OECD average, and important gender, racial and regional inequalities persist. Brazilian youth leave education much earlier than their counterparts in most OECD countries. They also tend to take longer to find their first job and, when they do, these jobs are likely to be precarious: informal employment is still a significant feature of the labour market in Brazil, and youth employment is characterised by very high turnover and low wages. Finally, a large portion of unemployed face significant difficulties in finding a job.

Brazil has a large youth population, but the birth rate is dropping

Brazil has experienced rapid demographic change over recent decades, and will continue to do so in the years to come. According to IBGE (2008), the birth rate in Brazil is estimated to have declined by 55% between 1983 and 2013. The population growth rate has declined from 2.3% in 1983 to 0.77% in 2013, and is projected to turn negative in 2040. As a result, Brazil is currently experiencing a youth wave (Figure 1.1). The size of the youth population in 2010 was 34.5% higher than in 1980. By 2050, the absolute number of youth will have fallen again by 33.1% in comparison with 2010.

Figure 1.1. **Population of Brazil by age group, 1980-2050**



Source: OECD calculations based on IBGE (2008), "Projeção da População do Brasil por Sexo e Idade para o Período 1980-2050 – Revisão 2008" [Population projections for Brazil by sex and age for the period 1980-2050 – 2008 revision], www.ibge.gov.br/home/estatistica/populacao/projecao_da_populacao/2008.

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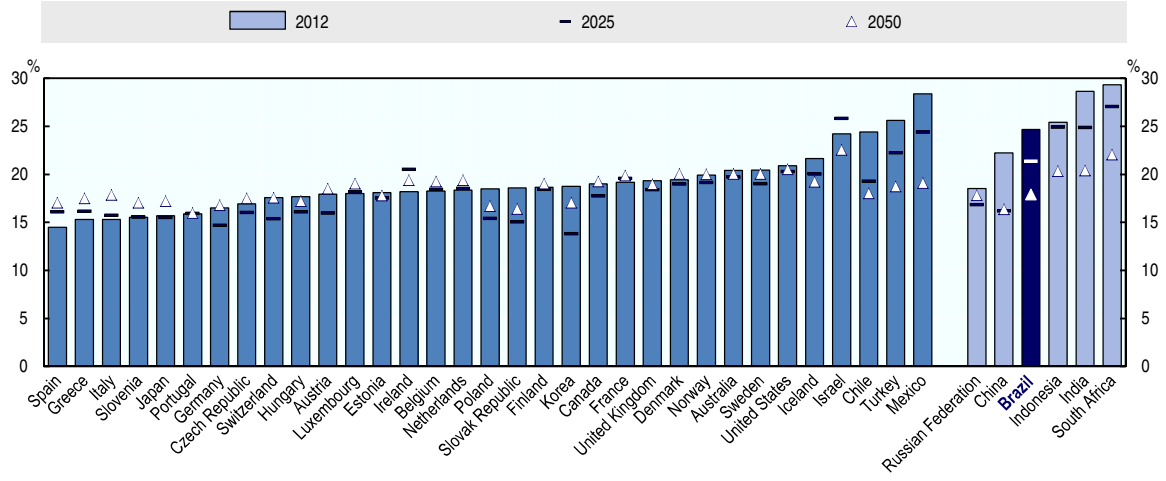
Even though the share of youth in the working-age population in Brazil is currently high by OECD standards, this is expected to decline rapidly (Figure 1.2) as fewer and fewer youth enter the labour market each year. By 2050, the proportion of youth in the working-age population in Brazil is forecast to be amongst the bottom half of OECD and selected emerging economies included in Figure 1.2. These demographic changes could work in favour of future generations of young jobseekers as competition for entry-level jobs is reduced – as long as youth have the right skills demanded by the labour market, economic conditions remain relatively favourable, and increasing wage costs as a result of the ageing workforce do not put too much pressure on employers. These conditions are not automatically guaranteed. Certainly, across the OECD and for the period between 1975 and 2005, the sharp decline in the share of youth in the working-age population did not translate into better youth labour market outcomes across the board (OECD, 2010).[1]

Figure 1.2. **Share of youth in the working-age population, Brazil, OECD and other selected countries, 2012-50**

Population aged 15-24 as a percentage of population aged 15-64



Source: OECD calculations based on United Nations, Department of Economic and Social Affairs, Population Division (2011), *World Population Prospects: The 2010 Revision*, http://esa.un.org/wpp/Documentation/pdf/WPP2010_Volume-I_Comprehensive-Tables.pdf.

StatLink http://dx.doi.org/10.1787/888932995099

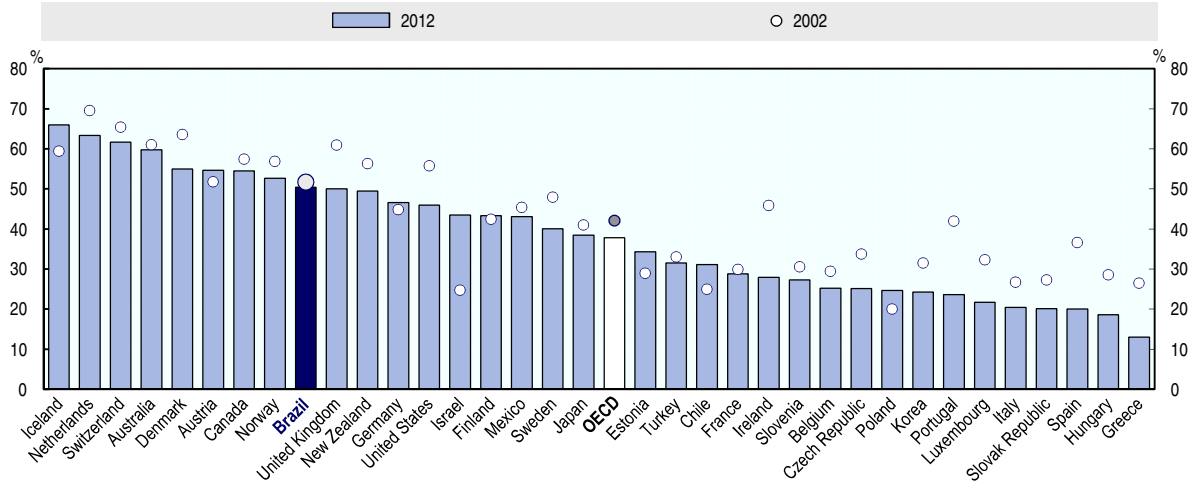
An overview of youth labour market outcomes in Brazil

Employment is high and unemployment is relatively low amongst Brazilian youth

Brazilian youth are frequently described as a *juventude trabalhadora* – working youth. Employment rates of young people (15-24) are indeed higher than the OECD average, with 50.4% of youth employed in Brazil, compared with 37.8% for the OECD on average (Figure 1.3). To a large extent, this is a reflection of the fact that youth in Brazil are less likely to be studying than their counterparts elsewhere (see Chapter 2). Another factor at play is the large reduction in youth employment rates in many OECD countries as a result of the global financial crisis. Across the OECD, youth employment rates fell by over 4 percentage points between 2002 and 2012 – in Brazil, the fall was 1 percentage point.

Figure 1.3. **Youth employment rates, Brazil and OECD countries, 2002-12**

Percentages



Source: OECD calculations based on national labour force surveys; IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm; and IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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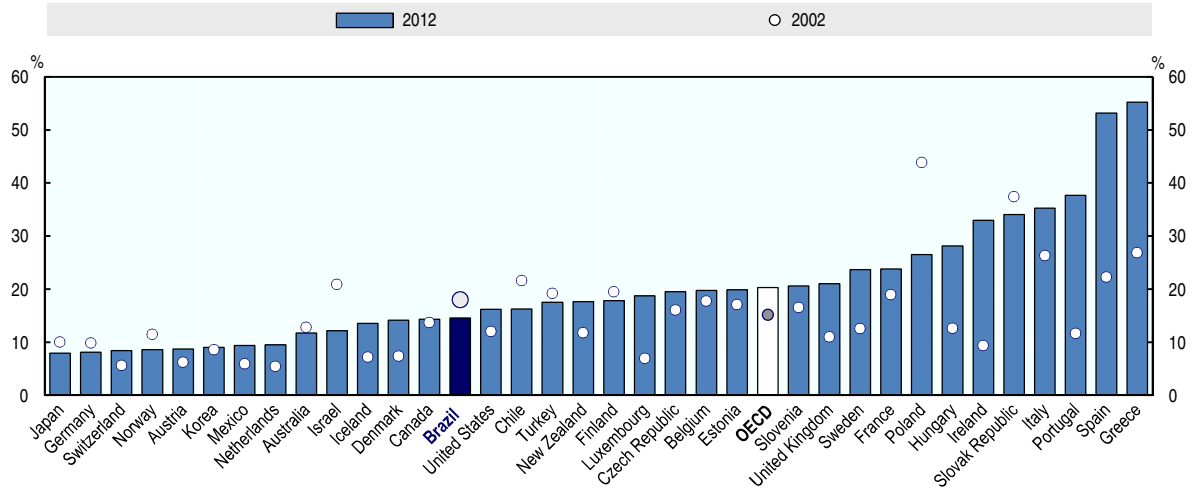
The unemployment rate (the number of unemployed youth as a proportion of the number of youth in the labour force) provides another measure of youth labour market performance. On this measure, Brazilian youth again perform better than youth elsewhere in the OECD (14.6% compared with 20.3% for the OECD on average – Figure 1.4). Nevertheless, more than a third of OECD countries have lower rates.

Figure 1.4. **Youth unemployment rates, Brazil and OECD countries, 2002-12**

Percentages



Source: OECD calculations based on national labour force surveys; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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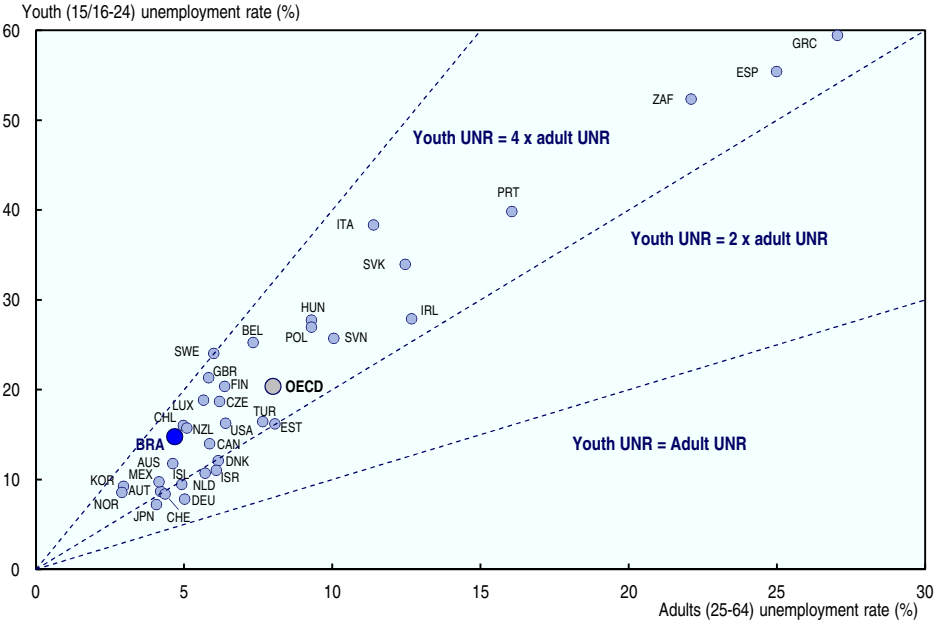
Youth fare worse than adults

Across the OECD, unemployment rates are higher for youth than for adults – between two and four times as high. At 3.2, the Brazilian adult-to-youth unemployment ratio is high for the selected list of countries included in Figure 1.5, and above the OECD average of 2.5. Although in 2012, youth represented 24.4% of the working-age population in Brazil, 46.3% of the unemployed in the same year were young. That unemployment is an issue of serious concern to youth emerged clearly from a survey of youth carried out in 2008: 61% of youth cited a lack of work opportunities as the most important challenge facing their age group, and 44% believed that youth employment programmes should be the government's number one priority (Abramo et al., 2009).

Figure 1.5. **Youth and adult unemployment rates, Brazil, OECD countries and South Africa, Q2 2013**

Percentages



Note: UNR: Unemployment rates (not seasonally adjusted) for Brazil and South Africa refer to data from labour force surveys; they refer to harmonised quarterly unemployment rates (seasonally adjusted) for all other countries.

Source: OECD calculations based on the *OECD Short-Term Labour Market Indicators Database*, http://stats.oecd.org/Index.aspx?DatasetCode=STLABOUR.

StatLink http://dx.doi.org/10.1787/888932995156

Brazilian youth have been less affected by the crisis than youth elsewhere

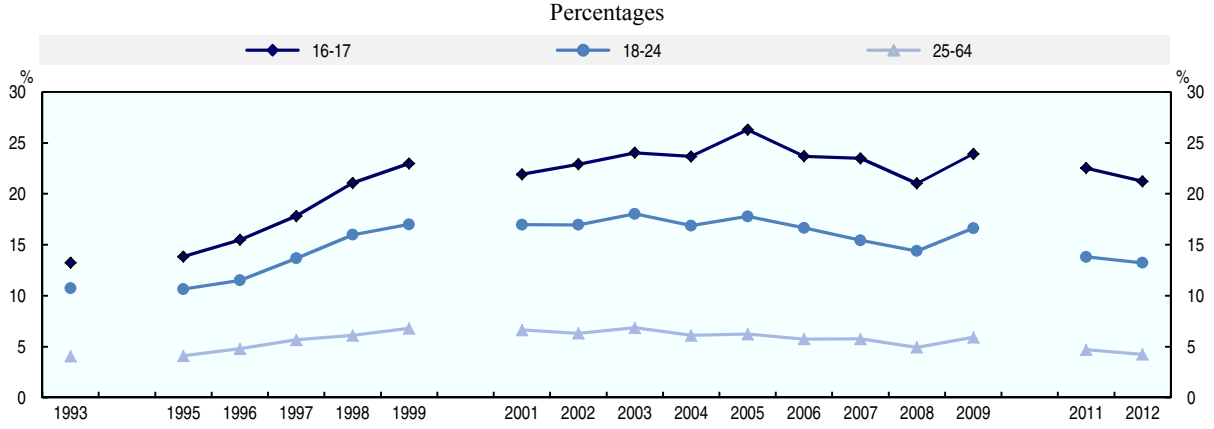
Across the OECD, youth unemployment is more responsive to the cycle than adult unemployment (OECD, 2010). This is no different in Brazil (see Chapter 3 for further details). Corseuil et al. (2012) estimate that 1 percentage point fall in GDP in Brazil is associated with a 0.9 percentage point increase in youth unemployment, compared with a 0.45 percentage point growth in adult unemployment. Garcia et al. (2012) find that youth looking for their first job are particularly sensitive to the economic cycle. Yet, overall, Latin America has weathered the financial and economic crises relatively well (CEPAL and ILO, 2012) and, as Figure 1.4 indicated, youth unemployment rates in Brazil fell between 2002 and 2012, while most OECD countries have experienced large increases.

Youth unemployment rates increased significantly during the late 1990s

Youth unemployment in Brazil appears to have undergone a structural shift during the late 1990s, which was a decade of profound economic and institutional change for the country. In the face of hyperinflation and high public debt, structural reforms and stabilisation programmes were introduced. Government interference in the economy and labour market was reduced, the economy opened up to fierce international competition and, as a result of the *Plano Real* to fight inflation, the currency became substantially overvalued and interest rates soared.

This combination of factors put considerable pressure on the manufacturing industry to increase competitiveness. Employment in the sector decreased significantly,[2] while substantial productivity gains were made (Rocha, 2007; Sesso Filho et al., 2010). The overall unemployment rate in Brazil increased from around 7% at the beginning of the decade to over 10% at the end of it. Youth were much more affected by the increase in unemployment – particularly 16- and 17-year-olds, whose unemployment rate increased from 13.2% in 1993 to 23.0% in 1999 (Figure 1.6).[3]

Figure 1.6. **Unemployment rates by age group, Brazil, 1993-2012**



Note: Data for 1994, 2000 and 2010 are not available.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

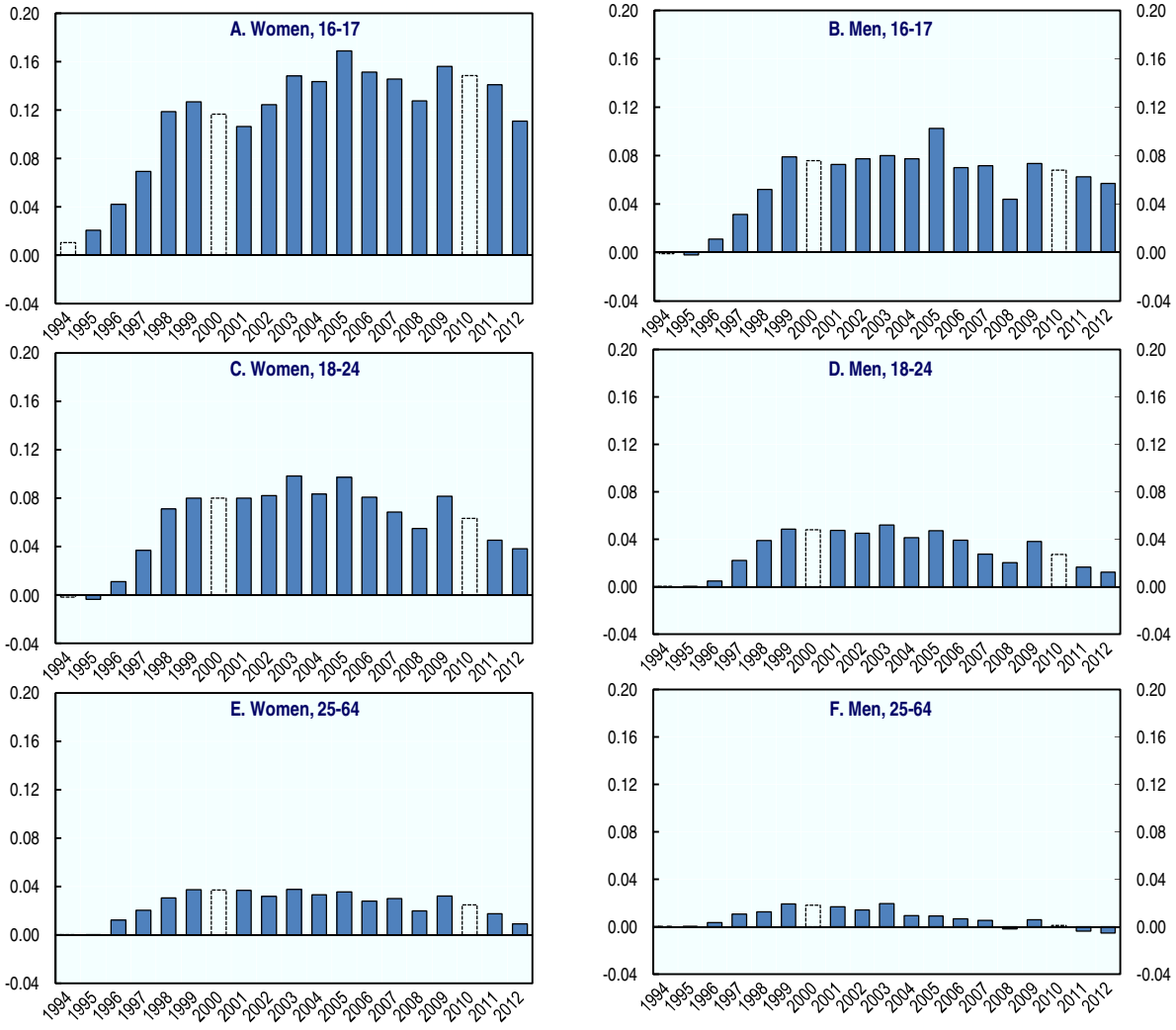
StatLink http://dx.doi.org/10.1787/888932995175

Little research has focused on the reasons why the gap between youth and adult unemployment widened during the late 1990s. Even if youth might have been more sensitive to the deep structural changes and the resulting unemployment at the end of the century, it is a puzzle as to why the gap between youth and adult unemployment rates has not narrowed since. Indeed, despite the strong performance of the Brazilian economy over the past decades, the unemployment rate of 16-17 year-olds has barely changed from the high levels reached at the end of the 1990s, while the unemployment rate for 25-64 year-olds in 2012 was nearly back at its 1992 level.

One possible explanation which has been raised in the literature is the increase in labour force participation of women over this same period (Duryea, Jaramillon and Pagés, 2003; Picchetti and Chahad, 2003) combined with an absolute increase in the youth population, resulting in more competition for jobs. Indeed, unemployment rates rose for women, and particularly for younger women, over this period. Figure 1.7 shows deviations over time from the unemployment rate observed in 1993, by gender as well as by age group. The large increase in young female unemployment is particularly striking.

Figure 1.7. **Changes in unemployment rates by gender and age, Brazil, 1993-2012**

Deviations (in percentage points) from the 1993 unemployment rate



Note: Data for 1994, 2000 and 2010 are not available. Dotted bars have been extrapolated using a linear trend.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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The increase in youth unemployment may also reflect a compositional effect. Indeed, enrolment in education increased over the same period, leaving only the least able youth (and those facing the greatest difficulty in finding jobs) to enter the labour market.

Reis and Camargo (2007) put forward an alternative explanation and argue that, prior to 1994, high inflation rates allowed firms to flexibly control real wage growth and hence overall labour costs. As a result of the greater control over inflation achieved by the *Plano Real*, however, real wage rigidity was introduced and firms could no longer use wages but instead had to use employment reductions to make wage bill adjustments. Young, inexperienced workers would have been the most likely to suffer from such redundancies.

A final explanation lies in the structural change in employment that took place in the late 1990s, with a shift away from manufacturing and into service jobs. As will be discussed below, high turnover is one of the reasons why youth unemployment in Brazil is so high. Youth are also more likely to work in the service sector, which is characterised by higher turnover rates. This shift in employment by sector would therefore explain part of the structural change in unemployment rates observed at the end of the 1990s.

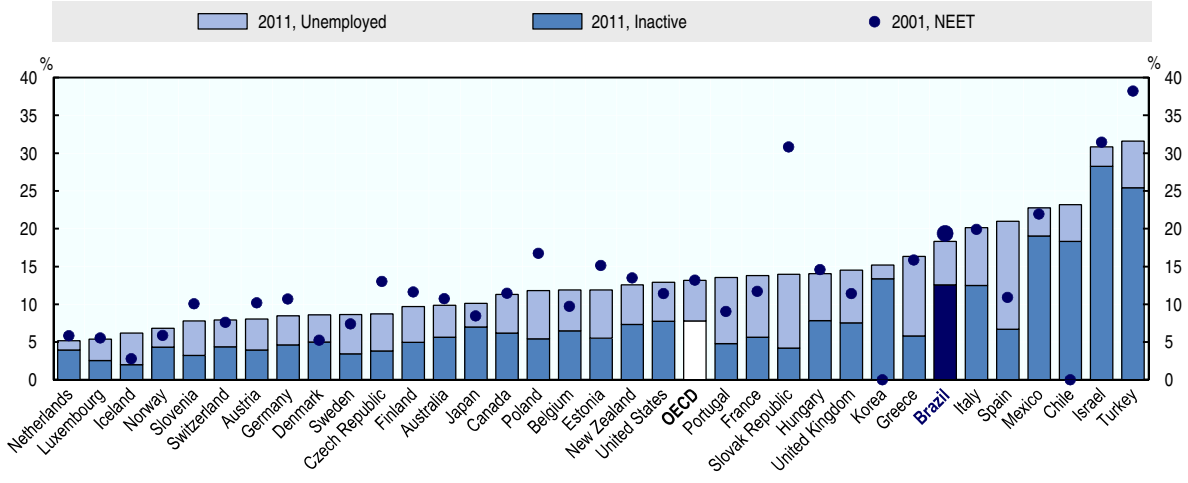
The proportion of NEET among youth is high by international standards

Given differences between developed and emerging economies in the proportion of young people studying and working, a better indicator for cross-national comparisons of youth labour market distress is the proportion of young people who are neither in employment, nor in education or training (NEET, or *nem-nem* as they are better known in Brazil). This is also a particularly important group to focus on as these individuals face the greatest risk of economic and social exclusion. Although some NEET can be a choice or reflect cultural factors (e.g. motherhood, gap years) Camarano and Kanso (2012) show that NEETs come from the poorest households in Brazilian society, with the highest rates of worklessness and the lowest levels of educational attainment.

The proportion of Brazilian youth who are NEET is high by OECD standards, with nearly one in five youth neither in employment, nor in education or training (7th highest among 35 countries with available data, and over 5 percentage points higher than the OECD average, as shown in Figure 1.8). Moreover, as the chart demonstrates, a larger than average proportion of NEET in Brazil is due to inactivity which, as will be discussed below, is primarily a female phenomenon. Policies to tackle NEET will, therefore, need to focus particularly on addressing the barriers to female labour market participation (Simões, Peixoto dos Santos and Vaz, 2013).

Figure 1.8. **NEET rates, Brazil and OECD countries, 2001-11**

Percentage of the population aged 15-24



Note: Cumulative bars (unemployed *plus* inactive) for 2011 represent the 2011 NEET rates.

Source: OECD calculations based on national labour force surveys; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

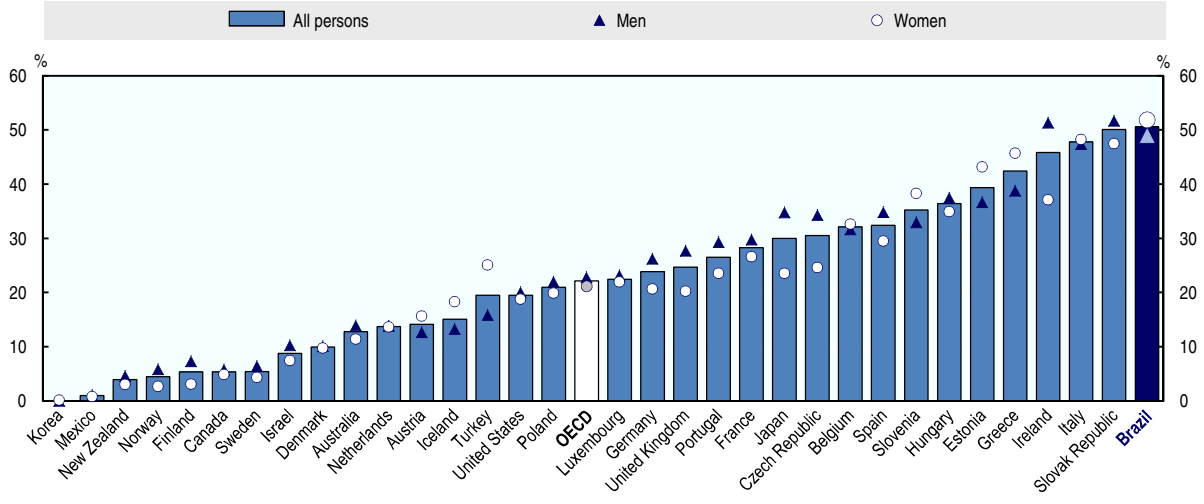
StatLink http://dx.doi.org/10.1787/888932995213

The incidence of long-term unemployment is very high

A very large proportion of the young unemployed in Brazil (one in two) have been out of a job for a year or longer (Figure 1.9). Despite low overall unemployment and high turnover rates, there therefore appears to be a small, but significant, core of young people who face substantial difficulties in finding a job. Many of these will be first-time jobseekers. Reis (2013) estimates that 34% first-time jobseekers will still be unemployed after 60 months, compared with 17% of youth who already acquired some experience. These youth are particularly vulnerable and are at risk of being "scarred" for the rest of their career, or of dropping out of the labour force altogether. They therefore require specific and targeted measures to help them back into work.

Figure 1.9. **Incidence of long-term unemployment,[a] youth aged 15-24, Brazil and OECD countries, 2011**

Percentage of youth (15-24) unemployed



a) Unemployed for one year or more.

Source: OECD calculations based on national labour force surveys; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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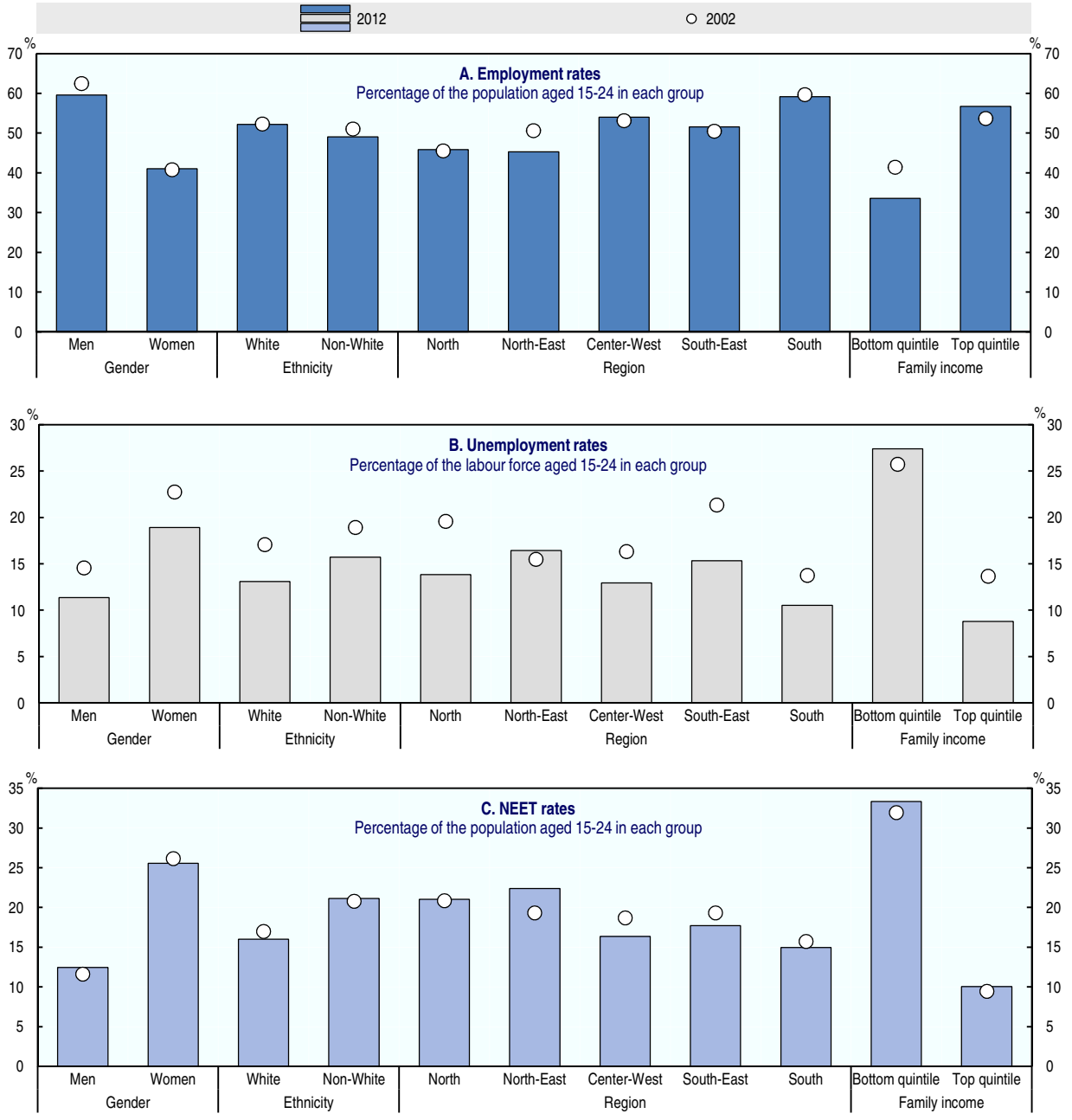
Many different factors shape youth's experiences in the labour market

The discussion so far has focused on youth as a group overall – however this hides important differences in labour market outcomes amongst youth along gender, ethnic, socio-economic[4] and regional dimensions – as illustrated in Figure 1.10, and explored in further detail in the sub-sections below. Many of these disadvantages are compounded. To provide just one example: the likelihood of a young, Black woman living in the Northeast of Brazil being unemployed is 28.6%, and the probability that she is NEET is 31.7%. This compares with an unemployment rate for White males living in the South of 7.6% and a NEET rate of 9.1%.

Figure 1.10. **Socio-demographic disparities in youth labour market outcomes, 2002 and 2012**



Note: Non-White category excludes Asian (*Amarelo*); family income of youth based on household they are currently in, regardless of whether they are heading it or not.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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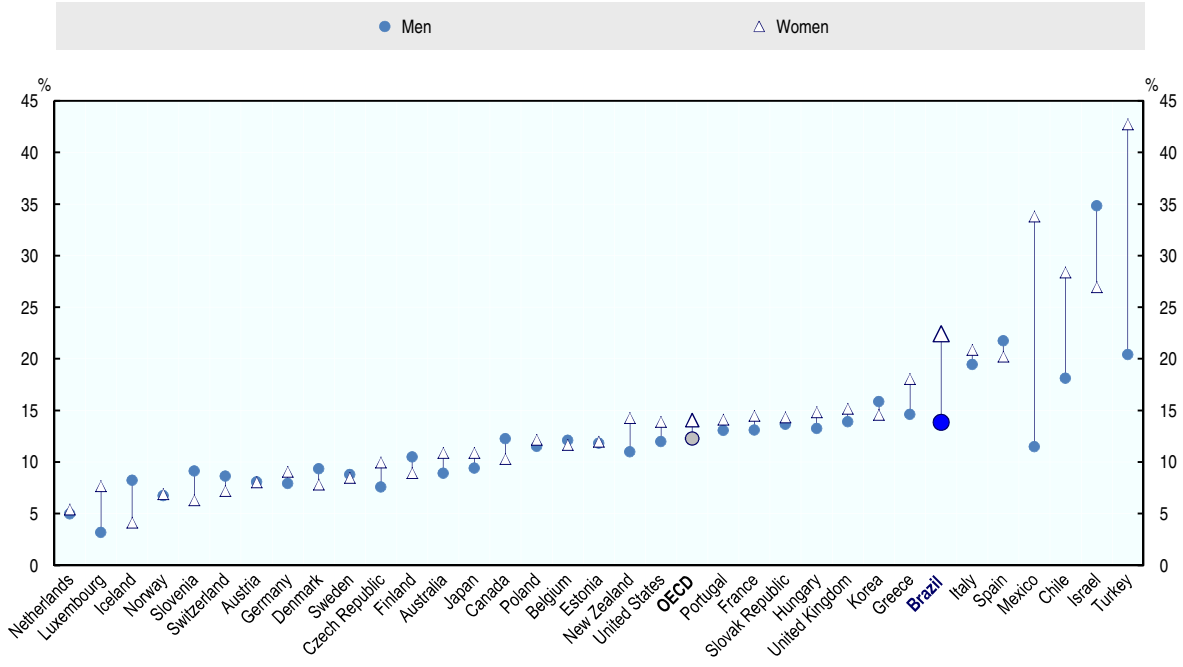
Women are particularly disadvantaged in the labour market and NEET is primarily a female phenomenon

In 2012, an estimated 25.5% of Brazilian women aged 15-24 were NEET, twice the rate for young men (12.5%). NEET is primarily a female phenomenon in Latin America (Bassi et al., 2012) and according to Abramo et al. (2009) the vast majority of these young women are housewives. In 2011, 48.2% of female NEET had a child compared with 15.7% of non-NEET young women. Compared with OECD countries and some key emerging economies, the female/male NEET ratio (and gap) of Brazil is one of the highest (Figure 1.11).

Figure 1.11. **NEET rates by gender, Brazil and OECD countries, 2011**

Percentage of the population aged 15-24



Source: OECD calculations based on the *OECD Education Database*, www.oecd.org/edu/database.htm; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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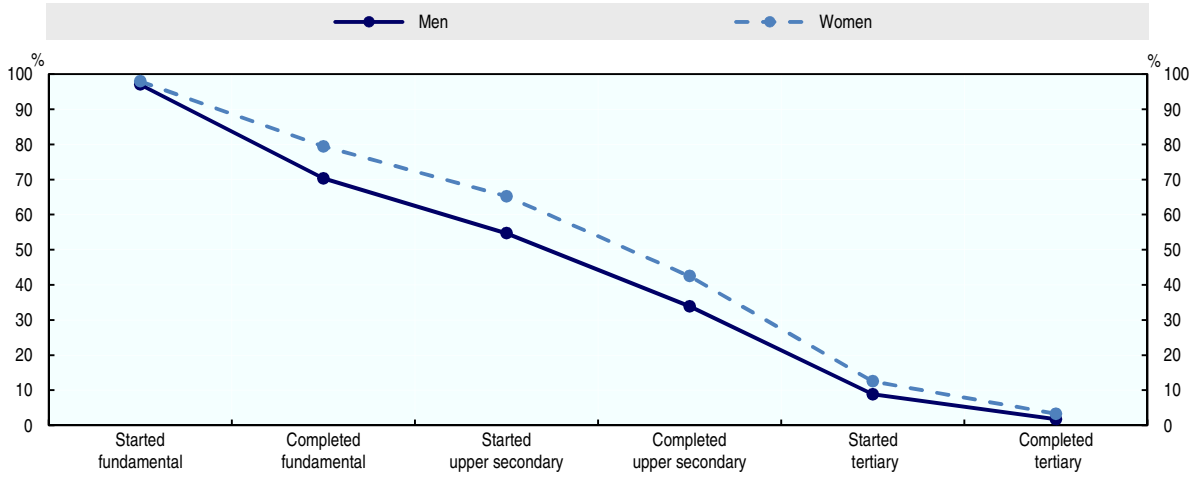
In addition, as shown in Figure 1.10, young women's unemployment rates are considerably higher than men's (18.9% versus 11.4%) and their employment rates much lower (41.1% versus 59.6%). These poor labour market outcomes for young women are somehow surprising, given that they outperform men all along the education cycle: at all three primary, secondary and tertiary levels, they have both higher participation and completion rates (Figure 1.12).

Figure 1.12. **Educational attainment of youth by gender, Brazil, 2012**

Proportion of 15-24 year-olds



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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A large number of inactive, but very educated, women presents a significant untapped resource. More research should therefore be focused on this particular group of young people to try and understand the potential barriers they face (e.g. lack of high-quality and affordable childcare; scarcity of full-day schooling; discrimination in the labour market; unawareness of labour market opportunities for women;[5] etc.).[6]

Childcare is still predominantly seen as a female responsibility in Brazil.[7] Sorj (2004) found that the presence of children does not appear to affect men's labour supply, whereas women with children are significantly less likely to be in the labour force. This highlights the importance of affordable and high-quality childcare provision. One recent paper (Barros et al., 2011) looked at the impact of Rio de Janeiro's efforts to expand access to free publicly provided childcare to families living in the city's low-income neighbourhoods. The authors found a large increase in mothers' employment (from 36% to 46%), and almost a doubling in the employment rate of mothers who were not working prior to the availability of the programme (from 9% to 17%). Although the paper argues that vouchers for childcare may be more cost-effective than subsidised childcare via public provision, the evidence strongly supports the expansion of free and high-quality childcare facilities in order to increase female labour market participation and employment.[8] The provision of childcare facilities on a pilot basis as part of *ProJovem Urbano* is a positive development and, if successful, should be extended to all other programmes aimed at youth.

Discrimination cannot be ruled out either. As will be discussed below, women face a significant wage penalty in the labour market, most of which cannot be explained away by variables commonly available in household and labour force data sets. Arbache and Loureiro (2005) found evidence of discrimination in public sector recruitment prior to the introduction of compulsory open examinations following the 1988 Constitution. Coelho, Fernandes and Foguel (2010) provide evidence that women are less likely to obtain a promotion than men, and also that it takes them longer to do so.

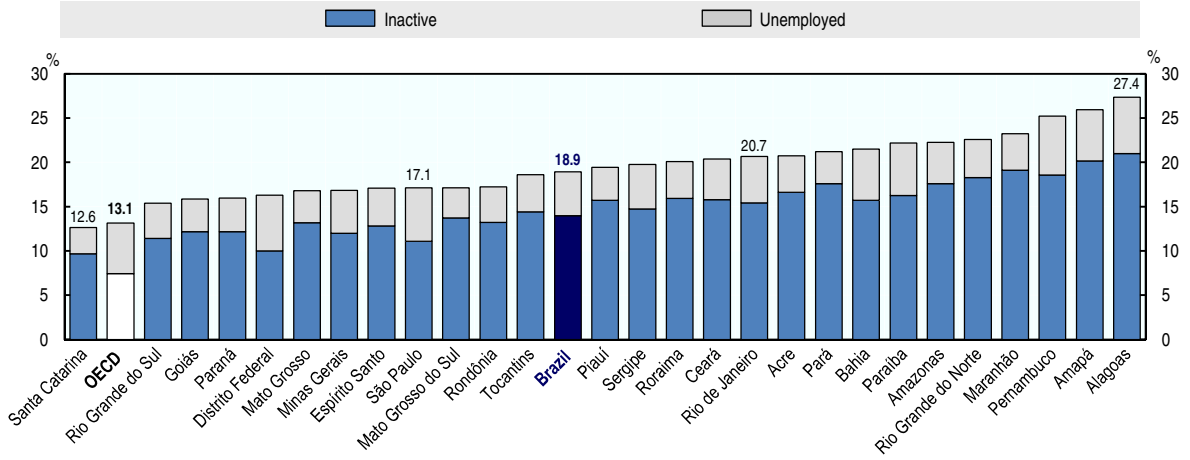
Strong regional inequalities persist

Important regional inequalities in Brazil are also reflected in the labour market outcomes of youth. As Figure 1.10 demonstrates, the differences are largest between the poor Northeast of Brazil and the more prosperous South: with employment, unemployment and NEET rates of 45.3%, 16.4% and 22.4% respectively, the Northeast scores consistently worse than the South where the equivalent figures are 59.1%, 10.5% and 15.0%, respectively.

While one state in Brazil has a NEET rate below the OECD average (Santa Catarina), the majority of states have rates considerably higher. In the worst affected states, NEET rates are around 10 percentage points higher than the OECD average (Rio Grande do Norte, Maranhão, Pernambuco, Amapá and Alagoas). In Alagoas, youth are over twice as likely as youth in Santa Catarina to be NEET (Figure 1.13).

Figure 1.13. **NEET rates by Brazilian state and OECD area, 2012**[a]

Percentage of the population aged 15-24



Note: Cumulative bars (unemployed *plus* inactive) represent the NEET rates (labels above the bars).

a) OECD averages refer to 2011.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Such large differences in labour market outcomes for youth across states and regions reflect in large part inequalities in economic and educational opportunities across the country. GDP per capita in the Northeast of the country is only just above a third of GDP per capita in the Southeast. Educational inequalities, which are also marked, will be explored in some further detail in Chapter 2 of this report. Addressing geographical inequalities in opportunity should therefore be a priority for the Brazilian government, and policies aimed at youth should be more strongly targeted at the most disadvantaged areas.

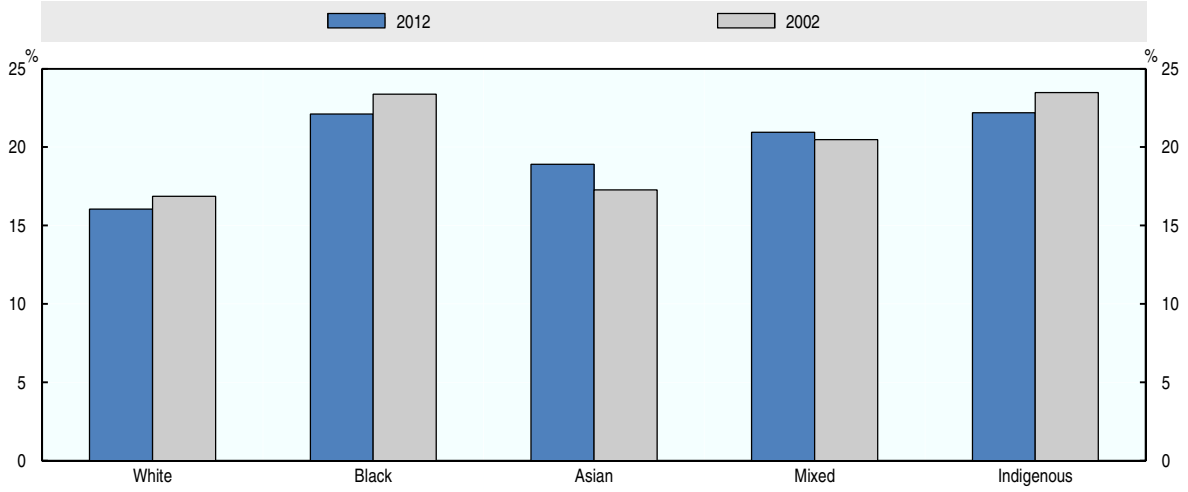
Black, mixed and indigenous youth also face a disadvantage in the labour market

Figure 1.10 already showed differences in labour market outcomes between White and non-White youths. For presentational reasons, all non-White groups were combined in that figure, but each ethnic/racial group should clearly be considered in their own right.

Figure 1.14 breaks down the NEET rate by more detailed ethnic/racial groups.[9] The NEET rates of both White and Asian groups are several percentage points below those of Black, mixed and indigenous groups. Some of this will reflect geographical as well as socio-economic factors. However according to DIEESE (2012), racial inequalities are intrinsic to Brazilian society, dating back to the abolishment of slavery in the 19th century and an absence of policies at the time to assist ex-slaves to integrate into the formal labour market. Racial inequalities are reflected also in health outcomes (lower life expectancy) and crime (victims of homicide) – Paixão et al. (2012).

Figure 1.14. **NEET rates by detailed ethnicity, Brazil, 2002 and 2012**

Percentage of the population aged 15-24 in each group



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Key steps in school-to-work transitions

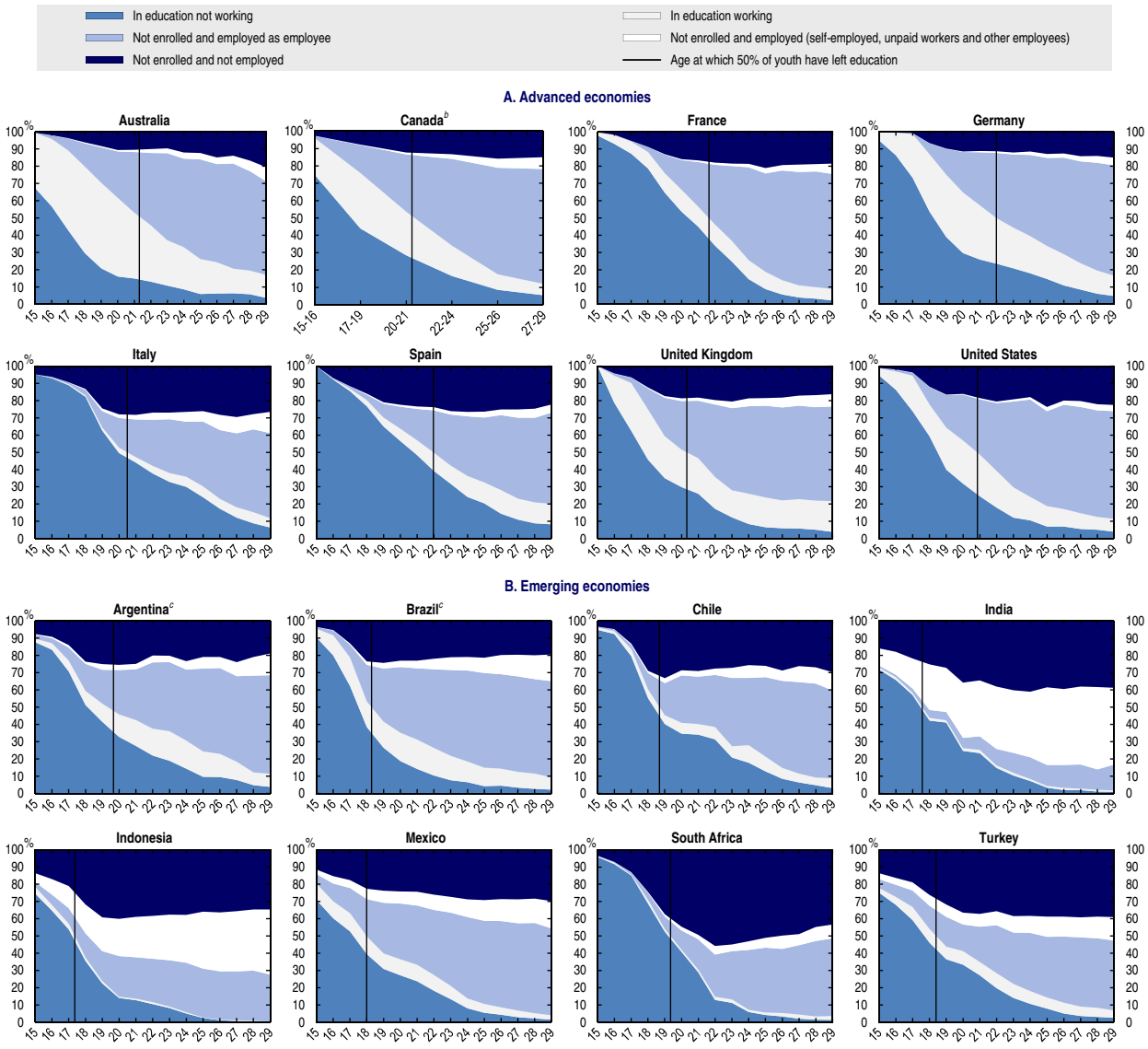
Thus far, only static measures of youth in the labour market have been considered (participation, employment and unemployment rates at a certain point in time). In this section, some measures of youth's transition process from education into work are considered. It is found that Brazilian youth leave education much earlier than their counterparts in OECD countries, while the length of the transition from school to work is about average.

50% of Brazilian youth have left education by the time they turn 18

Figure 1.15 shows the activity status of youth by single year of age in 2011 for Brazil, as well as for a selection of OECD member and non-member countries. The median age of leaving education – i.e. the age at which 50% of youth have left the education system – was 18 in Brazil. This is equivalent to the age at which, in theory, Brazilian youth should have left upper secondary education. By comparison, 80-90% of 18-year-olds in Germany, Spain and the United States were still in school – suggesting that the median young person in those countries enters the labour market with higher educational attainment on average. In Brazil, about 8% of youth have already left education at age 15 (PNAD, 2012). In Germany, Spain and the United States, this proportion is virtually nil.

Figure 1.15. **Activity status by single year of age, Brazil and selected OECD and emerging countries, 2011**[a]

Percentage of youth aged 15-29



a) Data refer to 2004 for Indonesia, 2008 for Korea, 2009 for Australia and Chile, 2009/10 for India, and 2010 for South Africa.

b) Age groups for Canada.

c) Selected urban areas only.

Source: Quintini, G. and S. Martin (2013), "Same same but different: School-to-work transitions in emerging and advanced economies", *OECD Social, Employment and Migration Working Papers*, No. 154, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jzbb2t1rcwc-en.

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Opportunities in a buoyant labour market lure young people into work, but most young people in Brazil do not work out of necessity. According to Abramo et al. (2009), only 27.2% of those aged 18-22 work because they say they have to. Some 24.9% work because they want to be independent, and another 23.3% work because they consider it to be a "personal achievement". In Chapter 2, the unattractiveness of the education system will

be highlighted as another reason why many youth drop out of school to find a job instead. Nevertheless, in the same chapter it will be shown that youth with higher levels of education have an increased likelihood of finding a job and earning higher wages – hence the importance of keeping youth in education for longer. School enrolment has also been an important strategy in the fight against child labour in Brazil (see Box 1.1).

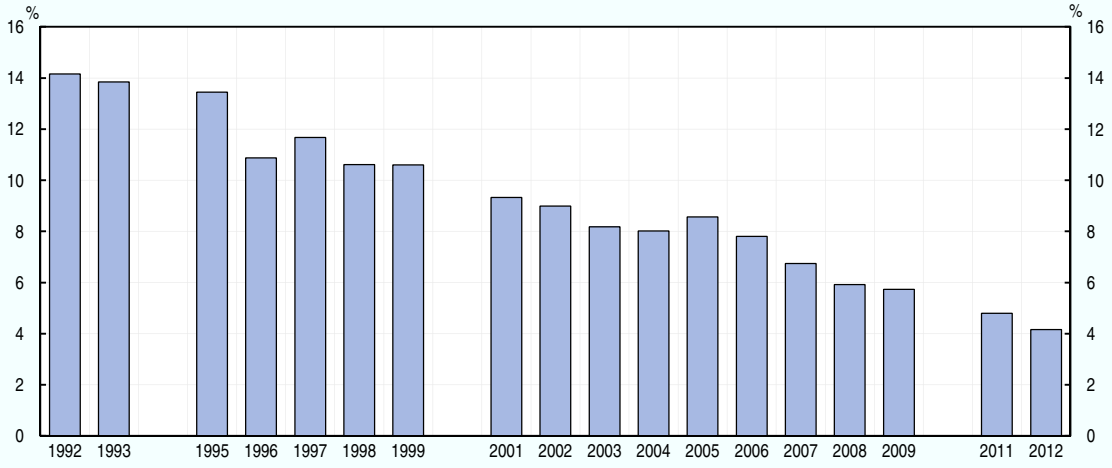
Box 1.1. **Child labour in Brazil**

Although this report focuses on youth (15-24), an important aspect of the transition from school to work in developing and emerging economies is the extent to which young children are already engaged in work. This box provides a brief overview of trends in child labour in Brazil, as well as of the main policies in place to address it. The minimum legal age for paid work in Brazil is 16, once compulsory schooling has been completed (except in the case of apprenticeships, which start at age 14). Since compulsory schooling starts at age 6, the definition of child labour adopted in the analysis which follows comprises those aged 6-15.

Despite tremendous progress, child labour has not yet been eradicated

Brazil has been internationally acclaimed for its success in reducing child labour. In 1992, 14.2% of children aged 6 to 15 were engaged in work; by 2012, this proportion had fallen to 4.2% (see figure below). According to Barros and Mendonça (2010), Brazil's child labour rate is in the bottom quartile of developing and emerging economies, and it is approximately 25% lower than in countries with similar levels of GDP per capita. However, with 4.2% of children aged 6 to 15 still working in 2012, child labour remains an issue of concern. There is a strong link between poverty and child labour, as well as intergenerational persistence (Emerson and Souza, 2005). Boys and ethnic minority children are particularly at risk (Brazil, 2011).

Percentage of 6-15 year-olds in employment, Brazil, 1992-2012



Note: Data for 1994, 2000 and 2010 are not available.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Policies to eradicate child labour must now move beyond an emphasis on school enrolment

Child labour (and early school drop-out) have long-lasting effects. By reducing human capital accumulation (Sanchez, Orazem and Gunnarson, 2005; Sedlacek et al., 2005), child labour has been shown to have a strong effect on lifetime earnings as well as on the risk of poverty in adulthood (Ilahi, Orazem and Sedlacek, 2005).

Box 1.1. **Child labour in Brazil** *(cont.)*

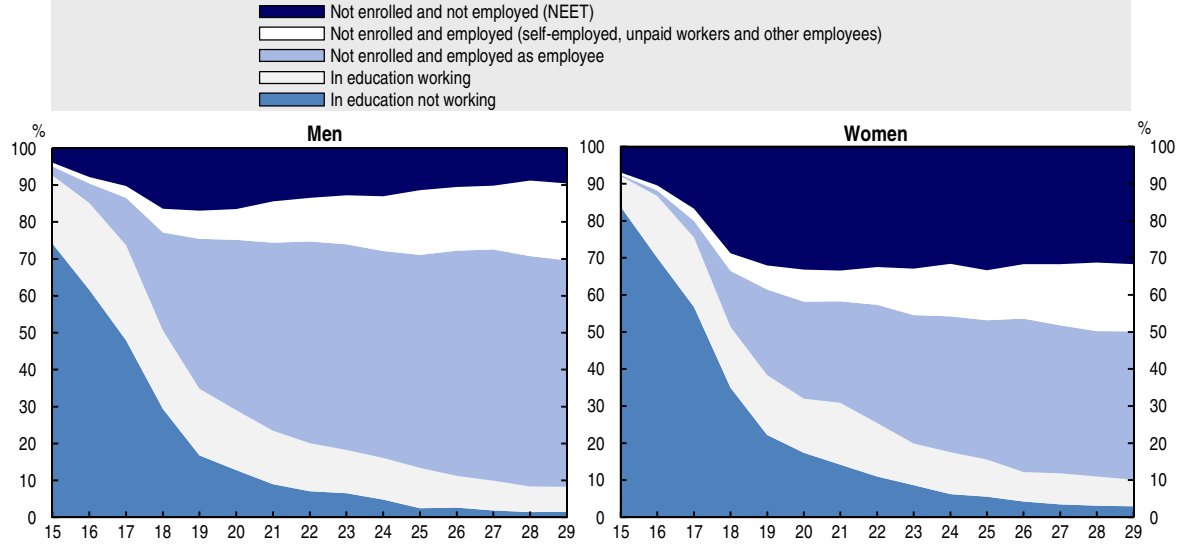
Keeping children in school for longer is therefore seen as a key measure to address child labour – and Chapter 2 of this report discusses at length the various programmes that the Brazilian government is (and has been) pursuing to increase enrolment rates – including *Bolsa Família*, a cash transfer provided to poor families on condition that children are enrolled in school. Part of the logic behind cash transfers for eradicating child labour is that they help families substitute for the lost income from sending children to school. The original cash transfers aimed at child labour in Brazil were part of the Programme for the Eradication of Child Labour (*Programa de Erradicação do Trabalho Infantil* – PETI), and this part of the programme was merged with *Bolsa Família* in 2005.

Given that enrolment rates of 6-14 year-olds are already high (98.5% in 2012) and that evaluations of *Bolsa Família* have shown little or no effect of the programme on child labour (see Chapter 2), a comprehensive solution to the problem must go beyond these two interventions. One of the reasons that *Bolsa Família* has not been successful at tackling child labour is the short school day common in Brazil (generally no more than four hours), permitting children to combine school with work. A key focus of PETI is therefore on requiring children of beneficiaries to attend an after-school programme, the *Jornada Ampliada* (Extended School Day) where they receive additional tutoring and participate in sports, cultural, artistic and leisure activities. PETI also provides social and cultural activities for parents, including help with professional training and finding work or setting up a business. According to Cacciamali and Tatei (2008) raising the educational attainment of parents should form akey component in the fight against child labour. PETI also monitors and inspects the work status of children of families in the *Cadastro Único* (a register of all low-income families used to determine eligibility for social programmes).

Given the differences in labour market outcomes between young men and women discussed above, it is of interest to view the detailed transition paths by year of age broken down by gender. Although the median age of leaving education is only slightly higher for women than for men, it is the type of activity which women enter upon leaving education which differs markedly from men, with a much larger proportion of young women entering a state of inactivity and men entering employment (Figure 1.16).

Figure 1.16. **Activity status by age and gender, Brazil, 2012**

Percentage of youth aged 15-29



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Youth take on average one year to find a job after leaving education

The transition of youth into the labour market is best measured using detailed longitudinal micro data. However, in the absence of such data (as is the case in most countries, including Brazil),[10] approximate measures of the time it takes young people to insert into the labour market can be estimated using cross-sectional data. A few such measures are provided in Table 1.1 for a range of OECD and emerging economies.

Table 1.1. **Average duration of school-to-work transitions, Brazil, OECD and other selected countries, 2011**

Years

	School-leaving age	Age of entry into work	Time needed for 50% of youth to get to work after leaving school	Average duration of completed transitions
Australia	21.3	22.3	1.0	0.3
Canada	21.0	22.6	1.7	0.4
France	21.6	23.5	1.8	0.8
United States	20.8	22.9	2.1	0.5
Germany	22.0	24.2	2.3	0.4
United Kingdom	20.3	22.8	2.5	1.0
Spain	22.0	26.7	4.7	1.8
Italy	20.5	26.3	5.9	1.7
Brazil	**18.3**	**21.7**	**3.4**	**1.0**
India	17.4	21.8	4.4	0.9
Indonesia	17.4	22.0	4.6	1.3
Mexico	18.0	22.7	4.7	0.7
Argentina	19.7	24.9	5.2	1.2
Chile	18.7	24.6	5.9	1.2
Turkey	18.4	26.0	7.6	1.3
South Africa	19.3	27.7	8.3	2.7

Source: Quintini, G. and S. Martin (2013), "Same same but different: School-to-work transitions in emerging and advanced economies", *OECD Social, Employment and Migration Working Papers*, No. 154, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jzbb2t1rcwc-en.

StatLink http://dx.doi.org/10.1787/888932996543

The first measure (Column 3) is the difference between the age at which 50% of youth are in employment – the median age of employment – and the age at which 50% have left education – the median school leaving age. Put differently, this indicator measures the time it takes for 50% of the youth population to move from education into work. In Brazil, this is estimated to be around 3.4 years, which is considerably lower than in other emerging countries (as well as in Italy and Spain), but longer than for other OECD countries.

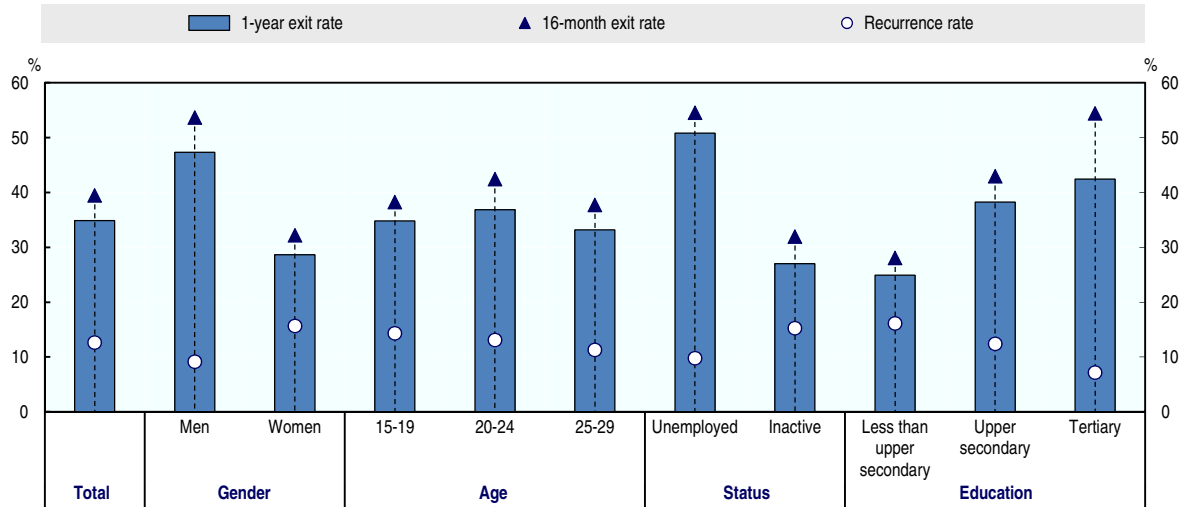
One problem with this measure is that it includes uncompleted school-to-work transitions and so, in countries where fewer young people enter work after leaving education, the indicator will tend to be over-inflated. The measure in Column 4 addresses this issue somewhat by focusing on successful transitions only. Based on this measure, counting only youth who do transition to work, it takes young people in Brazil one year on average to make the transition from education into the world of work. This is still considerably below the durations for both Italy and Spain, as well as for most emerging economies, but again longer than what is found for other OECD countries.

Moving from NEET status to employment

Just over a third (34.9%) of NEET in Brazil have moved into employment one year later (39.5% 16 months later) – but this exit rate from NEET varies considerably by socio-demographic characteristics as well as the type of NEET status [unemployed or inactive, (Figure 1.17)]. Women are considerably less likely than men to exit NEET after one year (28.7% versus 47.3%), and education is also a relatively strong predictor of NEET exit probabilities: 42.5% of NEET with tertiary qualifications are in employment one year later, compared with 24.9% of those lacking upper secondary qualifications.

Figure 1.17. **NEET dynamics by socio-demographic characteristics and status, Brazil, 2008-12**

Percentages



Note: The 1-year exit rate is defined as the proportion of youth being NEET in 2011 but being employed in 2012 (one year after). The 16-month exit rate is defined as the proportion of youth being NEET in 2011 but being employed 16 months later. The recurrence rate is defined as the proportion of youth being NEET in 2011, being employed one year after but getting back to the NEET status four months later.

Source: OECD estimates based IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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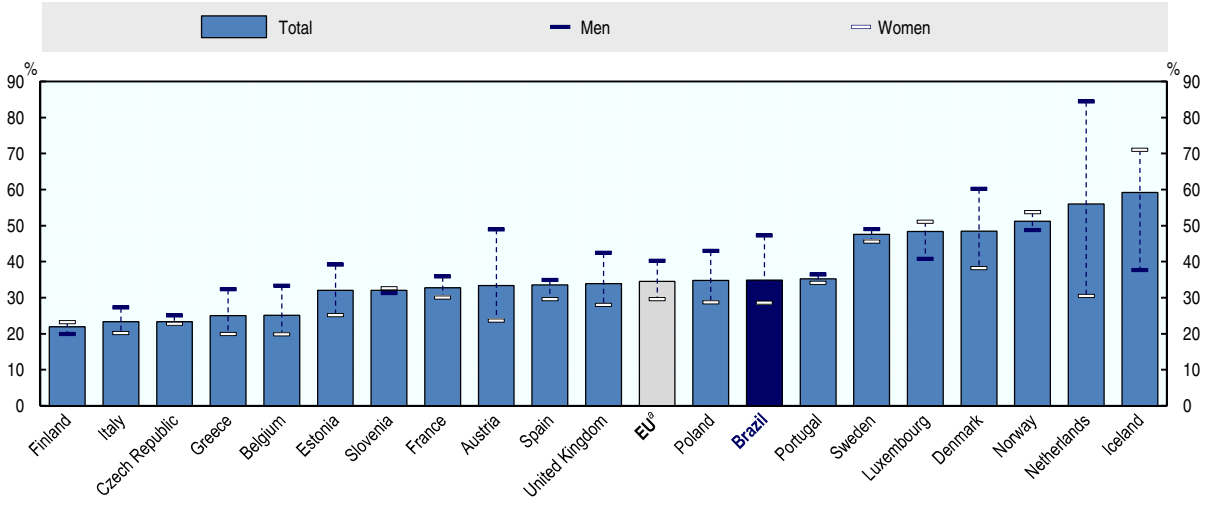
Figure 1.17 also shows the NEET recurrence rate (defined as the proportion of youth being NEET in 2011, being employed one year after, but returning to NEET status four months later). The recurrence rate is particularly high for women, those without upper secondary qualifications, as well as for teenagers.

NEET exit rates in Brazil are comparable to those observed in EU countries (Figure 1.18) – however, important differences by gender emerge once more. On average, the difference in EU countries between male and female exit rates is 7.5 percentage points (or 22.8% higher for men). In Brazil, the difference is 18.7 percentage points (or 65.1%) in favour of men.

Figure 1.18. **NEET exit rates by gender, Brazil and European Union countries, 2009-10**

Percentages



Note: Exit rate is defined as the percentage of young people who were NEET at time *t-1* and who, at time *t* (12 months later), are either employed or back in education.

a) Unweighted average for the EU countries shown in the chart above with the exception of Iceland and Norway.

Source: OECD estimates based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm, and Eurostat, European Union Statistics on Income and Living Conditions (EU-SILC), http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc.

StatLink http://dx.doi.org/10.1787/888932995403

The characteristics of jobs performed by youth

A high incidence of informal employment among both youth and adults

Defining informal employment

Much of the international literature on informal employment has focused on finding an appropriate definition of informality. In Brazil, this task has been slightly simplified by the fact that employees in the formal sector work with a signed worker's booklet (*carteira de trabalho assinada*). The worker's booklet is issued by the Ministry of Labour and Employment (*Ministério do Trabalho e Emprego* – MTE) and needs to be signed and stamped by the employer, upon which s/he agrees to pay social security contributions and comply with the existing labour law as defined in the Brazilian Labour Code (*Consolidação das Leis de Trabalho*) which entitles the worker to a certain number of benefits, including: a 13th salary, a one-month paid vacation, severance payment for unjustified dismissal, a maximum work-week of 44 hours, a six-hour limit to shift work, at least 50% premium for overtime work, a food and transport subsidy, and four months of paid maternity leave. In addition, the employer commits him/herself to paying the worker at least the minimum wage. Box 1.2 describes the benefits and protection formal workers in Brazil are entitled to in slightly more detail, including a brief history of how they evolved.

Workers with a worker's booklet can therefore be classified as working in the formal sector, and those without as working in the informal sector. A slight complication arises as it is not obvious how to classify the self-employed or employers. The customary practice is to include all self-employed in the informal sector, and all employers in the formal sector – however, this is only a rough approximation since some self-employed

contribute to social security (16.5%), and many employers do not (42.2%).[11] In addition, it is not clear that all self-employment should be seen as precarious work – as shown by Ramos and Reis (1997), many self-employed are very high wage-earners. In what follows, the standard definition is used.[12, 13]

Box 1.2. **The history of Brazilian labour legislation**

In Brazil, labour legislation largely dates back to the 1930s and 1940s, and is mostly written into the Constitution, which makes amendments very difficult since they must be approved in four rounds (two in the Chamber and two in the Senate) and, in each round, the amendment must have votes from two-thirds of each house. Most labour law has been consolidated into the Consolidated Labour Code (*Consolidação das Leis do Trabalho* – CLT) in 1943. The CLT currently has more than 900 articles (Gonzaga, 2003) and has undergone just a few changes in its history.

In 1964, the military regime introduced changes that severely diminished the power of labour unions (Amadeo and Camargo, 1996). The right to strike was reduced and many union leaders were persecuted. In addition, a wage indexation policy was introduced.

In 1967, the Guarantee Fund for Length of Service (*Fundo de Garantia por Tempo de Serviço* – FGTS) was set up (see Chapter 3 for further detail). This fund aimed to provide a certain level of financial cover for individuals suffering an unjustified dismissal. Some changes to the FGTS have happened over time, including an increase in the dismissal penalty in 2001.

Brazil's minimum wage was introduced in July 1940 and included in the CLT in 1943. In 1963, it was extended to cover rural areas and, in 1984, it was turned into a single national minimum wage.

The most important change to the CLT occurred in 1988 when the Constitution was revised which:

- ***Provided more freedom and autonomy to unions*** and reduced the possibilities for government intervention. Unions were no longer required to be registered and approved by the Ministry of Labour Employment and decisions to strike were left entirely to union discretion – the advance notice required to the employer being cut from five to two days. Strikes in certain strategic sectors were no longer banned.
- ***Increased labour costs:***
  - A reduction in the maximum number of working hours per week from 48 to 44 hours;
  - A reduction in the maximum number of hours for continuous shift work from eightto six hours;
  - An increase in the minimum overtime premium from 20% to 50%;
  - An increase in maternity leave from three to four months and the introduction of five days paternity leave;
  - An increase in the value of paid vacations from 1 to at least 4/3 of the normal monthly wage.
- ***Increased dismissal penalties:***
  - An increase in the notice period from one month to a period in proportion with the worker's job tenure. However, up until 2011, no specific law regulated this constitutional device and so notice continued to be given one month prior to dismissal, regardless of tenure.[1] In 2011, Law 12506 changed this and introduced and incremented the notice period by three days for every year of service, up to a total maximum of 90 days (30 days standard notice period, plus up to 60 days depending on job tenure).
  - A fourfold increase in the value of the unfair dismissal penalty from 10% of the cumulative contribution to the worker's FGTS to 40%.

Box 1.2. **The history of Brazilian labour legislation** *(cont.)*

Several reforms have taken place since the 1988 Constitution which have introduced more flexibility in the labour market. Amongst the most notable ones are the abolishment of the Wage Adjustment Law in 1995, which allowed wages to respond more freely to labour market conditions by eliminating official and centralised wage adjustments. In the mid-1990s, the government introduced legislation which allowed firms to hire workers on temporary contracts and, in 1998, the hours bank was introduced (*Banco de Horas*) which allowed employers to calculate overtime hours based on a rolling four-month period and hence to manage costs at times of peak demand, as well as *Bolsa Qualificação* which allows firms to temporarily lay off workers at the cost of the tax payer.

Brazil has also introduced measures to provide workers with greater safety nets in the case of redundancy. Unemployment insurance was introduced in Brazil in 1986 and has existed in its present form since 1994 – although recently (2011) additional conditionalities were introduced to strengthen mutual obligations.

1. No notice period needs to be given to workers undergoing a probationary period (which is three months in Brazil).

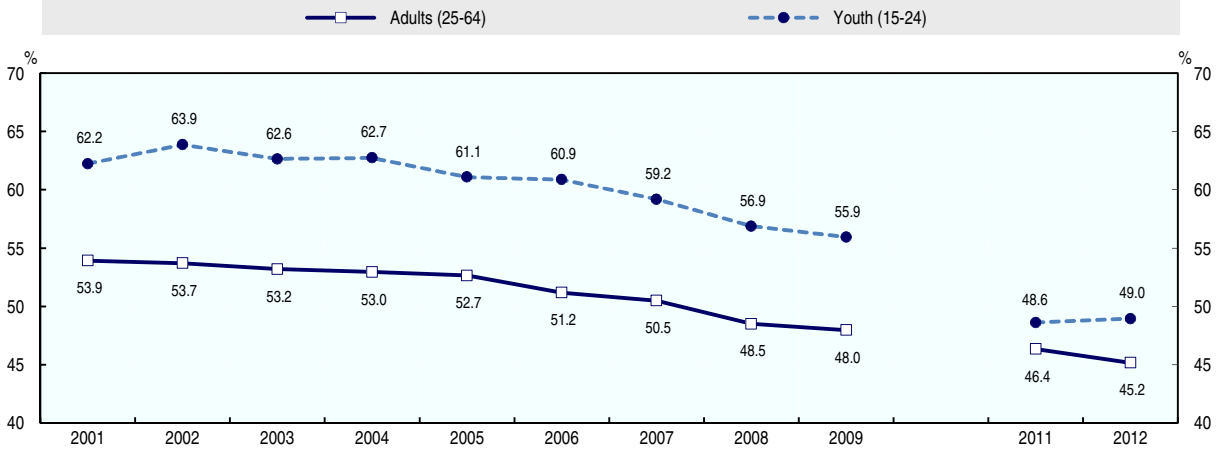
Source: This box draws heavily on Gonzaga (2003).

Informal employment is decreasing, but still high

Figure 1.19 shows how, despite significant progress over the past decade, the proportion of the workforce employed in the informal sector is still very large[14] and that, despite greater advances, youth continue to be slightly more likely to work in the informal sector than their older counterparts (49.0% versus 45.2%).[15] The decreases in informal employment have also been larger in non-metropolitan areas and amongst the least educated workers (Barbosa Filho and Moura, 2012). According to Berg (2010), formal job growth during this decade outpaced informal job growth by a three-to-one ratio.

Figure 1.19. **Informality rate by age group, Brazil, 2001-12**

Percentage of employed in the respective age group



Note: Formal workers include all workers with signed worker's booklet, the military, public sector workers and employers. Data for 2010 are not available.

Source: OECD calculations using IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Why does it exist and should it be a concern?

A number of views exist in the literature on the reasons behind informal employment, as well as on its desirability. On explaining informality, one view holds that it essentially reflects a choice on the part of individuals and firms to work in an unregulated sector (Lucas, 1978; Jovanovic, 1982; Evans and Leighton, 1989). An opposing view (with roots in the work of Harris and Todaro, 1970) is that the informal sector represents a disadvantaged sector resulting from labour market segmentation introduced by a scarcity of jobs in the formal sector as well as rigidities in accessing them. Although these theories are not mutually exclusive, much of the recent evidence for Brazil supports the idea of a segmented labour market: Scorzafave and Pazello (2007) and Botelho and Ponczek (2011) find that the same worker earns significantly less in the informal sector. If informal employment were a voluntary choice, then one would expect individuals in the informal sector to earn more than in the formal sector, as compensation for the foregone benefits. Even research which has argued that the labour market in Brazil is not segmented (e.g. Curi and Menezes-Filho, 2006) still finds a premium to working in the formal sector, albeit a small one. The question may therefore be more one of the extent to which the labour market is segmented rather than whether the labour market is segmented at all. Of course, it is likely that, in reality, informal employment will present a choice for some workers, while for others it represents exclusion from the formal sector. Indeed, Lemos (2009) argues that the Brazilian labour market exhibits some features of a segmented labour market, but also of an integrated competitive labour market.

A related topic in the literature is on the desirability of the informal sector. On the one hand, authors like Ziss and Dick (2003) and Cunningham and Salvagno (2011) argue that informal employment is a temporary phase through which young people pass and acquire the necessary training as a "springboard" into the formal sector. However, as Bosch and Maloney (2010) point out, such training received in the informal sector could merely reflect deficiencies in the education system which, if remedied, would enable individuals to find jobs in the formal sector straight away. Indeed, the probability of informality decreases significantly with educational attainment (Mello and Santos, 2009). The same authors also find that those whose first jobs are informal are more likely to remain in that condition for an extended period. Given that those working in the informal sector: earn less; receive fewer benefits; are not covered by the social security system, minimum wage legislation or collective bargaining agreements;[16] and have higher turnover rates (Cunningham and Salvagno, 2011), a job in the formal sector would appear more desirable. From the individual's point of view, informal jobs offer no protection against unemployment, sickness and old age. From the state's perspective, a large portion of economic activity goes unregistered and, as a result, untaxed.

Policies to reduce informal employment

Brazil has experienced significant reductions in informal employment in recent years (which largely reversed the trends observed during the 1990s). For policy makers it is clearly of interest to know how this progress has been achieved, so that further gains in formal employment can be made in years to come. To a large extent, the drop in informal employment in Brazil is related to economic growth (Baltar, Krein and Moretto, 2006; Bosch, Goni and Maloney, 2007; and Corseuil and Foguel, 2012) – which corroborates evidence from other countries (Perry et al., 2007)[17] – so it is likely that a continued emphasis on creating the right conditions for economic growth will lead to further gains in formal employment.

However other policy interventions can also help to reduce the degree of informal employment. One of the reasons why firms avoid registering their workers is because of high labour costs associated with hiring. Indeed, Brazil appears to have relatively high non-wage costs compared with many other countries – an issue which shall be explored in further detail in Chapter 3 of this report – making informal employment more attractive for employers, particularly if monitoring and enforcement are weak. In a cross-country panel analysis for transition and Latin American countries, Lehmann and Muravyev (2012) find that a more regulated labour market (and in particular a larger tax wedge) increases the size of the informal economy – and Bosch, Goni and Maloney (2007) find that this is the case in Brazil as well.[18] The latter paper and Estevão and Carvalho Filho (2012) also argue that increases in employment protection following the 1988 Constitution may have increased the incidence of informal employment – however the 2000s saw an increase in formal employment together with some increase in employer protection (Berg, 2010). Given that the level of employment protection (on permanent contracts) in Brazil is in fact relatively low, it is unlikely that this has played a major role in explaining the degree of informal employment in the country.

Costs are a major consideration for firms in their decision to generate formal jobs, and this is confirmed by a series of papers that have looked at the effect of the SIMPLES Law (Integrated Tax and Contribution Payment System for Micro- and Small Enterprises – *Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e Empresas de Pequeno Porte*) introduced in 1996, which facilitated registration and lowered the rate of taxation for small and microenterprises. According to Delgado et al. (2007) the law contributed to the formalisation of nearly 500 000 microenterprises between 2000 and 2005, accounting for around two million jobs. A number of other authors have argued that SIMPLES, through its reductions in the tax burden for firms, played an important role in increasing formal employment in Brazil, including Monteiro and Assunção (2006), Cardoso Junior (2009), Corseuil, Moura and Ramos (2010) and Fajnzylber, Maloney and Montes-Rojas (2011).[19] A more recent law aimed at microenterprises with up to one employee (*Lei Complementar* 128/2008) was approved in 2009 and also significantly reduced the cost of formalisation and contributions to social security. Preliminary data analysed by Corseuil, Neri and Ulyssea (2013) suggest that the law may have had an impact on the formalisation of the self-employed, although there appears to be some perverse effect also on firms substituting regular employees for self-employed service providers.

Almeida and Carneiro (2007), Ulyssea (2008) and Simão (2009) all find that stricter enforcement leads to a higher proportion of formal employment – so allocating more resources to enforcement (increasing the number of inspections and/or increasing fines for breaches of labour regulations) is a policy option worth considering. Indeed, Berg (2010) argues that Brazil has only half the number of labour inspectors that the ILO recommends. However, the same author points out that it is not just the number of inspectors that matters, but also the incentives under which they work, and she points to a couple of initiatives in Brazil (including a bonus system linking a substantial portion of salaries to performance targets) which have greatly increased the effectiveness of enforcement and lead to an increase in formal worker registration. That said, the majority of workers who are registered through such schemes tend to be informal workers in the formal sector, whereas most informal employment in fact occurs in unregistered firms (Berg, 2010). An additional problem raised by Almeida and Carneiro (2007) is that such policies can lead to an increase in unemployment if firms find it too costly to abide by the rules. This is why, in Brazil, the focus of inspection has not merely been on inspecting and sanctioning, but also on trying to find durable solutions in partnership with the firms concerned.

Finally, it is likely that increases in formal employment in Brazil are closely associated with improvements in educational attainment (see Chapter 2). As shown by Mello and Santos (2009), educational attainment is a strong predictor of sector of employment (formal or informal) at the individual level. In addition, the authors show how, over the period 1992 to 2007, changes in the educational distribution of the population were the main determinant of the fall in informal employment. A continued focus on increasing educational attainment is therefore likely to further contribute to increases in formal sector work.

High turnover rates among the young lead to higher unemployment rates

The Brazilian labour market is characterised by high rates of turnover – a trait which clashes with the traditional view of the Brazilian labour market as being overly regulated – and these turnover rates are generally even higher for young people than for adults. Corseuil et al. (2013a) estimate that the turnover rate for youth is twice the adult rate – each year there are, on average, eight transitions into and out of formal employment for every five youth employed. The same authors also find that these turnover rates have been increasing over time, particularly during the first decade of the 21st century. In addition, Cunningham and Salvagno (2011) find that turnover rates are higher for poor youth. This means that youth (and poor youth in particular) face short job durations[20] and, consequently, high job insecurity.

Experts have pointed to the difference in turnover rates between youth and adults as the principal reason why youth unemployment rates in Brazil are considerably higher than for adults. According to Corseuil et al. (2013a), the problem youth face is not related to inflows into employment (at least for youth in the formal sector), but rather to high job destruction and separation rates, which raises turnover rates. The link between high turnover rates and high unemployment rates has been made more widely for Latin American countries by Cunningham (2009) and Cunningham and Salvagno (2011).

High turnover rates are an issue of concern as they bring high costs, to the individual, the firm, as well as to society. For the individual, leaving or being dismissed from a job could lead to a loss in income (as well as work-related benefits) and less work experience and tenure.[21] In addition, depending upon the time it takes to find a new job, it could result in human capital depreciation and potential other negative effects of long-term unemployment (e.g. deterioration in health). For the firm, high turnover hampers the accumulation of firm-specific experience, resulting in lower levels of productivity. Finally, for society, the costs of turnover come in the form of money spent on unemployment benefits and active labour market programmes as well as (in the case of long-term unemployment) increased crime rates.

The reasons behind high turnover and policy implications

In OECD countries, where turnover rates also tend to be higher among younger workers, these have frequently been associated with a higher incidence of "job-shopping" among the young – moving between jobs until the most appropriate career path has been discovered (Quintini and Martin, 2006; Quintini, Martin and Martin, 2007).

While job-shopping is likely be at the source of some of the turnover in Brazil as well,[22] the trend of increasing turnover rates has been attributed mainly to the structural transformation of the economy, away from manufacturing and into services – a sector characterised by higher turnover rates and employing large numbers of youth (Corseuil and Ribeiro, 2012). Curi and Menezes-Filho (2004) further point out that turnover

in the informal sector is considerably greater than that in the formal sector and, as Ulyssea (2006) argues, informal employment is higher in the service sector which, as has just been discussed, grew in size over the decade of the 1990s. Constanzi (2009) and Eichhorst, Marx and Pastore (2011) have also pointed out that the hiring of youth is very seasonal, providing an additional explanation for short job durations and high turnover. This might help explain the structural increase in youth unemployment observed at the end of the 1990s.

Moreover, it has been argued that the Brazilian labour code favours high turnover (Ramos and Reis, 1997). The finger has been pointed in particular to the relatively low level of employment protection and the perverse incentives generated by the Guarantee Fund for Length of Service (FGTS) – a mandatory savings account which offers workers some financial protection in case of dismissal, and to which employers are obliged to contribute the equivalent of 8% of the employee's wages each month. Employment protection in Brazil will be discussed in more detail in Chapter 3 of this report. Summarising some of the key findings, there is no such thing as "unfair dismissal" in Brazil since the law allows for "unjustified dismissal" (dismissal without reason) as long as the required notice period (between one and three months) and the firing penalties are respected. It has generally been argued in the literature that these firing costs do not present a major obstacle to employers dismissing workers, particularly those with short job tenures (in fact, there is a disincentive for employers to keep workers for a long time). In addition, the FGTS has been designed in such a way that access to the accumulated funds by workers is only possible in exceptional circumstances including, most frequently, unjustified dismissal. Because the fund has been traditionally poorly managed by the government (so as to have resulted in weak or even negative returns), individuals have had an incentive to gain access to their FGTS funds. An additional perverse incentive of the system is that individuals also receive a firing penalty directly paid to them by the firm and equivalent to 40% of the accumulated funds in the FGTS. Both these design features mean that individuals have an incentive to induce their own dismissal, and there is evidence that this happens on a relatively large scale (see Chapter 3). There is even anecdotal evidence that human resource staff in organisations have been receiving payments from workers in order to facilitate their unjustified dismissal. A final possibility, although less researched in the literature, is that severance pay increasing with tenure creates incentives for employers to dismiss workers sooner rather than later, further increasing turnover, and in particular for those with short job tenures (including the young).

Corseuil et al. (2013b) find that the level of education bears a strong effect on turnover rates and argue that improvements in the schooling of youngsters should therefore lead to lower turnover rates (and hence unemployment) in the future. The authors also argue that incentives should be provided for firms and young workers to build longer job relationships. One such policy would be to provide training programmes, partly funded by the worker and partly by the firm, which would create incentives for both parties to invest in each other in the longer term.

Fixed-term contracts are uncommon, but more prevalent among youth

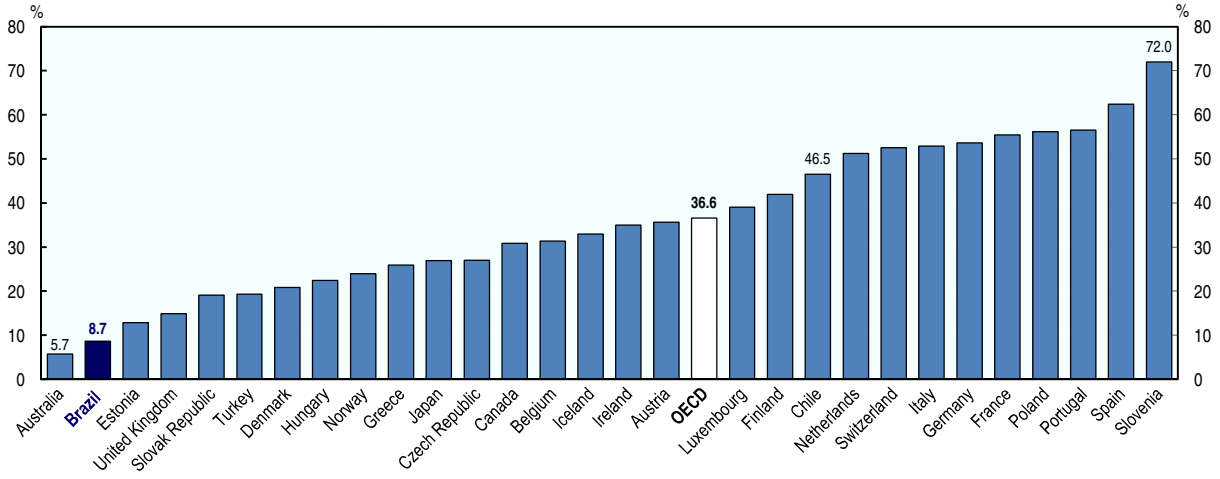
In Brazil, firms are allowed to hire workers for a period of two years on a fixed-term contract, renewable once (i.e. a maximum of four years in total). Although the law of 1998 (Law 9601) allowed employers to pay lower social security and FGTS contributions on these types of contracts, this was changed again in 2003 and the same level of contributions are now paid. One advantage fixed-term contracts have over

open-ended contracts in Brazil is that there is neither a notice period nor any penalty payable upon dismissal. However, the use of fixed-term contracts is highly restricted and needs to be agreed with unions through collective agreements.[23] Even abstracting away from the latter restriction, the OECD estimates that Brazil's regulation on standard fixed-term contracts is significantly above the OECD average, and the highest among all OECD and selected emerging economies considered (OECD, 2013 – see Chapter 3 for a more detailed discussion).

The result is that very few people are actually recruited under such contracts. According to PME data for 2012, only 3% were employed on fixed-term contracts (as a proportion of those in dependent employment). That said, youth are more likely to work on fixed-term contracts (8.7%) – although this proportion is still lower than in all OECD countries (except Australia) for which this indicator is available (Figure 1.20).[24]

Figure 1.20. **Share of temporary employment for youth, Brazil and selected OECD countries, 2012**

Percentage of dependent employment of youth aged 15-24



Source: OECD calculations based on national labour force surveys; and IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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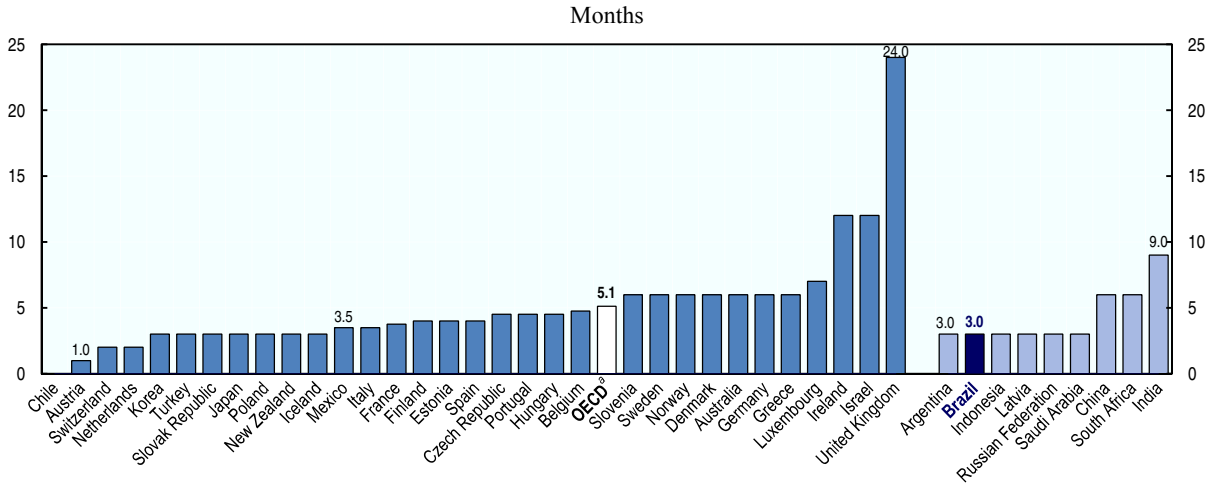
Given the ease with which open-ended contracts are ended in Brazil, it is unlikely that restrictions around the use of fixed-term contracts are a major reason why employers in Brazil are reluctant to hire more youth (especially through formal contracts).[25] In fact, the present situation in Brazil could almost be described as one where a unique labour contract prevails. What might act as a potential barrier, however, is the relatively short duration of trial periods in Brazil which, at three months, is considerably shorter than the five months average for OECD countries [OECD (2013), Figure 1.21]. One option would therefore be to lengthen the trial period so that firms are more willing to hire and experiment with new workers.

Figure 1.21. **Trial period, Brazil, OECD and other selected countries, 2012/13**



Note: Data refer to 2013 for OECD countries and Latvia, and to 2012 for all other countries.

a) Unweighted average of the 32 OECD countries shown in the chart above.

Source: OECD calculations based on the *OECD Employment Protection Database,* 2013 update, www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

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Temporary agency work

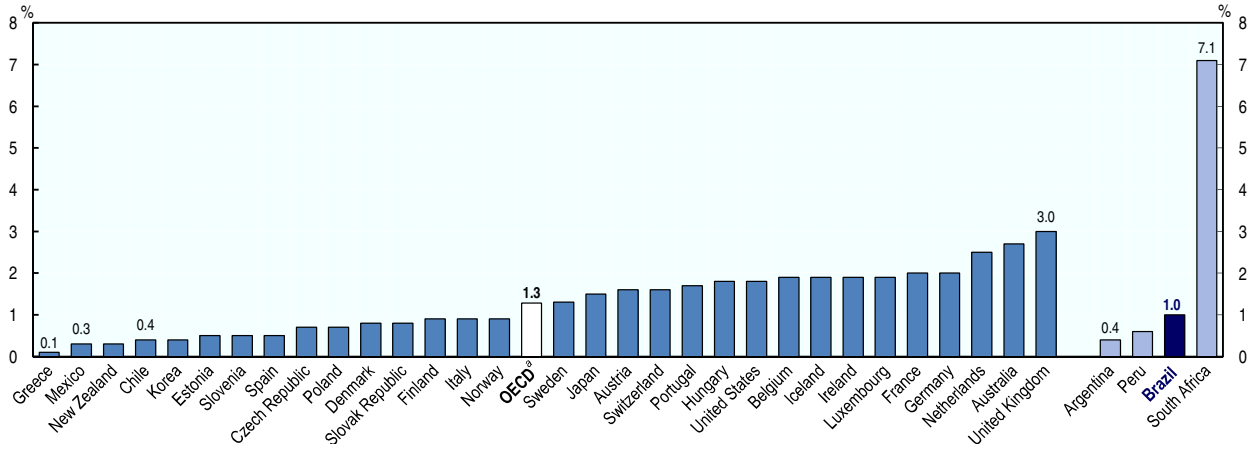
In temporary agency work, individuals are hired by an agency and are sent out on temporary work assignments with user firms – usually to carry out temporary tasks outside the core business of that firm, or to meet short-term increases in its workload. These types of contractual arrangements may be of particular interest to youth since workers under such contracts tend to receive more training than workers in standard fixed-term contracts, are assisted in finding assignments, and gain a wide range of experience (OECD, 2013). In some countries, workers are hired by agency firms under open-ended contracts, and even receive an (albeit low) wage in-between assignments. Temporary agency work could therefore accelerate young people's job-shopping process and, as a result, reduce high turnover rates. On the downside, such contracts may be abused by employers as a way to avoid employment protection and costs on regular employment contracts.

In Brazil, temporary work is regulated by Law 6019 of 1974 and, compared with OECD or other emerging economies, the restrictions are on the high side, though not excessively so (for more detail, see Chapter 3).[26] The use of temporary agents requires clear objective reasons and is allowed only in order to temporarily replace a regular and permanent member of staff, or to meet extraordinary workload demands. The duration of any contract may not exceed three months – unless specific authorisation has been requested from, and granted by, the Ministry of Labour and Employment (MTE). Temporary agency workers receive the same pay as permanent workers carrying out identical tasks, however there is no requirement for equal treatment on working conditions – although a number of minimum conditions are set out in the legislation. Lower social security contributions are paid on such contracts. A new law is being discussed (Law 4302/1998) which would extend the time period for which temporary contracts are allowed, or at least allow the duration to vary with the specific objectives of the receiving firm. This law, if approved, is likely to bring the strictness of Brazilian legislation on temporary agency work more in line with the OECD average.

Statistics for the prevalence of temporary agency work cannot be derived from the information collected by the PNAD and PME.[27] However, the International Confederation of Private Employment Agencies (Ciett) estimates that, in 2010, nearly one million Brazilians were employed by temporary work agencies which, according to Ciett (2012) calculations, which is equivalent to around 1% of the active working-age population. This is below the OECD average, but higher than in other countries in the region [Mexico, Chile, Peru and Argentina (see Figure 1.22)]. According to Ciett (2012), around 25% of temporary agency workers in Brazil are under the age of 25 – which would be equivalent to around 1.5% of active youth.[28] In other words: young people are more likely than prime age adults to be hired on temporary contracts. A final remark worth making is that, by international standards, Ciett estimates that the average length of agency work assignments in Brazil is short, with 40% of assignments lasting less than a month (compared with around 15% in Argentina and 22% in Peru).

Figure 1.22. **Incidence of temporary agency work, Brazil, OECD and other selected countries, 2010**

Temporary agents as a percentage of active working-age population



a) Unweighted average of the 31 OECD countries shown in the chart above.

Source: Ciett (2012), "Agency work penetration rate", *Agency work key indicators*, www.ciett.org/index.php?id=162.

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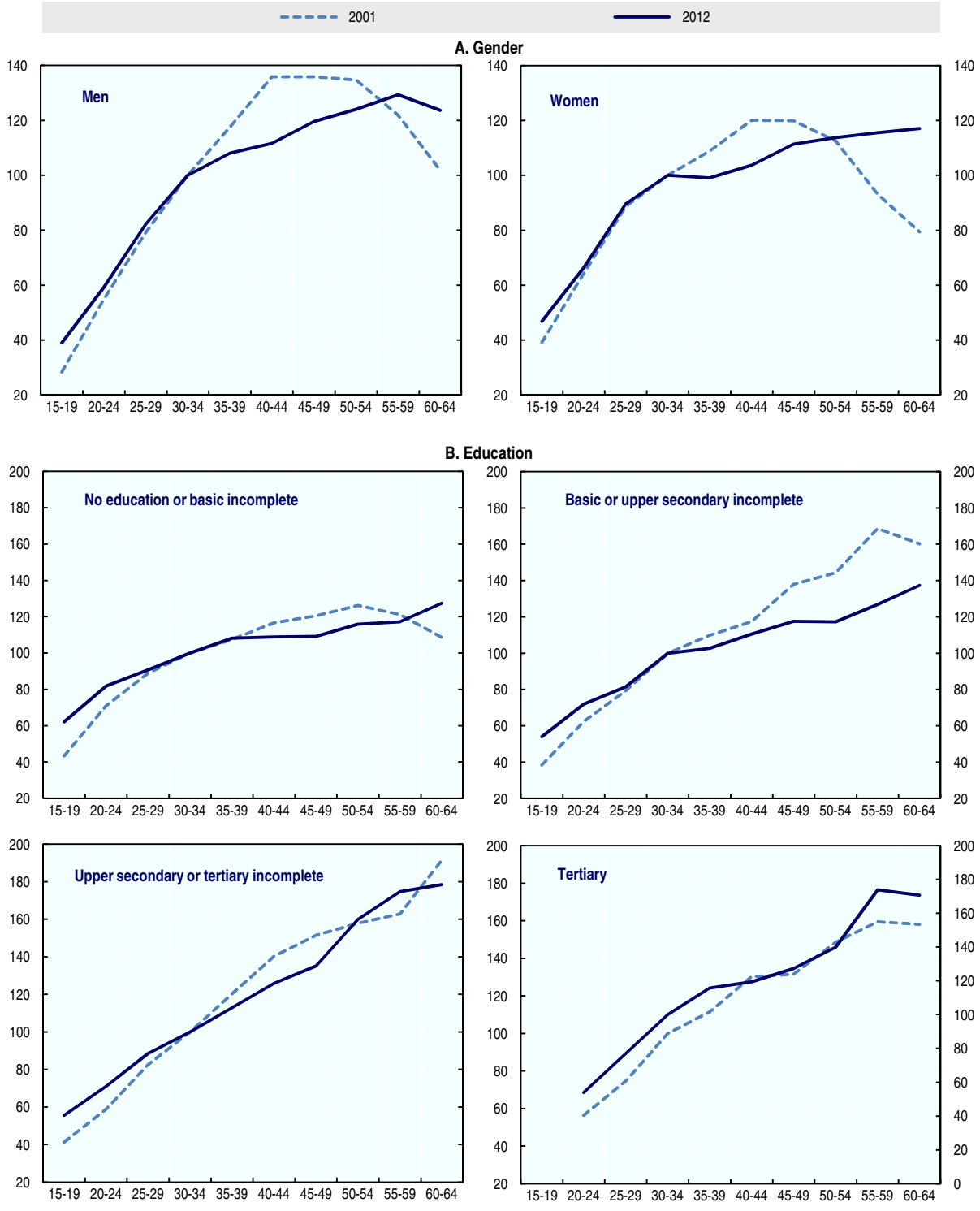
Following a cohort of temporary agency workers from the Metropolitan Area of São Paulo for the period 1998-2007, Bicev (2011) finds that a large proportion of them convert into permanent contracts after just one year, and most of them (63%) are in formal work by the end of the period. This supports the hypothesis that temporary agency work can be a useful way for youth to gain experience and use this as a springboard into better jobs.

Young people only earn half as much as prime-age adults, but their earnings have been rising faster

The earnings of youth in relation to those of adults aged 30-34 have improved between 2001 and 2012 (Figure 1.23). This holds true for both men and women, as well as for all levels of education (with the exception of tertiary). Overall, the average earnings of teenagers (youth aged 20-24) increased from 32% (58%) of those of adults aged 30-34 in 2001 to 42% (62%) in 2012. As will be seen in Chapter 3, this is partly linked to increases in the minimum wage over the same time period, which have tended to affect youth more than adults.

Figure 1.23. **Earnings profiles of full-time workers by gender and education, Brazil, 2001-12**

Average monthly earnings of workers aged 30-34 = 100



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Nevertheless, youth still earn only just over half as much as their older counterparts. Fontes, Pero and Berg (2012) investigate the incidence of low-paid work (defined in relative terms as hourly wages that are equal to or less than two-thirds of the median hourly wage) over the period 2002-09, and find that this is much higher among younger employees. In 2009, 30.2% of those aged 15-24 were low-paid, compared with only 18.8% of those aged 25-49 and 19.7% of older employees (50+) – although this gap has fallen considerably over the period. The authors also find that there is considerable mobility out of low-paid work: nearly 21% of low-paid youth had moved into intermediate- or high-paid work after just one month, and 35% had done so after one year.

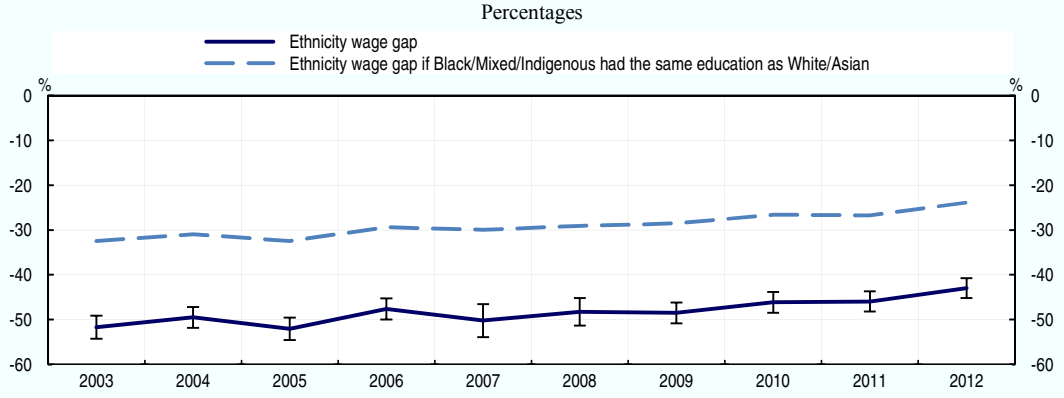
In addition, large gaps in earnings are also apparent between different sub-groups – and a substantial proportion of this gap remains unexplained (indicating the possible existence of wage discrimination in the labour market) – see Box 1.3.

Box 1.3. **Gender and ethnicity wage gaps in Brazil**

Ethnicity

The wages of Black, mixed and indigenous workers in Brazil are considerably below the wages of White workers – although this gap has been narrowing over time. In 2003, the hourly wages of Black, mixed and indigenous workers were, on average, 52% lower than those of White and Asian workers. By 2012, this gap had fallen but was still substantial at 43%. Roughly 20 percentage points of this gap (or half) can be explained by differences in educational attainment between the two groups. In 2012, if Black, mixed and indigenous workers had the same educational attainment as Whites and Asians, the wage gap would have been 24% (Figure A), some (but not all) of which may reflect discrimination in the labour market. When looking at young workers only (Figure B), there is still an ethnicity wage gap, but it is lower (22%) and has fallen by 50% since 2003. Again, differences in educational attainment can explain about half of this gap.

Figure A. **Ethnicity wage gap for working-age population, with and without controlling for educational attainment, Brazil, 2003-12**



Source: OECD calculations based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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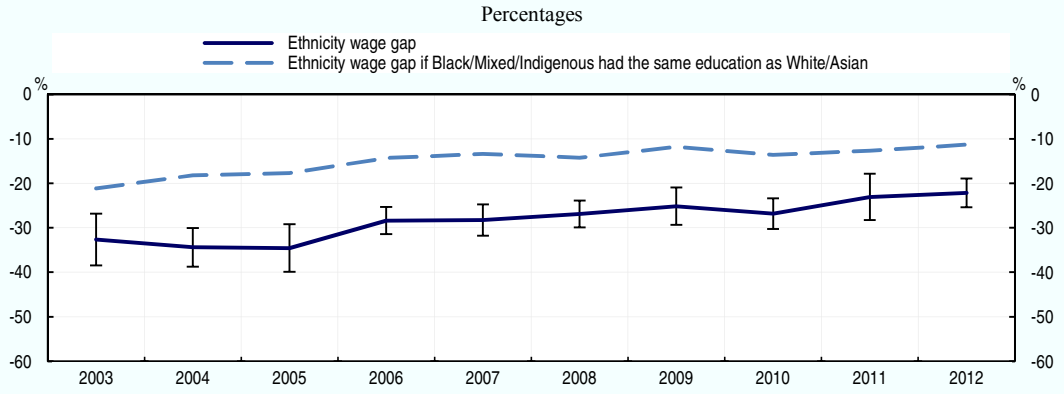
Box 1.3. **Gender and ethnicity pay gaps in Brazil** *(cont.)*

Figure B. **Ethnicity wage gap for youth, with and without controlling for educational attainment, Brazil, 2003-12**



Source: OECD calculations based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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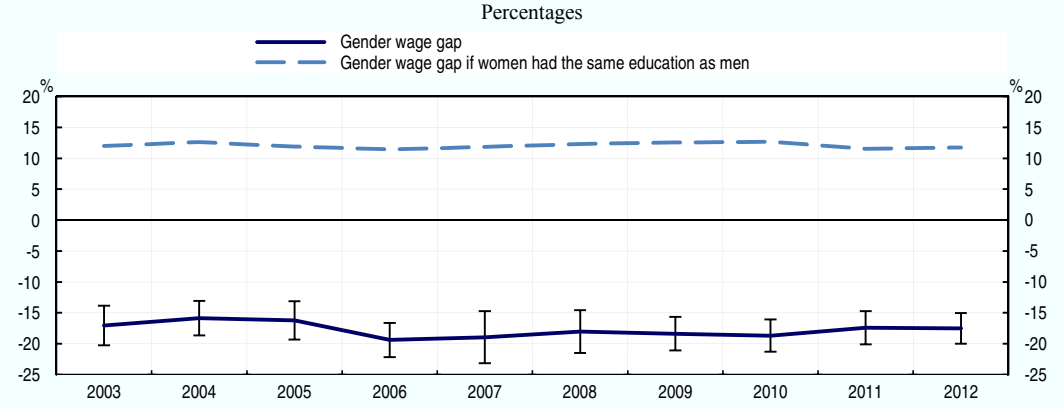
Gender

The difference in wages between men and women is less marked and, at 17%, is about average for the OECD (15% in 2010 – *OECD Employment Database 2012*). The gap has not reduced since 2003, however – a finding confirmed by Madalozzo (2010). Also, given that women have higher educational attainment, one would expect women to actually earn around 12% more than men. This brings the gap unexplained by education to 29% – higher than the ethnicity wage gap not explained by education (Figure C). Looking at the young (Figure D), there is much less of a wage gap (around 5%) – but this appears to have worsened slightly since 2003 and, comparing young women to young men with the same education, the gap unexplained by education is around 15%. Adding sector of employment does not significantly alter the explained and unexplained portions of the gender wage gap (results not reported).

These findings are consistent with evidence on the incidence of low-paid work by group. Fontes, Pero and Berg (2012) find that the decline of low-paid work over the period 2002-09 was greater for non-Whites than for Whites. By contrast, they find that the decline was much smaller for women than for men in both absolute and relative terms.

Figure C. **Gender wage gap for working-age population, with and without controlling for educational attainment, Brazil, 2003-12**



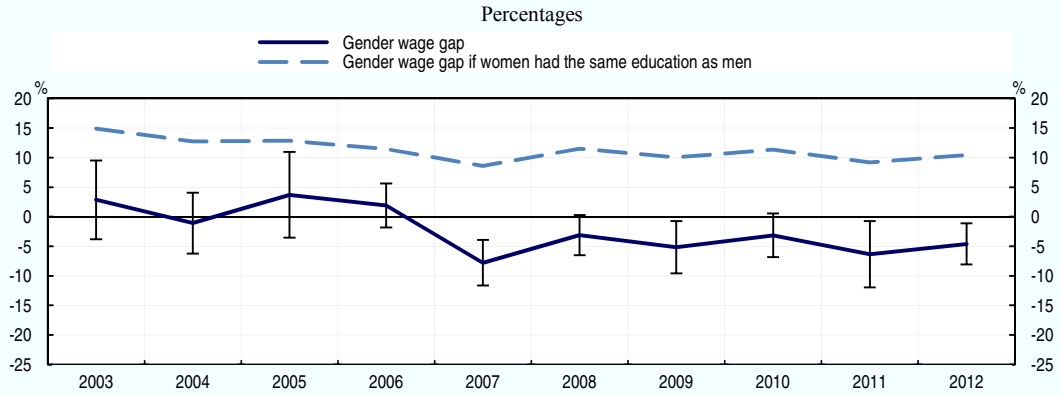
Note: Hourly wages are used because, particularly in the case of men and women, the latter spend considerably less time in paid employment (Fontoura and Gonzalez, 2009). Results obtained using Oaxaca-Blinder decomposition.

Source: OECD calculations based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995631

Box 1.3. **Gender and ethnicity pay gaps in Brazil** *(cont.)*

Figure D. **Gender wage gap for youth, with and without controlling for educational attainment, Brazil, 2003-12**



Note: Hourly wages are used because, particularly in the case of men and women, the latter spend considerably less time in paid employment (Fontoura and Gonzalez, 2009). Results obtained using Oaxaca-Blinder decomposition.

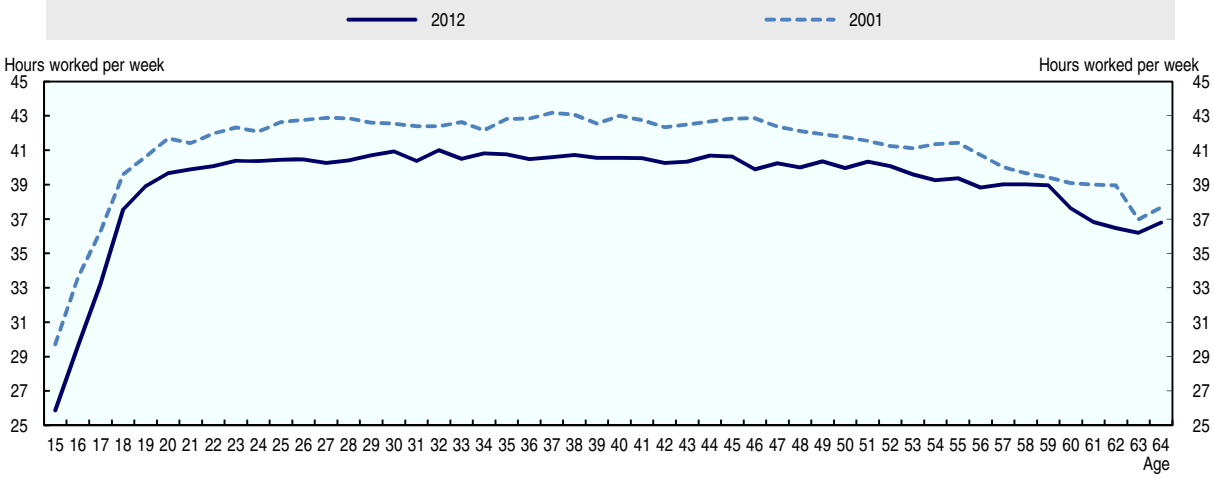
Source: OECD calculations based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995650

Young people work fewer hours, largely reflecting more time spent on study

On average, young people work 38.2 hours per week, compared with 40.2 hours for adults. There is a large difference between the hours worked by 15-19 year-olds (34.9), and 20-24 year-olds (40.1) – which reflects the fact that the former are more likely to be still studying. The number of hours usually worked has fallen across the age distribution between 2001 and 2012 (Figure 1.24).[29]

Figure 1.24. **Usual number of hours worked per week by age, Brazil, 2001-12**



Source: OECD calculations using IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

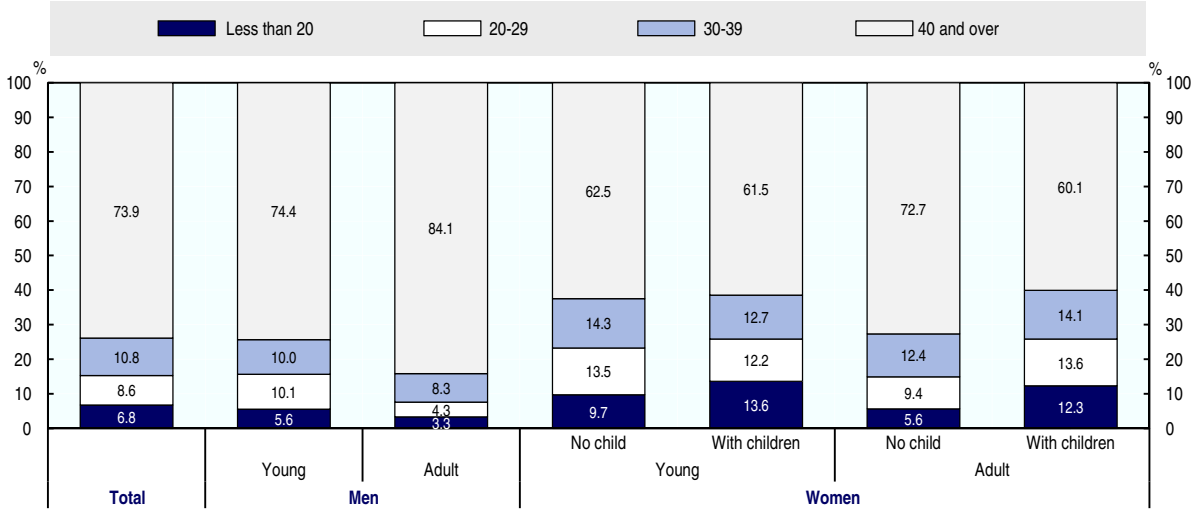
StatLink http://dx.doi.org/10.1787/888932995517

Part-time work is more common among women and youth

The legal framework for part-time work in Brazil was introduced in 1998 (Law 1709/98) and defines part-time work as a working week of 25 hours or less. By OECD standards, the incidence of part-time work is just below average in Brazil (15.3% work fewer than 30 hours a week – a common cut-off used in international statistics – compared with 16.5% across the OECD),[30] and (as in OECD countries) its incidence varies considerably by gender, age, and the presence of children. Whereas over a quarter of women with children work fewer than 30 hours a week, only 7.6% of adult men do so (Figure 1.25). Young people (both male and female) are more likely to be working part-time. Again, this reflects their higher likelihood of combining work with study.

Figure 1.25. **Hours worked per week by gender, age and the presence of children, Brazil, 2012**

Percentage of employed 15-64 year-olds



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995536

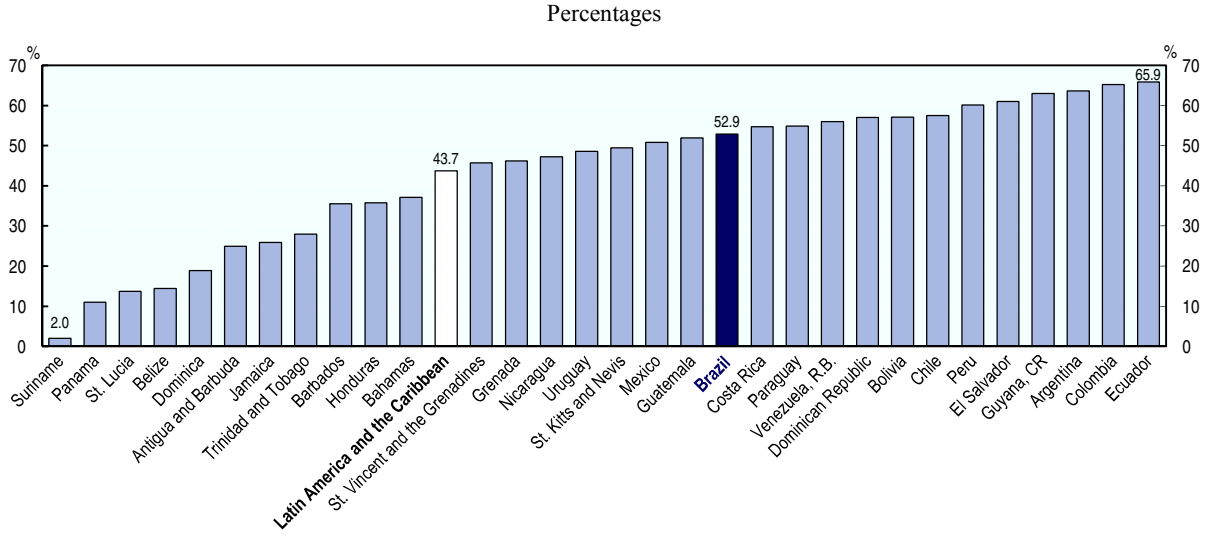
On-the-job training

Earlier in this chapter, it was argued that policies which encourage firms to invest in their (youth) workforce would promote longer working relationships and reduce turnover. The Brazilian government has already introduced a couple of measures to provide employers with greater incentives to invest more in their workforce. The *FIES Empresa* programme (described in more detail in Chapter 2) is an extension of a student loan programme to companies which will enable the latter to take out loans to cover the cost of training (the size of which will depend on the company's revenue). In addition, since 2011, firms in Brazil have been able to deduct training costs from taxes. Both these measures should increase the incentives for firms to invest more in their workforce – although no specific measures are aimed at youth.

Statistics on on-the-job training in Brazil are hard to obtain, especially for making comparisons with OECD countries. Figure 1.26 uses data from the World Bank Enterprise Surveys on the proportion of firms in Latin America and the Caribbean that

provide formal training. In Brazil, just over half of firms say they provide formal training to their employees – this is above the average for the region, and somewhere in between the levels of provision in Mexico and Chile, two OECD countries. It is even less clear, however, to what extent youth benefit from formal on-the-job training. High youth turnover rates are a likely indication that firms invest less in youth than in adult training.

Figure 1.26. **Percentage of firms offering formal training in Latin America and the Caribbean, 2010**



Source: OECD calculations based on World Bank, World Bank Enterprise Surveys, www.enterprisesurveys.org/.

StatLink http://dx.doi.org/10.1787/888932995555

Notes

1. Experience has shown that there is no trade-off between the employment rates of young people and older workers (Gruber et al., 2009). Indeed, across the OECD, countries which have higher employment rates for youth also tend to be those with higher employment rates for older workers. In the case of Brazil, Corseuil et al. (2013a) observe a low degree of substitution between youths and adults.
2. According to Cardoso (2008) the contribution of industry to GDP had, by 2000, fallen back to levels equivalent to those observed in 1950.
3. Equally, the least qualified suffered the largest increases in unemployment (Reis, 2006). Pauli, Nakabashi and Sampaio (2012) estimate that 89% of net jobs created between 1990 and 2006 were filled by individuals with an intermediate level of qualifications (upper secondary completed).
4. For example, Reis and Ramos (2011) find a strong correlation between parental education and labour market outcomes.
5. Jensen (2012) conducted a randomised evaluation in rural India to test the impact of spreading awareness about jobs for educated young women and subsequently helping qualified women get those jobs by offering free recruiting services. The author finds that, as a result of these interventions, women's career aspirations changed and parents invested more in their daughters' education, nutrition and health.

6. Female labour force participation in Brazil is low, but has seen significant increases in recent decades, and this is to a large extent associated with increases in female educational attainment (Scorzafave and Menezes-Filho, 2006).

7. More generally, household work is still mainly the responsibility of women. Using PNAD data for the period 1996-2007, Ricoldi (2010) shows that 90% of women carry out domestic work, compared to only 50% of men, and that women spend on average 25 hours doing so compared to ten hours for men.

8. Interestingly, the Consolidated Labour Code of 1943 already included an obligation to provide crèche facilities for companies with more than 30 female workers aged over 16.

9. Race/ethnicity in Brazil is an extremely complex issue. Although the classifications used here reflect those used by the *Instituto Brasileiro de Geografia e Estatística* (Brazilian Institute of Geography and Statistics), these categories are disputed and large parts of the population do not identify with them.

10. In Brazil, the *Pesquisa Mensal de Emprego* (PME) does have a panel element, where individuals are interviewed for four consecutive months, then disappear out of the survey for eight months, and then are surveyed once again for four consecutive months. The ILO has just completed a survey on the school-to-work transition in Brazil using a representative national sample of 3 300 youth and will conduct a second survey in 2015. This research is being conducted with a reference group of representatives from the MTE, SNJ, MDS, MED, IBGE, IPEA and DIEESE. Unfortunately, the results of this survey were not available in time for the publication of this report.

11. Estimates come from Corseuil and Reis (2011).

12. The base population on which these indicators were calculated includes all those who were in paid employment, those who were in unpaid employment but worked for at least 15 hours in the reference week, and those normally in paid employment but were temporarily out of work. Individuals working for their own consumption were not included (IPEA, 2012).

13. As noted by Estevão and Carvalho Filho (2012), longer-term time series of informality are further complicated by the fact that, up until 2002, the PME, while asking a question about whether or not the individual worked with a signed worker's booklet, did not follow up with a question about whether the individual worked for the government (government workers are not required to have a signed worker's booklet). PNAD has included such a follow-up question since 1989.

14. Although, according to the most recent data collected by the ILO (2011), this is lower than for other comparable countries in the region, such as Argentina and Mexico.

15. The difference in informality between youth and adults depends to a large extent on whether or not youth still in school are included in the definition. When only out-of-school youth are considered, the informality rates of youth and adults in Brazil are very similar (Quintini and Martin, 2013). In addition, there are important differences in types of informality between youth and adults. Using date from PNAD 2009, Guimarães and Almeida (2012) show how 25.9% of employed youth (15-29) work without worker's booklet, compared to 12.5% of those aged 30+. By contrast, 25.7% of the latter group are self-employed, compared to only 11.3% of youth.

16. Although there is evidence to suggest that informal employees also tend to receive 13 months of salary as well as some vacation benefits (Cunningham and Salvagno, 2011). In addition, the minimum wage tends to be adhered to in the informal sector as well (Amadeo, Gill and Neri, 2000; Neri, Gonzaga and Camargo, 2001). One possible explanation for this is that labour courts in Brazil have tended to rule in favour of workers and have awarded some informal workers their labour rights ex post (Ulyssea, 2006).

17. Ulyssea (2006) has argued that the structural change which occurred during the 1990s was also partly at the basis of the increase in informality during that decade, with an expansion of a sector characterised by informal work (services) and a reduction in the importance of the manufacturing sector traditionally characterised by a greater degree of formality. However, although this might have explained an increase in informality during the 1990s, it is difficult to apply the same explanation to the increase in formality over the first decade of the 2000s. Indeed, Corseuil, Moura and Ramos (2010) find that the increase in the pace of formal job creation in the second half of the period 1995-2007 has nothing to do with a change in industry composition.

18. An interesting paper by Theodoro and Scorzafave (2011) evaluated the impact of a reduction in social security contributions for domestic workers on the formalisation of the latter, and found little effect. According to Berg (2010), however, the law was not widely advertised which may explain its limited impact. Similarly, when the 1988 Constitution introduced some rights for domestic workers (hence increasing their cost), an increase in their registration in the following years could be observed, which may seem counterintuitive. Chahad and Macedo (2003) have put this down to an increased respect for the law as well as a stronger basis from which domestic workers could now defend their rights.

19. As a by-product of SIMPLES, firms that registered themselves gained access to formal credit markets which possibly increased their survival chances as well as the likelihood of expansion which, in turn, lead to increased (formal) employment (Berg, 2010). Indeed, Corseuil, Moura and Ramos (2010) find that the trend increase in the rapid growth of formal jobs during the early 2000s was related to an increase in the average number of workers per firm – a finding which is compatible with this story.

20. DIEESE (2012) estimates that the average job duration for young people in 2009 was between 14 and 16 months, depending on the region. For adults, this was between 58 and 77 months. The analysis also finds that this gap has increased during the first decade of the 2000s. Elsewhere, DIEESE (2011) have estimated that two-thirds of job separations in Brazil occur after less than a year of work. Both DIEESE (2011) and Bosch and Maloney (2010) argue that these are among the lowest in the world.

21. Corseuil et al. (2009) investigated the consequences of losing a formal sector job. They find that 38% do not find another job within one year and that, when they do, this is associated with a salary cut of 13% on average. In addition, the probability of finding another job in the formal sector declines with the number of months spent unemployed.

22. Albuquerque (2009) finds that turnover increases the salaries of young people, albeit with diminishing returns; and Corseuil et al. (2013b) find that job quit rates are more prevalent among young workers than among adults.

23. This was a last-minute clause negotiated by labour unions who were reluctant to approve the fixed-term contracts. This clause has made the recruitment of workers on a fixed-term contract difficult, and only large companies use them with caution in times of difficulty (Eichhorst, Marx and Pastore, 2011).

24. Corseuil et al. (2013a), based on RAIS data (administrative employer-employee data for the formal sector), estimated that, in 2010, 11% of youth were on temporary contracts, compared to 9% of adults. The figures differ because Corseuil et al. (2013a) estimate flows whereas the figures based on PNAD and reported in the text report stocks. Stock estimates will differ from flow estimates in particular for adults as their time in permanent contracts tends to be longer on average than for youth.

25. The relatively low employment protection for open-ended contracts in Brazil means that an increased use of fixed-term contracts is unlikely to lead to labour market dualism as it has in some other countries. In such countries, it is the liberalisation of temporary contracts in combination with a high level of protection for those on open-ended contracts which has tended to cause difficulties – see OECD (2013) for a review on the literature.

26. The law applies only to urban temporary work agencies.

27. However estimates can be obtained from the *Relatório Anual de Informações Sociais* (RAIS) [Annual Report on Social Indicators]. Bicev (2011) estimates that, between 1994 and 2010, the number of temporary agency workers rose significantly.

28. Another estimate by Bicev (2011) for 1998 is that over 40% were young.

29. While household survey data document a fall in hours worked, a large proportion of individuals complain about the lack of time outside work activities and the negative impacts this has on their lives. A possible explanation is that, despite a fall in official working hours, individuals still spend a considerable (and possibly increasing) amount of time outside work on work-related activities (Campos, 2012).

30. Data are extracted from http://dotstat.oecd.org/Index.aspx?DataSetCode=FTPTC_I. They refer to 2011, all ages for both sexes, and are expressed as a percentage of total employment.

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Chapter 2

Education and training for Brazilian youth

This chapter describes education in Brazil, demonstrating close links between how much youth have studied and their labour market outcomes. It looks at the performance of Brazil's education system in recent years, at key government policies that have successfully raised the educational attainment of Brazilian youth, as well as at the challenges that lie ahead.

Introduction

This chapter outlines the structure and governance of the education system in Brazil and demonstrates the close links between educational attainment and labour market outcomes. The chapter then turns to a description of a number of key government policies which have been highly successful in increasing the educational attainment of youth in the country. A discussion of the performance of the system in recent years highlights a number of success stories, but also uncovers the key challenges which need to be addressed if the education system is to provide youth with a smoother transition into the labour market.

Historically, investments in education (and in particular secondary education) have been low in Brazil. This has changed with recent administrations and tremendous progress has been made. Enrolments in Early Childhood Education and Care (ECEC) have increased by 52% between 2000 and 2012. 98% of 6-14 year-olds are now enrolled in school, and the proportion of individuals who attain upper secondary education has doubled within a generation.

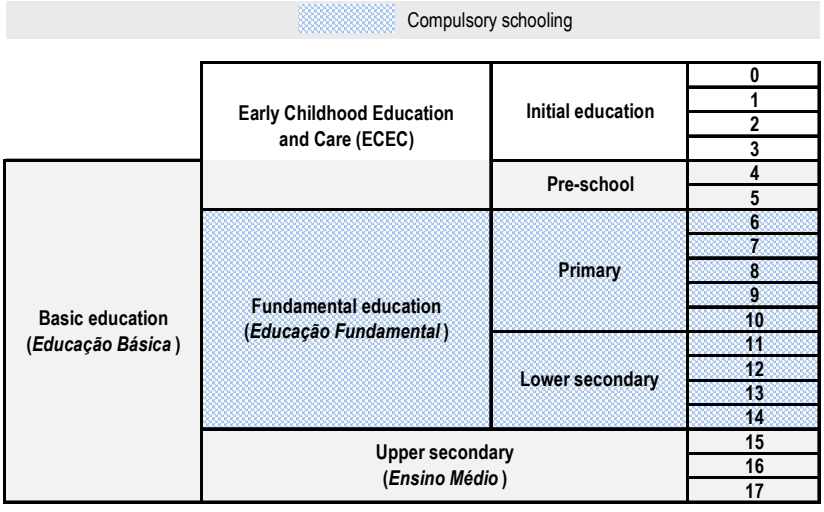
The returns to education in Brazil are still extremely high by international standards, suggesting that far more investment is needed. In addition, some key challenges will need to be addressed, including: *i)* significantly improving the quality of education; *ii)* addressing excessively high rates of drop out and grade repetition; *iii)* investing heavily in the expansion and quality of vocational education; and *iv)* improving the efficiency of educational spending, particularly by redressing the balance between spending at the tertiary level and spending at the early childhood, primary and secondary levels.

Structure and governance of the education system

Basic education

Education in Brazil is provided free of charge and consists of three stages: pre-school (*educação infantil*), fundamental education (*educação fundamental* – which combines primary and lower secondary education) and upper secondary education (*ensino médio*) – Figure 2.1.

Figure 2.1. **The structure of education in Brazil**



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Up until 2006, fundamental education lasted eight years (covering ages 7 through to 14). From 2006[1] onwards it was extended to nine years, covering ages 6 through to 14. Fundamental education is compulsory. Early Childhood Education and Care (ECEC) in Brazil consists of initial education (ages 0-3, provided in crèches or equivalent institutions) and pre-school (covering ages 4 and 5). Attendance is not compulsory, however access is a constitutional right and municipalities are expected to provide a place for every child wishing to enrol. Also, the recently approved Law 12796 (4 April 2013) will turn enrolment for 4-5 year-olds compulsory from 2016 onwards. Upper secondary education lasts three years (covering ages 15 through to 17). A new bill (4306/12) is being discussed in congress which would make upper secondary education compulsory as well.

While the Ministry of Education (MEC) is responsible for defining overall educational policy and setting the guiding principles for the organisation of educational programmes, the funding and administration of schools at each level is primarily the responsibility of states and municipalities: the latter are responsible for the ECEC system; states for upper secondary education; and responsibility for the fundamental education school network is shared between the two levels of local government.[2]

Brazil has a long tradition of decentralised management of the education system, and local governments have considerable responsibility for managing the school system, including the construction of schools; the provision of equipment, school lunches and transport; the training and recruitment of teachers, and the payment of their salaries. They also supplement the core curriculum set by the federal government with a curriculum defined by the needs of the region and the abilities of individual students.

Tertiary education

Whereas basic education in Brazil is provided primarily free of charge by the state (only 14% of enrolments in fundamental education and 12% of upper secondary enrolments are in the private sector)[3, 4] a large part of tertiary education is provided through fee-charging institutions in the private sector. In 2011, there were 2 365 higher education institutions in Brazil (12% public), enrolling over 6.7 million students (26% in public institutions) – MEC (2011a).[5] Public institutions (particularly federal universities) are generally regarded as providing a higher quality education. They do not charge fees, and can be funded by any level of government (federal, state or municipal).

Vocational education

Courses

Vocational education in Brazil consists of three types of courses:

- **Professional qualification courses** (*qualificação profissional*), also sometimes referred to as "initial" or "continuous" training courses, or "basic" courses, comprise any training which prepares an individual for the exercise of a professional activity. Their length varies depending on the course (with a minimum of 160 hours). Professional qualification courses prepare individuals for the world of work and can be offered at any level of the educational system and do not necessarily require any other educational participation/attainment.

  In 2007, the National Household Survey (*Pesquisa Nacional por Amostra de Domicílios* – PNAD) included a special supplement which looked at vocational education. According to these data, 80.9% of the population aged 10 and over enrolled in vocational education were doing professional qualification courses. According to the same survey, most of those who were (or had been) enrolled in such courses were doing IT-related subjects (45.5%). The second most popular subject was business and management studies (11.5%) (MEC, 2009).

- **Vocational (upper) secondary education**, leading to the title of *Técnico Nível Médio*. According to the PNAD 2007, 17.6% of vocational training was at this level, with health (20.2%), industry (19%) and management (18%) being the most popular courses taken (MEC, 2009).[6] In 2011, vocational education represented 13% of all enrolments in upper secondary education (excluding Youth and Adult Education – *Educação de Jovens e Adultos* – EJA).[7]
- **Vocational tertiary education** (*Curso de Graduação Tecnológica*) can only be accessed by students who have completed upper secondary education. According to MEC (2009) 1.5% of individuals enrolled in vocational education in 2007 were enrolled in courses at this level.

Providers

These three types of courses can be delivered in one of three types of institution:

- **Public institutions**: schools of the Federal Network (*Rede Federal*) or state schools. Set up in 1909, the Federal Network of Vocational, Scientific and Technical Education was made up of 405 institutions in 2011, and another 88 were to be opened in 2012. As discussed later in this report, the government has embarked on an ambitious expansion of the Federal Network through the PRONATEC programme, and the target is to have 562 institutions operational by 2014. Vocational schools of the Federal Network have a reputation for providing a high-quality education, but places are in short supply. According to the 2007 PNAD data, the public sector was the largest provider of secondary level vocational education (43.5% of all provision at that level) (MEC, 2009). Overall, 22.4% of individuals enrolled (or of those who had been enrolled) in vocational education in 2007 were so in the public sector.
- **Independent social services**: set up by law and funded through a compulsory payroll tax of between 0.2% and 2.5%, these private, not-for-profit organisations provide a range of services, including vocational education and training. They make up the so-called *Sistema S* and are organised by sector of economic activity. They include: SENAC (*Serviço Nacional de Aprendizagem Comercial* – National Service for Commercial Apprenticeship), SESC (*Serviço Social do Comércio* – Commerce's Social Service), SENAI (*Serviço Nacional de Aprendizagem Industrial* – National Service for Industrial Apprenticeship), SESI (*Serviço Social da Indústria* – Industry's Social Service), SENAT (*Serviço Nacional de Aprendizagem do Transporte* – National Service for Transport Apprenticeship), SEST (*Serviço Social do Transporte* – Transport's Social Service), SENAR (*Serviço Nacional de Aprendizagem Rural* – National Service for Agricultural Apprenticeship), and SESCOOP (*Serviço Nacional de Aprendizagem do Cooperativismo* – National Service for Co-operative Apprenticeship). The *Sistema S* accounted for 20.6% of all enrolments in vocational education (MEC, 2009). Most of the *Sistema S* provision is in professional qualification courses (89.2%), yet it only covers a relatively small share of the market [14.4% of overall professional qualification provision (MEC, 2009)].
- Finally, a third mode of provision is through **private providers**, certified by the Ministry of Labour and Employment (MTE), as well as registered with the *Conselho Municipal dos Direitos da Criança e do Adolescente* (Municipal Council for the Rights of Children and Adolescents). The majority of those who participated in vocational education did so in the private sector (53.1%), and private providers accounted for the lion's share of professional qualifications (61.5%) and higher level vocational courses (69.2%) (MEC, 2009).

Apprenticeships

Apprenticeships (*aprendizagens*) are characterised by the duality between theoretical training (either professional qualification, or vocational upper secondary education – as outlined above) and practical, on-the-job training. In Brazil, they are aimed at youth aged 14-24[8] and consist of a special work contract of up to two years. The practical component can be done simultaneously, in the middle, or at the end of the classroom-based training. Apprentices receive a minimum wage (although firms can pay more) and work up to six hours a day (eight hours for those who have completed fundamental education). Since 2000, medium-sized and large firms have been obliged by law to employ between 5% and 15% of their workforce as apprentices.[9] In return, firms receive a payroll subsidy in the form of a lower deposit on the worker's Guarantee Fund for Length of Service (*Fundo de Garantia por Tempo de Serviço* – FGTS): 2% instead of the prevailing 8%. In addition, there are no penalties for unjustified dismissal – usually equivalent to 40% of the amount deposited in the worker's FGTS.

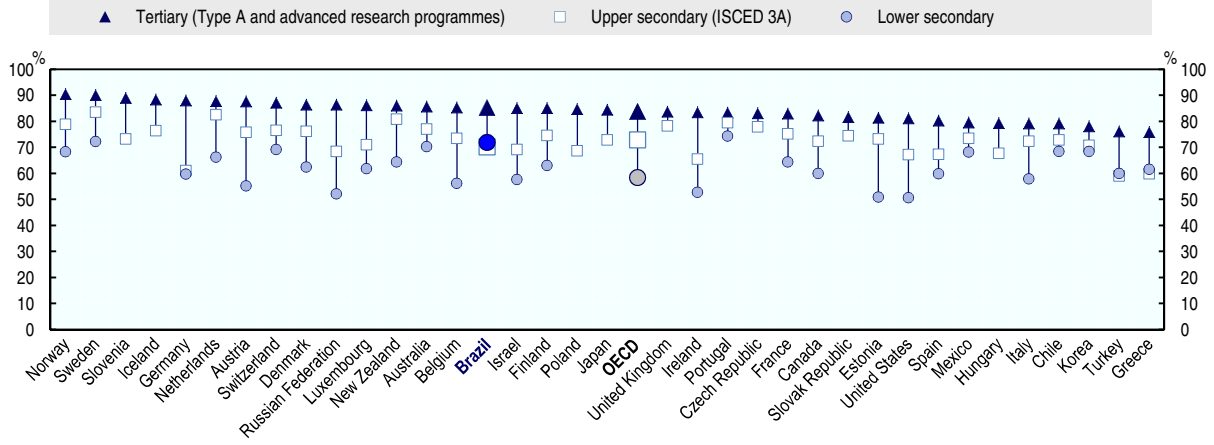
Labour market outcomes by level of education

Employment

Across the OECD, education increases the chances of being employed. Individuals with tertiary education are more likely to be employed than those with an upper secondary education, and the latter, in turn, have a greater chance of being employed than people without an upper secondary education. Brazil is no exception to this. Employment rates are 15 percentage points higher for those with a tertiary education, compared with individuals who have an upper secondary education (Figure 2.2). At the same time, the dispersion in employment outcomes between different educational levels is less marked in Brazil than in the OECD on average – reflecting the general good health of the Brazilian labour market. The data indeed confirm the finding from Chapter 1 that employment rates in Brazil are high, regardless of the level of qualification.

Figure 2.2. **Employment rates among 25-64 year-olds by educational attainment, Brazil and OECD countries, 2011**

Number of employed 25-64 year-olds as a percentage of all 25-64 year-olds



Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table A5.1a, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

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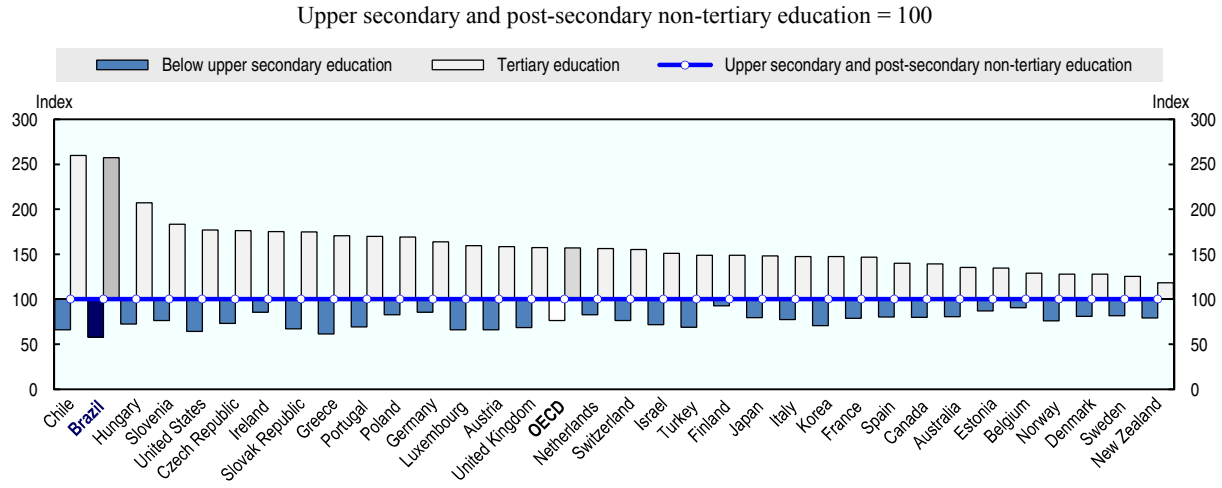
Returns to education

Not only does education lead to higher employment rates, it also leads to higher earnings. This is particularly true in Brazil, where those with tertiary education earn over 2.5 times more than those with upper secondary education – the second highest such ratio among 34 countries analysed (Figure 2.3). Similarly, Brazil has the highest penalty for not having an upper secondary education qualification (earnings are almost halved).

Figure 2.3. **Relative earnings from employment among 25-64 year-olds by educational attainment, Brazil and OECD countries, 2011**



Note: Belgium, Korea and Turkey report earnings net of income tax. Data refer to 2010 for Canada, Ireland, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain and Sweden; to 2009 for Australia, Finland, France and Italy; to 2007 for Japan and to 2005 for Turkey.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table A6.1, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

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These differences in earnings are in part a reflection of the highly unequal distribution of income in Brazil. However, they are also a consequence of the relatively low educational attainment of the population (particularly at tertiary level) and indicate that further investments in education are highly warranted. Over the past decade, heavy investments in education have indeed led to a fall in the returns to education (Box 2.1).

Vocational education

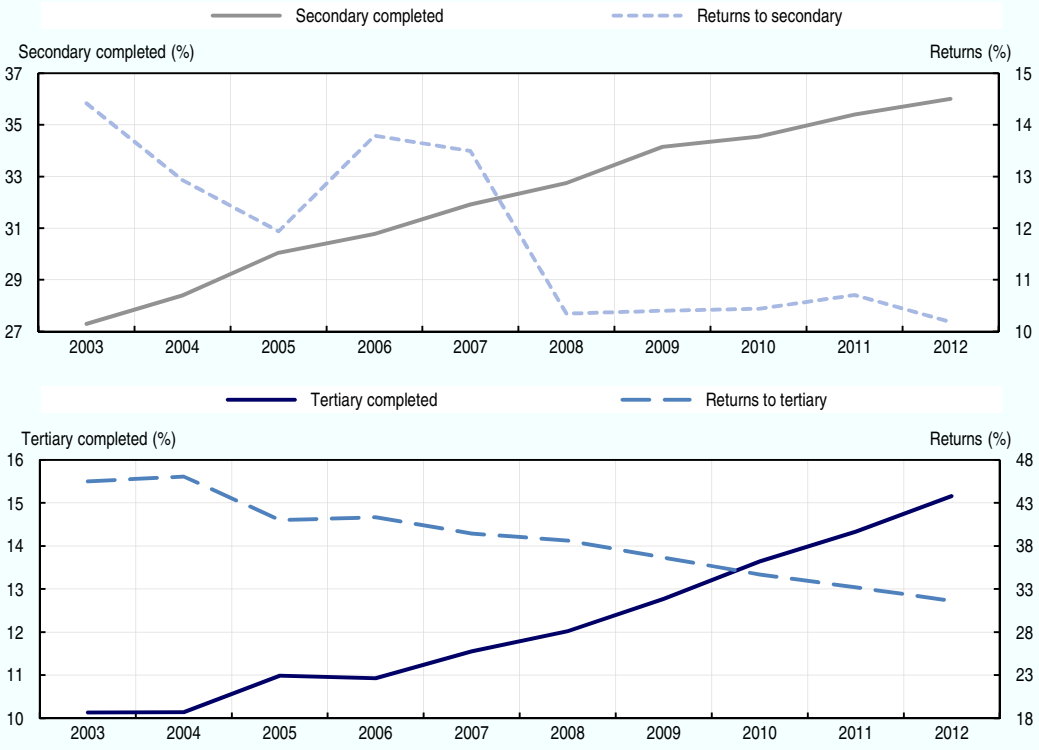
Although the literature on the labour market outcomes of those who studied vocational qualifications in Brazil is scant,[10] the evidence is generally favourable. It has been estimated that upper secondary school graduates with vocational qualifications earn on average 12% more than those who came through the academic route (*Relações do Trabalho*, 2011). Similarly, a survey of leavers from secondary level vocational courses at federal institutions found that qualifiers had good labour market outcomes (only 7% were neither studying nor working) and 11% earned above average wages (MEC, 2009). Aguas (2011) echoes this. Severnini and Orellano (2010) find that those with "basic" (or professional qualification) courses earned 37% more and that vocational courses offered by employers also reduced the likelihood of unemployment – although the effect on earnings of vocational tertiary education was found to be negative. As far as apprenticeships are concerned, Corseuil, Foguel and Gonzaga (2013) find that they have a very large impact on real wages that increases over time, and that they increase the probability of permanent employment in the formal sector, especially in the medium run.

Box 2.1. **The falling returns to education in Brazil**

In the past, the economic literature on returns to education in Brazil has identified a fall in the returns to secondary education (Pavcnik et al., 2004; Crespo and Reis, 2009; Bassi et al., 2012; Bruns, Evans and Luque, 2012) and has generally attributed this to an increase in the relative supply of workers with secondary education combined with an increase in the demand for workers with higher education. The latter explanation extrapolates from past experience in the United States where new technology displaced workers with secondary education performing routine tasks and led to a fall in returns to secondary education, while simultaneously resulting in a skill-upgrading of manufacturing firms (Araújo, Bogliacino and Vivarelli, 2009).

OECD analysis finds that the returns to education in Brazil (although still very high by international standards) have dropped considerably over the last ten years. Mapping the trends in returns to education against the proportion of the working-age population who have completed upper secondary and tertiary education uncovers a strong negative relationship between the two (see figure below), suggesting that simple demand and supply forces may be at work. The proportion of the working-age population with upper secondary education has increased by 32% between 2003 and 2012, and the return to upper secondary education fell by 29% over the same period. Similarly, the proportion of the working-age population with tertiary education increased by 50% over the period, while the returns fell by 30%.[1]

Proportion of the working-age population with (upper) secondary and tertiary qualifications, and the return to (upper) secondary and tertiary education, 2003-12



Note: Returns are calculated using the following steps. *First*, for each level of education, log earnings are regressed on age and age squared. The coefficients of these regressions are used to build age-earnings profiles for each level of education. *Second*, for each level of education, a probit regression of the probability of being employed is run on age and age squared. These coefficients are then used to build age-employment profiles for each level of education. Age-earnings and age-employment profiles for each level of education are then multiplied by each other to obtain "employment-adjusted age-earnings profiles" for each level of education. The internal rate of return of the difference between these two employment-adjusted earnings streams is then calculated to give the rate of return to education as reported in the figure.

Source: OECD calculations based on IBGE, *Pesquisa Mensal de Emprego* [Monthly Labour Force Survey], www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/default.shtm.

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1. IPEA (2012) also finds that the return to those with more than 11 years of education has fallen considerably over the last decade, which they equally attribute to an increase in the educational attainment of the workforce.

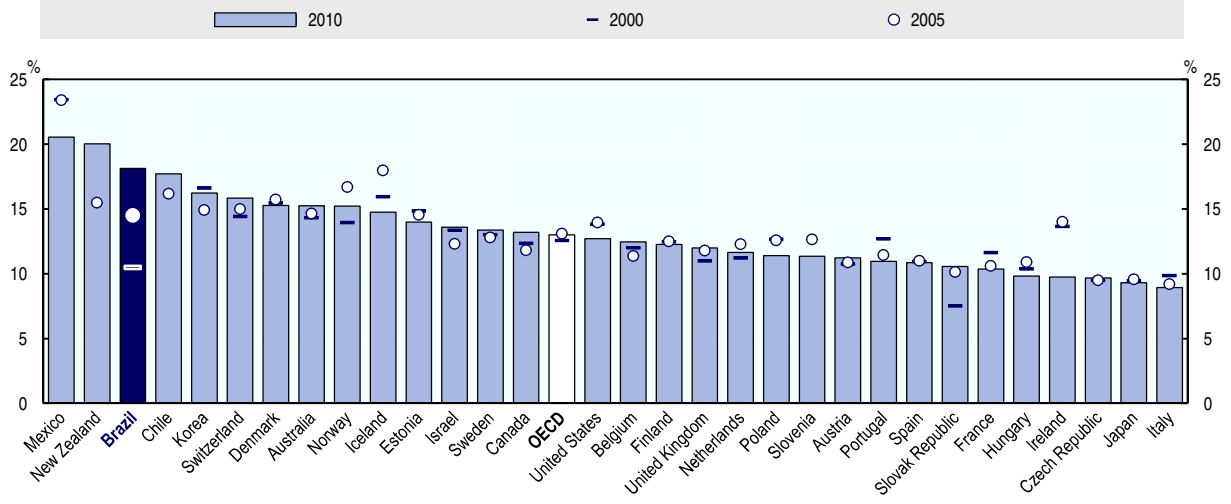
Education is the cornerstone of Brazil's youth policy

Given the position of youth in the labour market, as well as the importance of education in determining labour market outcomes (including formality and turnover – see Chapter 1), it is unsurprising that Brazil's youth policies in recent years have focused primarily on increasing their educational attainment. A number of successful policies have been implemented to increase the educational attainment of young people, including: an increase in educational spending; a more equitable allocation of educational resources; policies to improve the quality of teachers; the introduction of better monitoring mechanisms and accountability; as well as tackling demand-side barriers through pecuniary incentives.

Brazil is spending more money on education

Brazil increased public spending on education from 10.5% of total public expenditure in 2000, to 14.5% in 2005, and to 18.1% in 2010 (Figure 2.4) – one of the steepest rates of growth among the 31 countries for which data are available. With 18.1% of public expenditure spent on education, Brazil ranks 3rd out of 31 countries for which data are available, and above the OECD average of 13%.

Figure 2.4. **Total public expenditure on education as a percentage of total public expenditure, Brazil and OECD countries, 2000, 2005 and 2010**



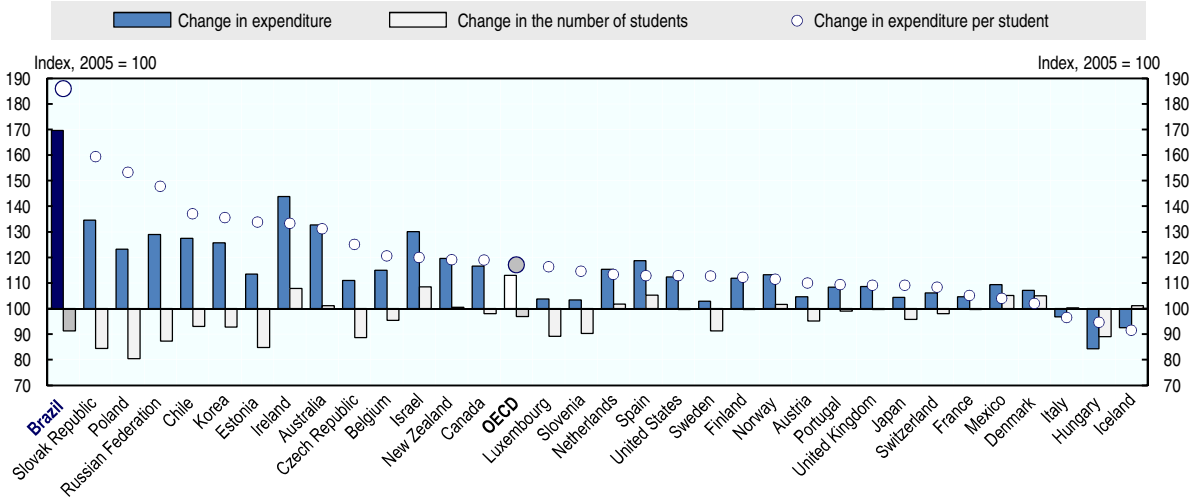
Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table B4.2, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932995726

In terms of changes in expenditure per student, Brazil ranks first among 33 countries with data available. Its expenditure per student in primary to upper secondary education rose 70% between 2005 and 2010 (Figure 2.5).

Figure 2.5. **Changes in the number of students and expenditure per student, Brazil and OECD countries, 2005-10**

Index of change, 2005 = 100



Note: Data refer to primary, secondary and post-secondary non-tertiary education. Some levels of education are included with others for, Canada, Denmark, Japan and the Slovak Republic. Data refer to 2009 instead of 2010 for Canada; to 2006 instead of 2005 and to 2011 instead of 2010 for Chile. Public expenditure only, for Brazil, Estonia, Hungary, Luxembourg, New Zealand, Norway and the Russian Federation. Public institutions only, for Brazil, Hungary, Ireland, Italy, Luxembourg, Poland, Portugal and Switzerland. For Italy, data exclude post-secondary non-tertiary education; for Luxembourg data include pre-primary education.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table B1.5a, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932995745

Education spending is more equitable than in the past

Financing equalisation (FUNDEF and FUNDEB)

Since 1988, Brazil's Constitution has required that each level of government set aside a share of revenue to finance spending on education (18% for the federal government and 25% for state and municipal governments). However, given that tax revenue varies considerably across regions, this led to large disparities in educational spending across the country.[11] In addition, the Constitution contained no guidance as to how that money should be spent across education levels or spending categories.

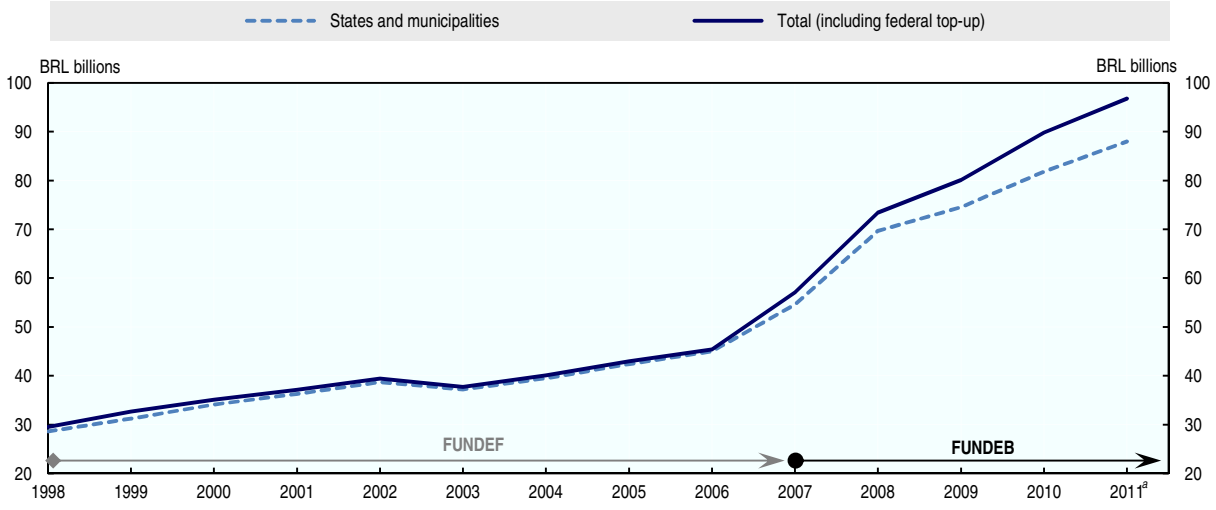
To address these issues, the federal government set up the Fundamental Education Development Fund (*Fundo de Desenvolvimento do Ensino Fundamental* – FUNDEF) in 1996, with national implementation starting from 1st January 1998.[12] States and municipalities were required to dedicate 60% of their education resources (that is 60% x 25% = 15% of their revenues)[13] exclusively to the maintenance and development of fundamental education. These 15% were then divided between the state and municipality governments based on their respective number of enrolments in fundamental education. Where the distribution of these resources led to a per-student spend inferior to a nationally defined minimum, the federal government would top up with its own resources until the floor was reached. FUNDEF also required that 60% of these resources were spent on teacher remuneration.

In 2007, under the Lula administration, FUNDEF was replaced by the Basic Education Maintenance and Development Fund (*Fundo de Manutenção e Desenvolvimento da Educação Básica* – FUNDEB). Although based on the same principles as FUNDEF, FUNDEB increased the amount of earmarked resources (20% of total revenues instead of 15%)[14] and extended the coverage of the fund to pre-school and upper secondary education as well (i.e. the whole basic education cycle). In addition, FUNDEB introduced different spending floors for different types of students (e.g. for indigenous and *quilombo* communities, as well as for youth and adult education).

The total resources available within FUNDEF and FUNDEB increased considerably over time, particularly after the introduction of FUNDEB in 2007 (Figure 2.6) and there is robust evidence to show that FUNDEF contributed to: increases in teacher salaries, the quality of teachers, teacher-student ratios, enrolments, test scores, as well as reductions in age-grade distortions and the gap between low and high attainers (Barros, Mendonça and Blanco, 2001; de Mello and Hoppe, 2005; Gordon and Vegas, 2004; Menezes-Filho and Pazello, 2007; Franco and Menezes-Filho, 2009; and Orellano et al., 2012).

Figure 2.6. **Total FUNDEF and FUNDEB funds, Brazil, 1998-2011**

2011 constant prices, Brazilian reals (BRL)



a) Estimates for 2011.

Source: MEC (2011), *Sinopse das ações do Ministério da Educação 2011* [Summary of interventions of the Ministry of Education 2011], Ministério da Educação.

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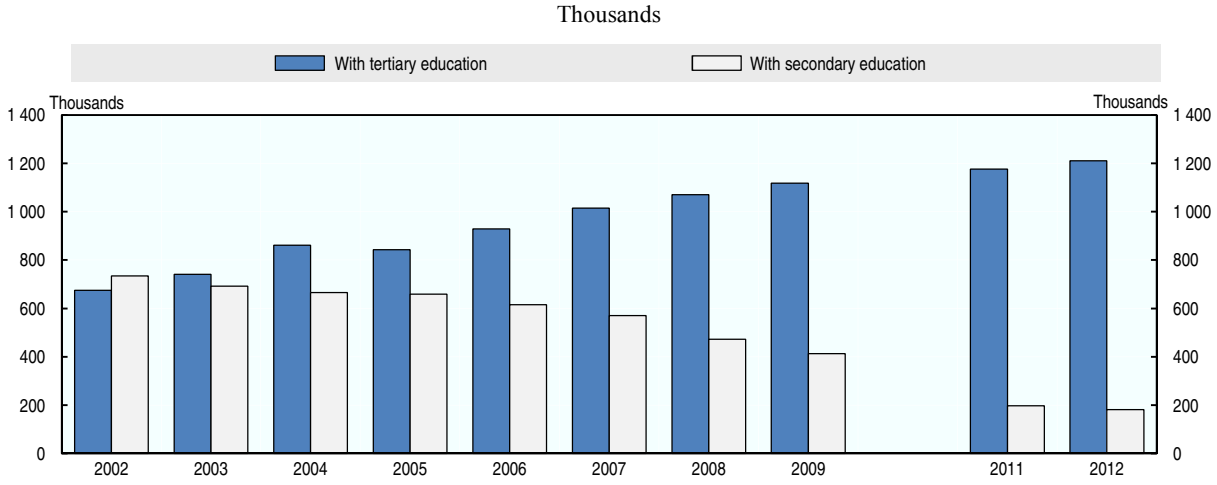
Considerable efforts have been made to improve the quality of teachers

In a drive to increase the quality of education in Brazil, the government has put special emphasis on the quality of teachers/teaching. Teaching conditions in Brazil are not easy and often include teaching several shifts a day, sometimes in different schools. Historically, with the low salaries on offer, it was difficult to attract young, educated people into the teacher workforce (Louzano et al., 2010), and only 10% of those interested in a teaching career were among the 20% highest performing students in the country. By contrast, 30% of those interested in teaching came from the bottom 20% of students. This compares unfavourably with countries like Singapore, Korea and Finland, where teachers have been

recruited from the top-third of high school students (Bruns, Evans and Luque, 2012). This is largely because teaching is not regarded as a desirable profession amongst young people in Brazil. In a recent report looking at nine countries across the globe, Brazil's youth stood out as being particularly negative about teaching as a career: only 33% of youth in Brazil thought that being a school teacher was an attractive career, compared with 46% in Mexico and 50% in India (Mourshed, Farrell and Barton, 2013).

Increasing the educational attainment of teachers has been a key policy priority of the Brazilian government in trying to raise teacher quality. A requirement that each teacher of fundamental education have a college degree was introduced by the 1996 Law of Directives and Bases of National Education. New entrants to the profession were required to meet these new standards, and free in-service training was provided to existing teachers. Although concerns have been expressed regarding the quality of the in-service training (OECD, 2011a), the number of teachers in the public sector qualified to tertiary level has increased significantly over the past few years (Figure 2.7).

Figure 2.7. **Number of teachers by educational level, Brazil, 2002-12**



Note: Data for 2010 are not available.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995783

In 2011, the federal government also introduced the *Exame Nacional de Ingresso na Carreira Docente* (National Teacher Entrance Exam). The purpose of this voluntary test (which can be taken by those who have or will be completing their teacher training course) is to evaluate the knowledge, competencies and capabilities of new teachers. The federal government cannot set the curriculum of university teacher training courses, however by instituting the exam it will be able to set certain standards for those courses which education departments in universities will, in all likelihood, align to. It will be up to state and municipality governments to decide how they use the exam for recruitment purposes.

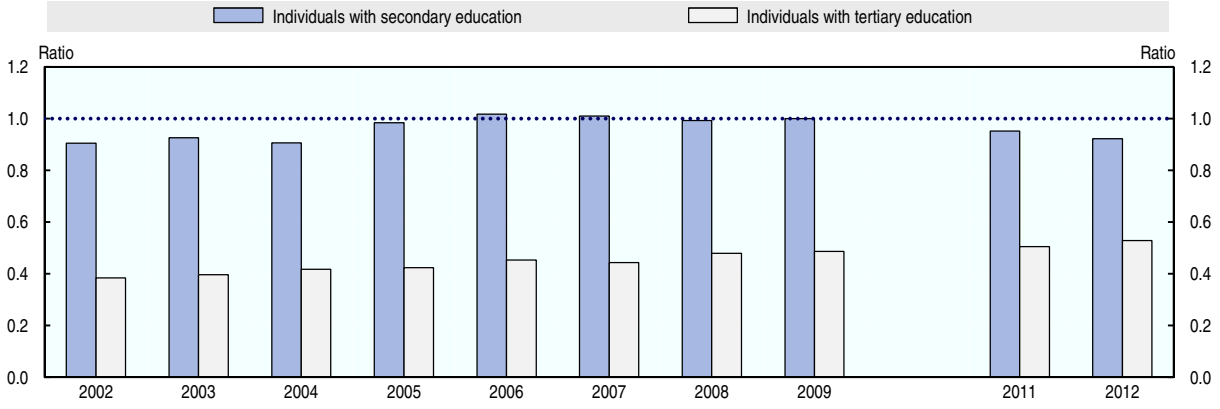
Finally, the government has made significant efforts to increase the salaries of teachers in an attempt to attract more talented individuals into the profession. This is why FUNDEF introduced a new requirement that 60% of funds earmarked for education should be spent on teacher salaries. This has had the effect of increasing teacher salaries – by around 13%

overall, and by as much as 60% in the poor Northeast (OECD, 2011a). In addition, since 2008, a minimum wage for teachers has been introduced (*Piso Salarial do Magistério*). Set at BRL 415 in 2008, it was more than doubled to BRL 950 in 2009, and in 2013 stood at BRL 1 567. The value of this minimum wage for teachers does not vary by region, and some states are unable to afford these high wages (UOL, 2013a). This is partly because increases in teacher salaries imply a double whammy for states and municipalities, as they increase not only salaries but also teacher pensions (OECD, 2011a).

OECD analysis also suggests that, to date, these initiatives may not have been sufficient to make teaching a truly attractive career for highly qualified individuals. Although teacher salaries of those with upper secondary schooling are about average for those with that level of qualification, individuals with a tertiary-level qualification still earn significantly more if they choose not to be teachers (Figure 2.8). This situation had already been observed for an earlier period by Moriconi and Marconi (2008).

Figure 2.8. **Ratio of teacher to non-teacher earnings by educational level, Brazil, 2002-12**

Average earnings of fundamental education teachers in public schools over average earnings of non-teachers (full-time employment only)



Note: Data for 2010 are not available. Individuals with missing earnings and earnings below the minimum wage were removed from the analysis.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995802

This suggests more could be done, particularly as the evidence shows that teacher pay matters. In Brazil, Menezes-Filho and Pazello (2007) have analysed the effect of teacher salaries on the attainment of students and found a positive relationship. However, raising the salaries of all teachers across the board, with no relation to their actual performance, raises concerns about the cost-effectiveness of such policies. The international evidence suggests that, under the right conditions, performance-related pay for teachers can improve student outcomes, particularly in countries where teacher salaries are low (OECD, 2012a). Finally, it is not just initial pay that matters, but also the structure of salary scales: Dolton and Marcenaro-Gutierrez (2011) have demonstrated that permitting scope for quicker salary advancement has a positive effect on pupil outcomes. A few interesting initiatives to this effect are already underway in Brazil, and the results of these programmes should be monitored carefully and the possibility to roll them out more widely considered judiciously (Box 2.2).

Box 2.2. **Rewarding good teachers in Brazil**

São Paulo, Pernambuco and Rio de Janeiro have all three introduced interesting and promising schemes to reward good teachers. If proven successful, such initiatives could be scaled up nationally in order to improve the quality of teachers and learning in Brazil.

The purpose of **São Paulo's *Prova de Promoção*** (Promotion Exam) – introduced in 2009 – was to create a highly paid career track for the best-performing teachers. Teachers can enter the track by taking a test of their subject knowledge and mastery. A quota is applied each year, and only those with the highest scores are admitted. The rewards are extremely high (placing successful teachers in the top 10% of professional salaries nationally). Although a comprehensive evaluation of the programme is still in the pipeline, initial evaluations unveil a positive correlation between teachers' scores on the exam and students' performance on standardised tests.

Pernambuco's teacher bonus programme was also introduced in 2009 but rewards performance rather than subject knowledge, and does this at the school- rather than at the individual-level. School improvement targets are set each year and schools that achieve at least 50% of their targets receive a bonus proportional to their performance. For example, in schools that attain 75% of their targets, teaching and non-teaching staff will receive 75% of the average bonus (pro-rated by salary level). In the first two years of the programme, the average bonus amounted to 1.8 and 1.4 months of salary, respectively – i.e. substantial financial rewards. Once again, in-depth evaluations of the programme are on-going, but initial results suggest that schools with more ambitious targets achieved more progress and that learning levels across the state improved significantly. Looking inside the black box of how targets and rewards translated into higher performance, the research found that schools whose teachers spent more time on instruction were more likely to obtain the bonus.

Rio de Janeiro adopted a bonus programme similar to Pernambuco's in 2010, which also sets school-level improvement targets as the basis for awarding monetary rewards. In addition, however, Rio's programme imposes strong sanctions for teacher absence: employees with more than five absences during the school year would not be eligible to receive the bonus. In 2010, the first year of the programme, more than a quarter of school staff failed to obtain the bonus as a result of absenteeism.

Source: See Bruns, B., D. Evans and J. Luque (2012), *Achieving World-Class Education in Brazil: The Next Agenda*, International Bank for Reconstruction and Development/World Bank, Washington, DC.

Progress has been monitored closely and more accountability introduced

A key policy development in the last two decades has been the increased transparency and accountability introduced in the education sector by the running and publication of national student assessments, and the setting of national, as well as school-level, targets for improvement in the scores achieved in these assessments.

In an earlier publication, the OECD has argued that one of the most critical pieces of the 1996 reforms was to transform the National Institute for Educational Studies and Research (*Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira* – INEP) into an independent statistical organisation responsible for national assessment and evaluation of education (OECD, 2011a). More specifically, INEP manages the Basic Education Evaluation System (*Sistema de Avaliação da Educação Básica* – SAEB) which, after a number of changes since its inauguration, now consists of two complementary assessment tests of Portuguese language and mathematics which are run every couple of years:

- The first of these is the National Evaluation of Basic Education (*Avaliação Nacional da Educação Básica* – ANEB), which is run on a survey basis covering 5th and 9th graders (i.e. the last years of primary and lower secondary education) and 11th graders (3rd grade of upper secondary school) from both the public as well as the private sector, and both in rural as well as in urban areas.
- The second is the National Evaluation of School Performance (*Avaliação Nacional do Rendimento Escolar* – ANRESC) – also known as *Prova Brasil* – which is run on a census basis on 5th and 9th graders in urban public schools only (with at least 20 students enrolled in the relevant grade). Because of its census nature, *Prova Brasil* results are available at the school level.

These tests are accompanied by socio-economic questionnaires in which students answer questions about factors which might be correlated with performance. Teachers and principals also complete a questionnaire which collects demographic data as well as information on the profile of staff and their working conditions.

SAEB data on student performance has, since 2007, been combined with School Census data on grade progression to calculate the Basic Education Development Index (*Índice de Desenvolvimento da Educação Básica* – IDEB), an indicator which is used to measure and track changes in the quality of basic education in the country. A government target has been set to reach a national score of 6 (out of a maximum of 10) by 2022 – a score which was set to correspond to the average attained by OECD countries on the PISA tests. This measure has been translated into individual targets at the school level which, if added up together, contribute to reaching the national target. All schools are expected to improve (including good ones), but bad schools have been set more ambitious targets and receive additional help from the Ministry of Education (MEC) to achieve their targets. At the request of MEC, and in return for additional resources, the federal universities work with low-performing schools in their municipalities to assess the needs of individual schools and provide teacher training and technical assistance.

In Brazil, few parents can choose which public school to send their child(ren) to – despite international evidence that, under certain conditions, school choice can improve student attainment (Box 2.3). However, the transparency introduced by IDEB has given parents information for holding schools accountable, and to put pressure on teachers and school management to improve results. IDEB has also changed the relationship between MEC and local government: state secretaries are called in to the MEC when results are not improving and are expected to develop improvement plans for low-performing schools.

Over the last few years, assessments of student performance have become common in many OECD countries, and making such test results publicly available appears to have had positive effects on student outcomes in countries where schools enjoy greater autonomy (OECD, 2013b). In this sense, Brazil's practice is in line with international trends. That said, improvements in the current school accountability system in Brazil could be made. In particular, Andrade (2008, 2009) argues that the current system in Brazil is a "report card" one (to use the terminology coined by Hanushek and Raymond, 2005) since it only expects results to be made publicly available, with no incentive system built in to reward successful schools/teachers and to punish bad ones (as is the case in "consequential" systems). There are (or were) a few state initiatives which attempted to move towards a consequential system (e.g. Paraná, Ceará and Rio de Janeiro) – but these generally fail(ed) to appropriately account for the school's value-added and, instead, just reward(ed) overall performance regardless of student characteristics.

Box 2.3. **School choice across the OECD and lessons for Brazil**

In the last 25 years, more than two-thirds of OECD countries have increased the extent of parental school choice in publicly funded schools. The only countries where choice amongst primary public schools is still limited and students are enrolled based exclusively on geographic area are Finland, France, Germany, Greece, Israel, Japan, Korea and Norway – although both France and Germany allow school choice at secondary level (Musset, 2012). In theory, greater parental choice increases competition amongst schools and, as a result, the effectiveness, responsiveness and quality of schooling. In practice, the evidence has shown that school choice schemes can increase performance (Wöbmann et al., 2007) – but can also bring an increased risk of segregation (Waslander, Pater and van der Weide, 2010). Consequently, school choice should be designed and managed in such a way as to avoid or minimise any negative impacts on equity. A number of options exist, which can be mutually reinforcing:

Controlled choice programmes

Controlled choice programmes (or flexible enrolment plans) give parents the freedom to indicate school preferences, but these are then matched and constrained by a series of criteria aimed at ensuring a balanced representation in all schools relative to a number of equity dimensions – e.g. ethnicity, gender, socio-economic background and student attainment. A variety of mechanisms to achieve this exist. One example is in Nijmegen (Netherlands) where a central subscription system tries to ensure that each primary school reaches a share of 30% of disadvantaged students in the school. In over-subscribed schools, the required balance between advantaged and disadvantaged students is reached by means of a lottery system.

Helping parents making well-informed choices

Segregation often arises because better-off parents are better-informed about school quality and how to exert school choice. Governments allowing parental choice should therefore seek to address such information asymmetries, and this on a number of different fronts: *i)* raise awareness amongst parents least likely to exercise school choice about the importance of doing so; *ii)* provide information in an easily comprehensible format about school quality; and *iii)* explain how the application and allocation mechanisms work. In Milwaukee (United States), an extensive programme includes sending volunteers door-to-door, setting up information stands in shopping malls, organising a fair, and a dedicated phone hotline.

Provide incentives for better schools to take on disadvantaged students

A number of countries have also experimented with incentives to make low-performing or disadvantaged students more attractive to high-performing schools. Such additional funding is provided on the assumption that low-performing students bring additional costs to schools and require more resources.

Provide vouchers to allow disadvantaged students to attend private schools

Some countries have made public funding for schooling follow the student by introducing educational vouchers. Students can use such vouchers to attend any institution of their choice, public or private, and the government then transfers the value of the voucher to the school taking on the pupil. Such policies might be particularly useful in areas where public school choices are restricted and hence the scope for competition limited. However, one problem is that such vouchers may not cover the entire cost of the alternative school, whether these costs be direct (e.g. top-up fees) or indirect (transport costs, additional lessons, uniforms, classroom materials, textbooks, school trips, etc.). The inability of poorer students to add private contributions to the voucher amount was one of the main determinants of stratification between public and private voucher schools in Chile (Elacqua, 2010).

Source: OECD (2012), *Equity and Quality in Education: Supporting Disadvantaged Students and Schools*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264130852-en.

In addition to the national assessments outlined above, a number of other tests have been introduced in recent years which have contributed to the increase in transparency and accountability in the education sector in Brazil:

- *Provinha Brazil* was introduced in 2008 and is essentially a diagnostic test of the level of literacy among children in the second grade of primary education. The test is run each year, both at the beginning and the end of the school year, in public schools in Brazil.
- The National Upper Secondary Education Exam (*Exame Nacional do Ensino Médio* – ENEM) was set up in 1998 and is a voluntary test which measures the attainment of students at the end of secondary education. From 2009, ENEM has also been used as a selection mechanism for entrance to public universities. In the same year, it became possible to gain a certificate of upper secondary school completion by passing ENEM.[15]
- The National Student Performance Exam (*Exame Nacional de Desempenho de Estudantes* – ENADE) is a compulsory, discipline-specific, test for entrants to, and qualifiers from, higher education. ENADE was launched in 2004 with the objective of measuring the quality of teaching provided by institutions (their value-added) and ranking departments. From 2011 onwards, the test for entrants to university has been replaced by scores from ENEM.

Demand-side barriers have been addressed through financial incentives for learning

Supply-side factors (like lack of schools, poor quality of education, etc.) may not be the only barriers to improving educational attainment. Additional constraints may be encountered on the demand-side if families and young people can simply not afford to participate in education. Frequently, the greatest obstacle to school participation is the opportunity cost of studying (i.e. the wage that could be earned in the labour market instead). Tackling these demand-side barriers to higher educational attainment was one of the objectives of the *Bolsa Escola* programme, later subsumed under *Bolsa Família*.

Bolsa Família is the largest conditional cash transfer (CCT) programme in the world. It was set up under the Lula administration in 2003, by combining a number of previous cash transfer programmes (*Bolsa Escola*, *Bolsa Alimentação*, *Cartão Alimentação*, and *Auxílio Gas*), and it was put under the aegis of a new ministry – the Ministry for Social Development and War Against Hunger (*Ministério do Desenvolvimento Social e Combate à Fome* – MDE). The aim of the programme is to reduce short-term poverty, but also long-term poverty by conditioning the cash transfer on participation in education and health programmes.

To qualify for the programme, families need to be poor (with per capita household incomes below BRL 140 per month). The programme has four components:

- The basic benefit (*benefício básico*): a benefit of BRL 70 paid to families considered to be in extreme poverty (per capita income below BRL 70 per month). One benefit per family is paid, regardless of the composition and the number of family members.
- The variable benefit (*benefício variável*) is paid to families with a per capita income below BRL 140, and who have either pregnant women, or children and adolescents under the age of 16. BRL 32 is paid per family member up to a maximum of five benefits (i.e. BRL 160 maximum).

- The variable benefit for adolescents (*Benefício Variável Vinculado ao Adolescente* – BVJ) is an additional benefit paid to families with adolescents (aged 16 or 17). The value of the benefit is BRL 38, and no more than two benefits per family are allowed (i.e. BRL 76 maximum).
- The benefit to combat extreme poverty in childhood (*benefício para superação da extrema pobreza na primeira infância*). The three components outlined above imply that the maximum *Bolsa Família* benefit that can be paid to a family is BRL 306 (BRL 70 + BRL 160 + BRL 76 = BRL 306). However, if this still is not sufficient to lift the family out of extreme poverty (BRL 70 per capita) then the family will receive this last component to make up the difference. This benefit is paid to families with children aged 0-15 and its value will depend both on family income as well as the total value of *Bolsa Família* benefits already receiving. This benefit is the latest addition to *Bolsa Família* (it was first paid in June 2012) and was introduced as part of the *Brasil Carinhoso* (Caring Brazil) programme, which presents a comprehensive approach to tackle extreme child poverty.

In order to continue receiving the benefit, families need to satisfy the following conditionalities of the programme:

- Following the prescribed course of vaccinations for children aged 0-6;
- Participation in pre- and post-natal check-ups for pregnant women;
- Participation in health and nutritional classes offered by local health teams for women aged 14-44 who are breast-feeding; and
- Enrolment in school for all children aged 6-17, with minimum attendance of 85% for children aged 6-15 and of 75% for children aged 16-17.

Bolsa Família money is usually given to the female head of the household through a Citizen Card (*Cartão do Cidadão*) which allows the family to withdraw the money at any branch of the *Caixa Econômica Federal*, a government-owned savings bank. In 2012, the programme benefited 13.7 million families at a cost of 0.46% of GDP (MDS, 2013a).

A wide range of research, some using quasi-experimental methods, has concluded that *Bolsa Família* has generally had positive effects on education outcomes (attendance, retention, study time, grade progression).[16] There is almost 100% compliance with the education conditionalities (MDS, 2013b). Nevertheless, some commentators have argued that the programme should be revised now that nearly 100% of children aged 6-14 are already in school. Ribeiro and Cacciamali (2012) advocate conditionalities based on completion and attainment and, in order to encourage completion, Souza (2011) proposes a system where the additional payments are not made immediately but instead put into a savings account which becomes accessible upon graduation. One other issue sometimes raised in the literature is the lack of penalties for non-compliance with the conditionalities.

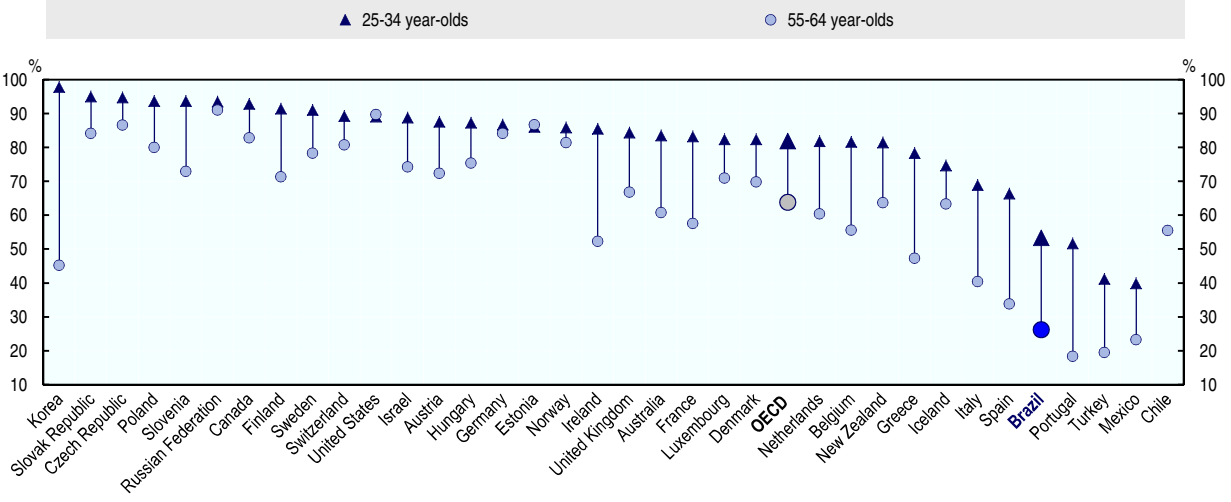
The effect of *Bolsa Família* on child labour is also less positive. Bourguignon, Ferreira and Leite (2003), Cardoso and Souza (2004), Pedrozo Jr (2010), Cacciamali et al. (2010) and de Brauw et al. (2012)[17] all found that, although *Bolsa Família* increased enrolment, it had no effect on the proportion of children working. Ferro et al. (2007) are on exception and find that CCTs reduce child labour. No evidence as yet is available on the longer-term outcomes of these cash transfer programmes and, in particular, on whether they improve the labour market outcomes of children whose families were in receipt of the benefit.

Recent progress in educational attainment

People study longer and are more likely to complete

The government policies outlined in the previous section have generally been credited with having had a positive impact on the education system in Brazil. Indeed, on a number of measures, Brazil's performance in recent years has been remarkable. According to the most recent estimates (PNAD, 2012), 98.5% of children aged 6-14 were enrolled in school. Completion rates have increased tremendously: the percentage of 25-34 year-olds in Brazil that has attained at least upper secondary education is twice the percentage of 55-64 year-olds. This increase in educational attainment is the 4th largest among 35 countries for which data are available (Figure 2.9).

Figure 2.9. **Percentage of the population that has attained at least upper secondary education[a] by age group, Brazil, the Russian Federation and OECD countries, 2011**



a) Excluding ISCED 3C short programmes.

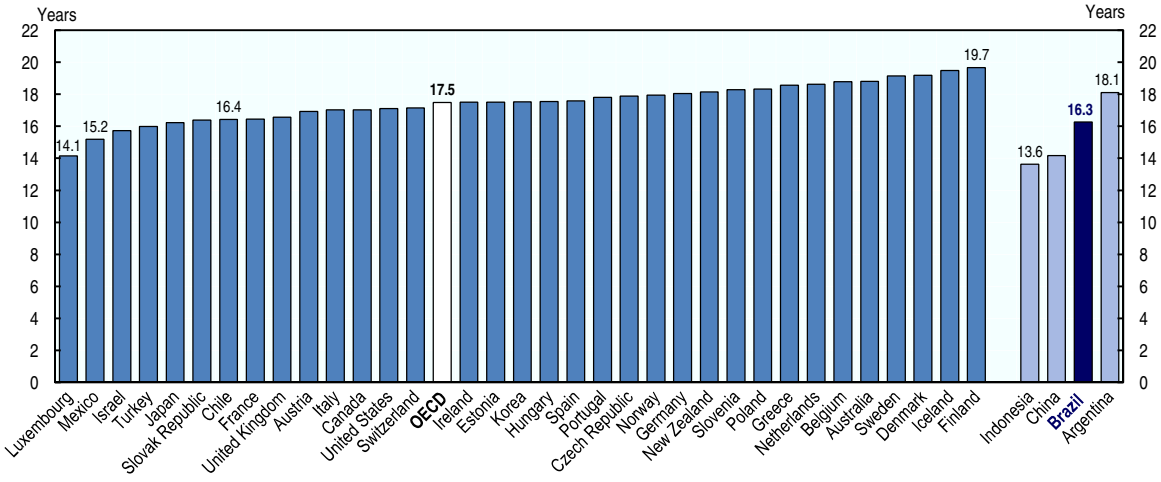
Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table A1.2, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932995821

The expected length of education[18] of 5-39 year-olds in Brazil has been estimated to be 16.3 years. This is not far behind the school expectancy of OECD countries like France (16.4) and the United Kingdom (16.6), but is still in the bottom quarter of the 38 countries for which information is available (Figure 2.10).

Figure 2.10. **Expected years in education from age 5 through age 39, Brazil, OECD and selected other countries, 2011**

Expected years of education under countries' current educational system
(excluding education for children under age 5 and individuals aged over 40)



Note: Data refer to 2010 for Argentina and Canada. Data refer to both full- and part-time for Brazil, Chile, France, Korea, Mexico, Portugal and Turkey. For Luxembourg, high levels of enrolment abroad and immigration may affect expected years in education.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table C1.6a, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

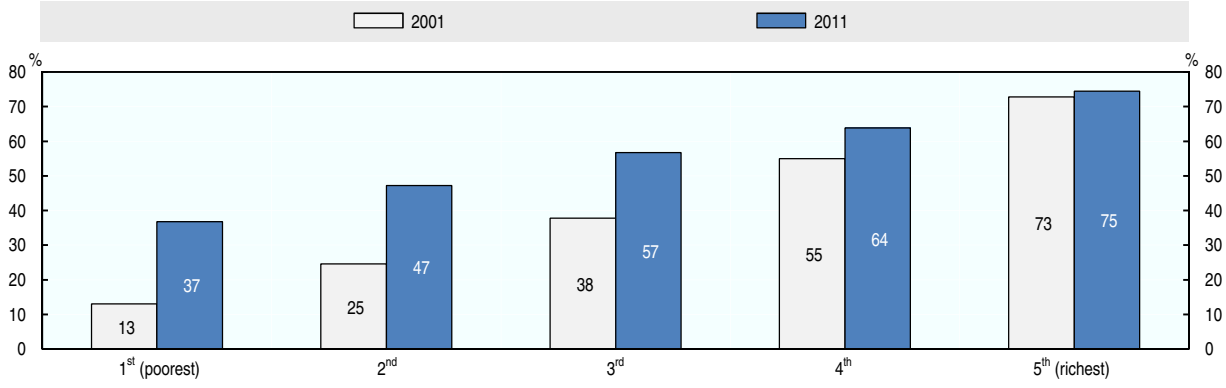
StatLink http://dx.doi.org/10.1787/888932995840

Inequalities in access to education have been reduced

Progress in educational attainment has been achieved in large part by narrowing the attainment gap between rich and poor.[19] Over the last ten years, the greatest progress in enrolment of 15-17 year-olds has been among the poorest in society. For this age group, the ratio of school enrolment rates of the richest quintile to the poorest quintile was 5.6 in 2001. By 2011, this ratio had been reduced to 2.0 (Figure 2.11).

Figure 2.11. **Enrolment rates of 15-17 year-olds by family income quintile in Brazil, 2001-11**

Percentages



Source: IBGE (2012), *Pesquisa Nacional por Amostra de Domicílios: Síntese de indicadores 2011* [National Household Survey: Summary of Indicators], Rio de Janeiro.

StatLink http://dx.doi.org/10.1787/888932995859

Quality has improved substantially

Not only has Brazil made progress in improving enrolment and completion rates, it has also managed to significantly improve the quality of its education, as evidenced by the progress it made on the Programme for International Student Assessment (PISA) over the last ten years. Brazil was the lowest performing country on PISA 2000 (the first time it participated): over 50% of the students scored at, or below, level one, and less than 1% scored at the top level. Average PISA scores for Brazil have improved in reading from 396 in 2000 to 410 in 2012; mathematics scores improved from 356 in 2003 to 391 in 2012; and science scores improved from 390 in 2006 to 405 in 2012. Brazil is the country which achieved the largest performance gain in the PISA mathematics test between 2003 and 2012, while booking significant improvements in reading and science as well.[20]

Outstanding challenges

Notwithstanding the progress made on education in recent years, Brazilian youth still face significant disadvantages compared with young people in OECD countries. Despite its importance in determining long-term outcomes, Early Childhood Education and Care (ECEC) remains underdeveloped in Brazil. In addition, although Brazil has made tremendous progress on the PISA tests, its performance is still among the poorest in the world, suggesting that the quality of its education remains a significant cause for concern. Drop-out rates remain unacceptably high, and too many young people leave education without the qualifications necessary to ensure a rapid insertion into the labour market. Vocational education is seriously underdeveloped and enrolments in tertiary education are less than half of the OECD average. Overall, education spending remains low, and there are also signs that the allocation of resources across educational levels could be improved. Finally, large inequalities in access to education and attainment by region and ethnicity mean that some young people in Brazil start their working lives with a significant and unfair disadvantage. This section discusses these outstanding challenges in some detail, and puts forward policy options where appropriate.

Early childhood education and care

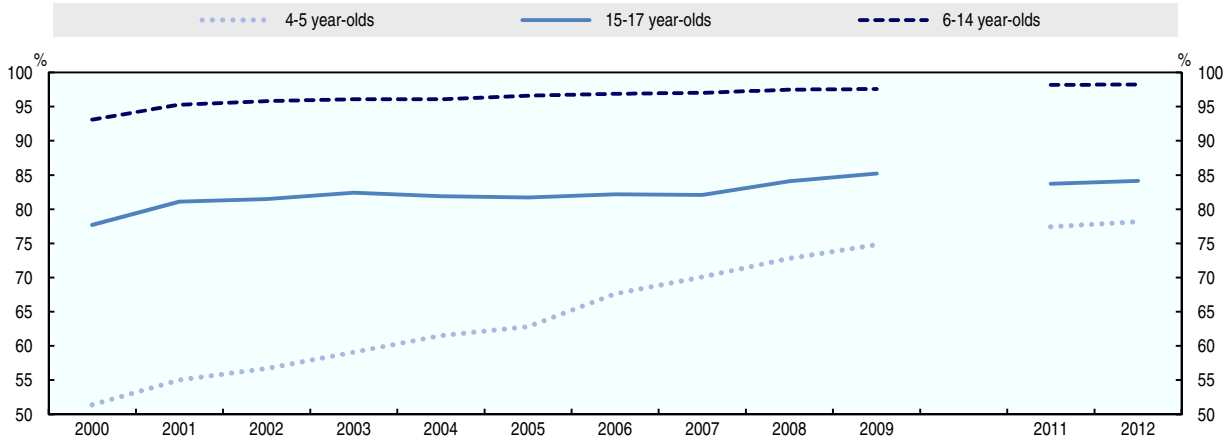
There now exists near unanimity on the fact that Early Childhood Education and Care (ECEC) has important short- and long-term effects on cognitive development, educational attainment, and even on labour market outcomes – and that these effects are stronger for children from poor backgrounds.[21] In a recent review of ECEC in Brazil, Evans and Kosec (2012) summarise a large body of evidence on the effects of ECEC in the context of Brazil, which reaches essentially the same conclusions as the international evidence – although few (if any) of these studies go beyond showing mere correlations between ECEC participation and the outcomes of interest. As Evans and Kosec (2012) point out, studies of randomised allocations (for example Rio de Janeiro's crèche lottery) are critical to strengthen the case for ECEC in Brazil.

The good news is that enrolment rates of 4- and 5-year-olds in Brazil have increased by 52% between 2000 and 2012 (Figure 2.12).

The less good news is that, despite this progress, Brazil lags far behind countries of the OECD (Figure 2.13). In 2011, only 36% of Brazil's 3-year-olds were enrolled in education (far below the OECD average of 67%) and 57% of its 4-year-olds (Figure 2.13) – again far below the OECD average of 84%. That said Brazil has made tremendous progress between 2005 and 2011 (3rd greatest among 29 countries for which data were available).[22]

Figure 2.12. **Enrolment rate by age group, Brazil, 2000-12**

Percentages



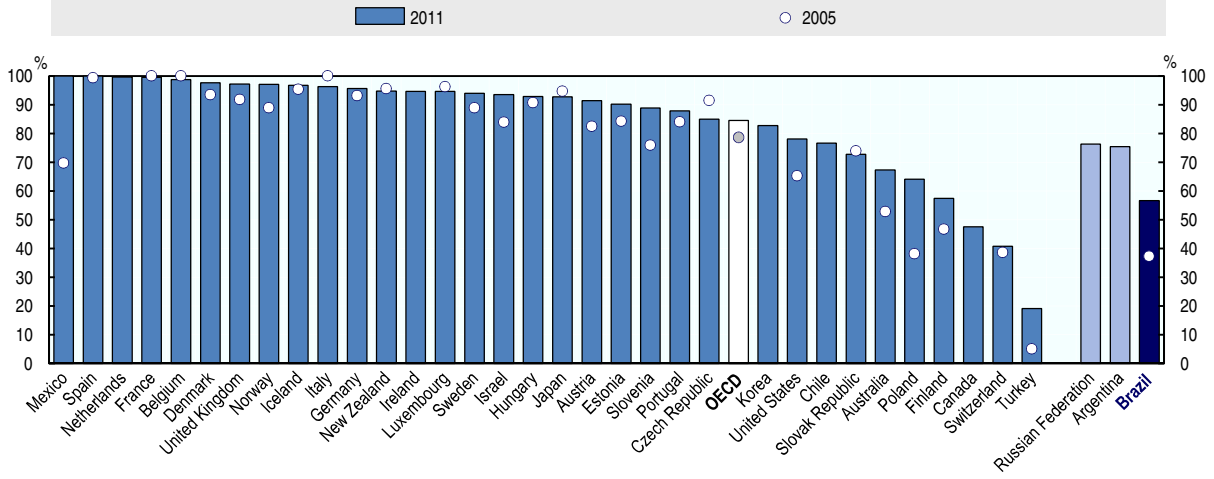
Note: Data for 2010 are not available.

Source: IBGE (2012), *Pesquisa Nacional por Amostra de Domicílios: Síntese de indicadores 2011* [National Household Survey: Summary of Indicators], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2011/default_sintese.shtm; and OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995878

Figure 2.13. **Enrolment rates at age 4 in ECEC in Brazil, OECD and selected other countries, 2005 and 2011**

Percentages



Note: Data for Canada refer to 2010 instead of 2011 and only include kindergarten and junior kindergarten students in the public school system. For Denmark, mandatory classes have been included in ISCED 1 as of 2011. Data for Germany refer to 2006 instead of 2005.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table C2.1, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

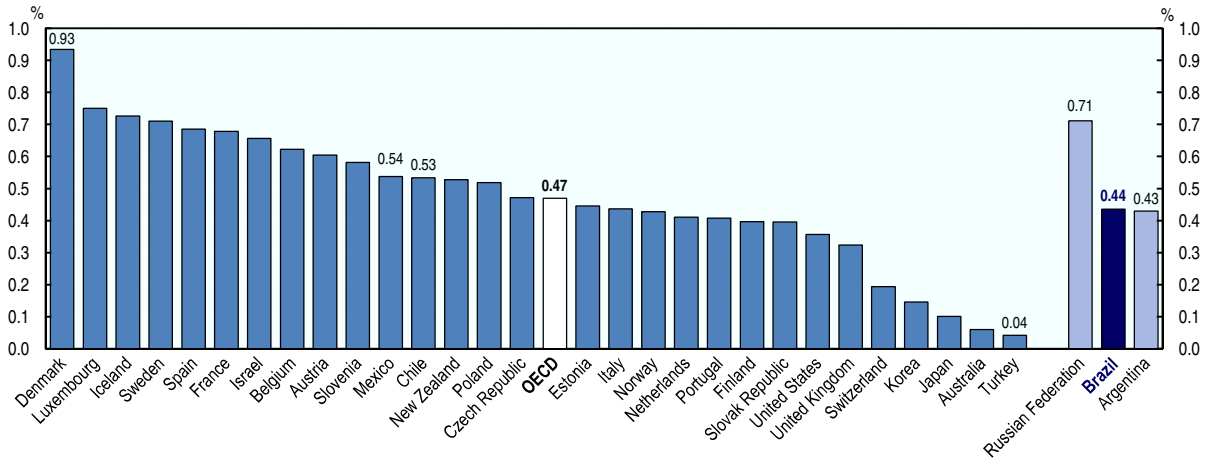
StatLink http://dx.doi.org/10.1787/888932995897

This progress in ECEC enrolment has been achieved through a number of policy interventions. Although FUNDEF did not extend to ECEC, it did allow for resources to be freed for the provision of crèche and pre-school places. As discussed previously, FUNDEB then explicitly extended the education finance equalisation to include ECEC as well. In addition, the government introduced *ProInfância* (*Programa Nacional de Reestruturação e Aquisição de Equipamentos da Rede Escolar Pública de Educação Infantil* – National Programme for the Restructuring and Acquisition of Equipment for the Public Early Education School Network) in 2007, the aim of which was to improve crèches and pre-schools, including the acquisition of equipment, furniture, and investments in accessibility. *ProInfância* entered its second phase in 2011, and the goal is to construct 6 427 ECEC centres by 2014. For the poorest children (as part of the *Brasil Carinhoso* programme), the Ministry of Social Development (MDS) provides 50% additional resources per ECEC place (whether provided by the public sector or contracted out to the private sector) to cover the cost of additional nutritional and personal care needs. Finally, a recently passed law (12 796 of 4 April 2013) makes enrolment of 3- and 4-year-olds compulsory and gives states and municipalities until 2016 to comply with the law.

In achieving these goals, funding will clearly be critical. In 2010, Brazil's public expenditure on early childhood education as a percentage of GDP was only slightly below the OECD average (Figure 2.14). However, Brazil has a larger child population and these overall levels of funding also hide considerable inequalities at the sub-national level: the Southeast spends five times as much per ECEC student as does the North, and more than six times as much as the Northeast (Evans and Kosec, 2012). As is the case for other levels of the education system, quality of ECEC is low (Campos et al., 2010). This suggests it will be critical to get the most out of public finance by *i)* targeting new centres and spaces on the poorest children, and possibly *ii)* fostering more partnerships between the public and the private sector in the provision of ECEC.[23]

Figure 2.14. **Expenditure on (public) early childhood educational institutions in Brazil, OECD and selected other countries, 2010**

Percentage of GDP



Note: Data for Chile refer to 2011.

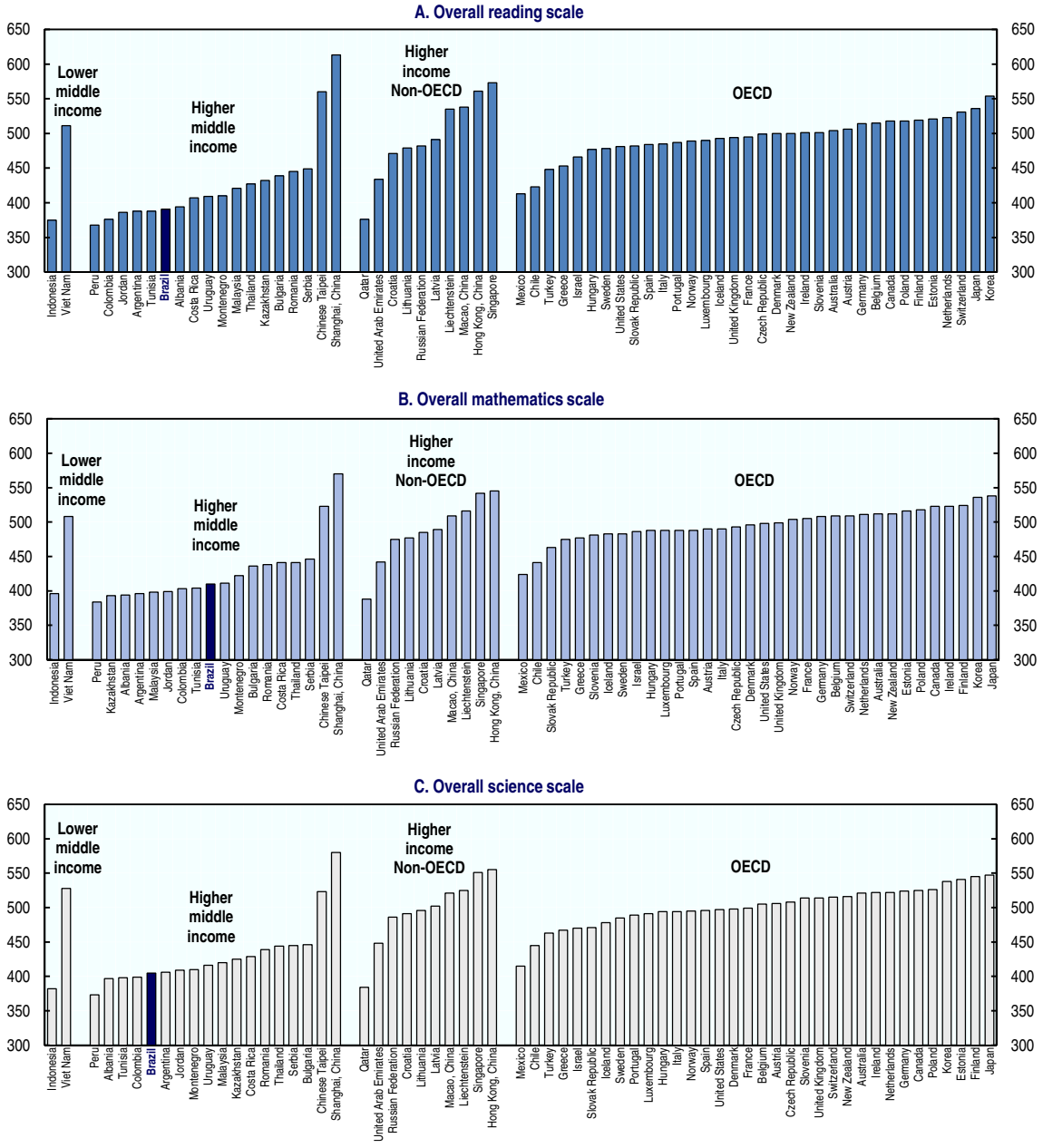
Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table B2.3, OECD Publishing, Paris http://dx.doi.org/ 10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932995916

Quality

Despite substantial progress on PISA in recent years, Brazil's performance is still very poor by international standards. Figure 2.15 shows how Brazil compares with other countries (sub-divided into income groups) on the reading, mathematics and science tests. Brazil performs considerably below OECD levels but, even within the higher middle income group, its performance is consistently in the bottom half. Viet Nam, a lower middle-income country, performs significantly better than Brazil.

Figure 2.15. **Performance on PISA by country income group, Brazil, OECD and selected other countries, 2012**



Source: OECD PISA 2012 Database, http://pisa2012.acer.edu.au/interactive.php.

StatLink http://dx.doi.org/10.1787/888932995935

Brazilians are fully aware of the deficiencies in the education system. According to Gallup World Poll data, only 58% of Brazil's population is satisfied with the schooling system, which is 9 percentage points below the world average. When asked about the main challenges facing youth, 37% of young people cite the poor quality of education (that is 5 percentage points more than those citing employment as a key problem) – Abramo et al. (2009).

The literature (Hanushek and Woessman, 2007) shows that it is what students actually learn rather than the number of years of schooling they complete that matters for economic growth. In another study, these same authors (Hanushek and Woessman, 2012) have argued that much of the gap in growth rates between Latin America and the rest of the world can be explained by poor educational attainment. Nakabashi and Salvato (2007) present a similar finding for income levels across states in Brazil. Labour productivity in Brazil is three times lower than in South Korea, four times less than in Germany, and five times less than in the United States (Macedo, 2012). Improving the quality of education should therefore be a key policy priority for Brazil.

Quality of teachers

Brazil's past and current attempts at improving teacher quality through improved remuneration and other mechanisms have already been discussed to some extent. Although some evidence exists to demonstrate that these policies have been effective, there may be a need now to refine teacher pay policies, for instance by the introduction of performance-related pay and/or pay scales which make teaching an attractive long-run career option for talented young people (see previous discussion for some promising schemes in Brazil). Additional incentives may be needed to attract teachers into remote areas or more difficult schools (Torres et al., 2006).

Incentives should not only be monetary, however: intrinsic motivation (recognition from students, managers or society more generally; but also professional growth, a clear career structure and progression) or extrinsic motivation (achieved, for instance, through rigorous evaluation exercises)[24] can also improve teacher performance. The new National Education Plan 2011-20, currently under discussion, rightly proposes a new requirement that each teacher should have a career plan in place within two years of the law being approved, which should cover professional development.[25]

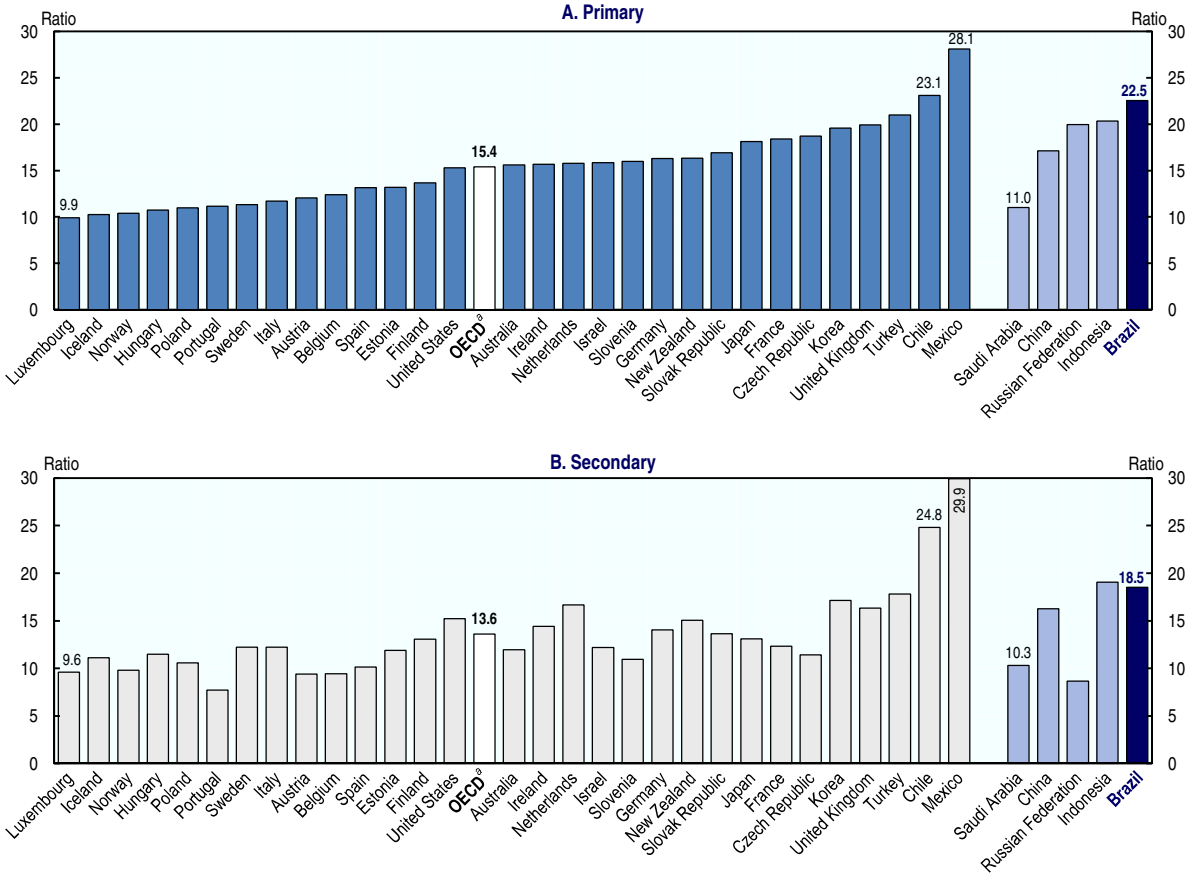
The draft plan also proposes that all teachers should have specialised subject training gained at graduate level, and that 50% of fundamental education teachers should receive training at postgraduate level. According to Louzano et al. (2010) the evidence for Brazil on the impact of graduate-level training for teachers on student performance is not favourable (see also Menezes-Filho, 2008; Soares, 2004; and Louzano, 2007) – although Diaz (2012) finds that the proportion of teachers with higher education qualifications has a positive impact on student attainment in fundamental education. Guimarães (2012) finds ambiguous results, in that teacher qualifications appear to influence the pace of learning in mathematics, but not in Portuguese. This lack of strong evidence on the impact of teacher qualifications appears to chime with the international evidence (Hanushek and Rivkin, 2006) – although the effects in developing countries might be slightly more positive.

There is, however, stronger evidence (in the context of developing countries) that teachers with greater knowledge of the subjects they teach are better teachers (Glewwe et al., 2011). In the case of Brazil, the early evaluations of São Paulo's *Prova Promoção* appear to corroborate this.

Student-teaching staff ratios

Average class sizes in Brazilian primary education reduced from 25.8 in 2000 to 22.5 in 2011, but are still a considerable way from the OECD average of 15.4. At secondary level, Brazil's average class size (18.5) is also significantly above the OECD average (13.6) [Figure 2.16]. There does not appear to be an explicit policy or target in Brazil to reduce class sizes. The OECD's view is that, while smaller classes are often perceived as enabling a higher quality of education, evidence on the impact of class size on student performance is mixed. Assuming the number of teachers will at least remain constant, demographic changes in Brazil are likely to bring average class sizes closer to OECD averages in years to come.

Figure 2.16. **Ratio of students to teaching staff in educational institutions, Brazil, OECD and selected other countries, 2011**



Note: Data for Australia include only general programmes in upper secondary education. Data refer to public institutions only for Australia, Israel, Ireland, Italy, Norway and the Russian Federation, and especially at tertiary-type A and advanced research programmes only for Australia, at tertiary level only for Ireland, from pre-primary to secondary level for Italy, and at primary and secondary levels only for the Russian Federation. Data exclude independent private institutions for Belgium and France. Data refer to teachers (head count) in primary, secondary and post-secondary non-tertiary education for Portugal.

a) Unweighted average of the 30 OECD countries shown in the charts above.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table D2.2, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932995954

Full-day schooling

School days in Brazil are organised in sessions, frequently with as many as three sessions per day (morning, afternoon and evening). Children usually attend one of these sessions only, so the average daily hours of instruction received is very low. One estimate by the *Fundação Getulio Vargas* is that children aged 4-17 spend, on average, 3.47 hours in school. This is extremely low by international standards (seven hours or more in the OECD), and there is strong evidence to show that increasing instruction time has a positive effect on student performance (Lavy, 2010; and Glewwe et al., 2011).

There has been a drive in Brazil to try and lengthen the school day, particularly for poorer children. FUNDEB introduced a 25% increase in the per-student allocation for full-day schools, but this is not sufficient to cover additional investments in infrastructure and staff needed (OECD, 2011a). As part of the *Mais Educação* (More Education) programme, set up in 2007 and aimed at schools with the lowest IDEB scores, students are being offered full-day schooling. The proportion of children receiving full-day schooling is still relatively low (8.3% of enrolments in fundamental education in 2012), but there are plans (as part of the proposed new National Education Plan, or *Plano Nacional de Educação* – PNE)[26] to increase coverage up to 50% of public fundamental education schools (although no date has been set for reaching that target).

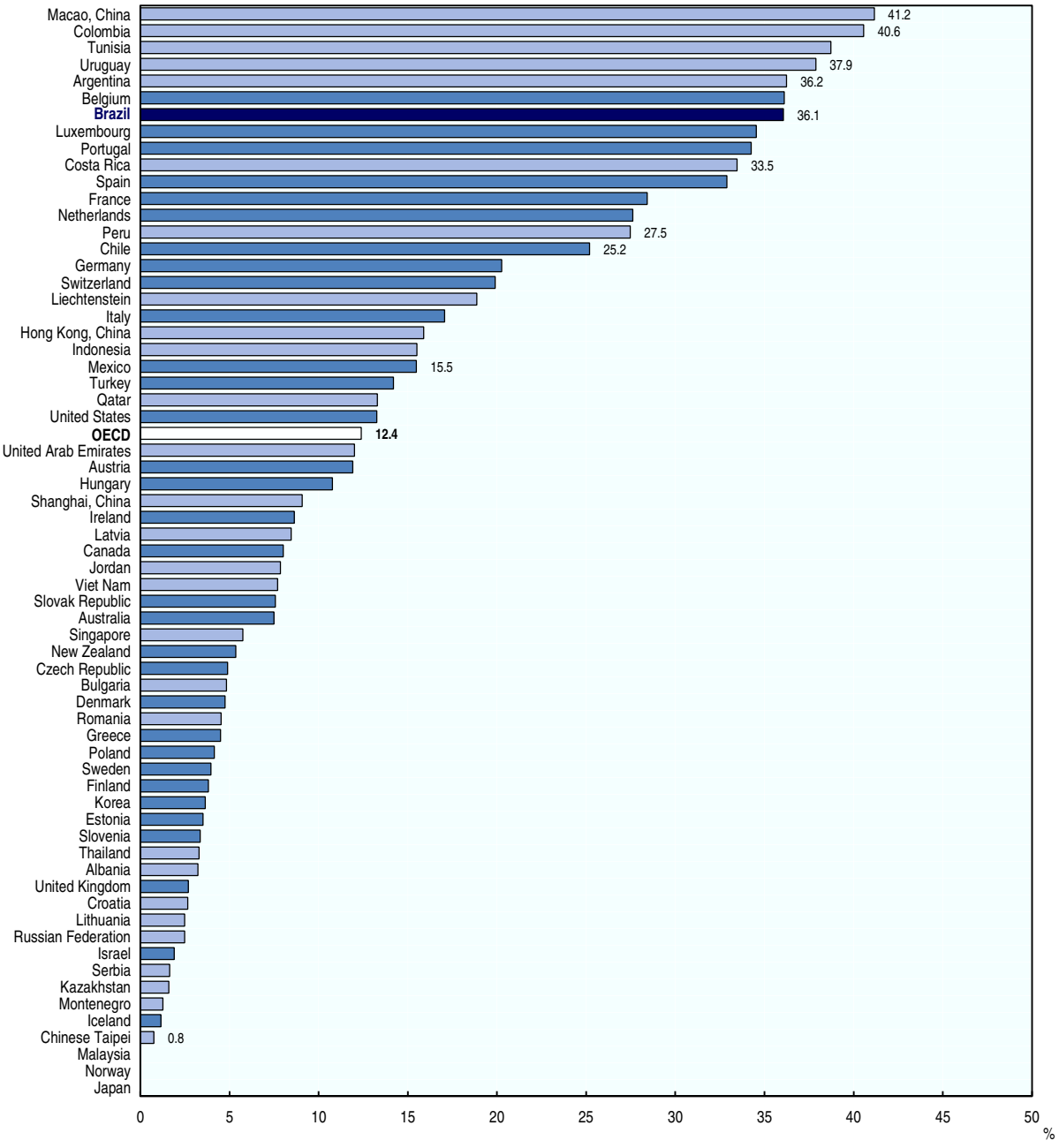
According to government statistics (MEC, 2013), students in full-day schools progressed more rapidly in mathematics and Portuguese over the period 2007-11 than the average public school student in Brazil, however very little research on the causal effects of this programme exists, and what has been published does not find any significant effects on pupil performance (de Aquino, 2011). Part of the explanation for these mixed results is that, of the additional hours students spend in school, very few are actually dedicated to additional mathematics and Portuguese lessons. Most of the time is spent on other activities like ICT, drama and sports. These activities broaden the curriculum and clearly have a value in and of themselves. However, if the purpose is to improve performance in mathematics and Portuguese, then a larger proportion of the additional hours will have to be spent teaching these core skills.

Grade repetition, age-grade distortion, and drop-out rates

Another key challenge for the Brazilian education system is the high proportion of young people who repeat a year at school and, as a result, are over-age for the grade they are enrolled in (age-grade distortion). The OECD estimated that 15% of those completing general upper secondary programmes in Brazil in 2009 were aged 25 or over (OECD, 2011b). Data from the Ministry of Education (MEC) in Brazil suggests that, in 2011, 13.1% of students in upper secondary education were in the same grade as they were in 2010, with no clear trend towards improvement since 2007. Amongst countries that participated in PISA, Brazil has one of the highest proportions of students repeating a grade (Figure 2.17).

Another (and to some extent related) problem is the high percentage of students who drop out of education. In Chapter 1, we saw how 50% of Brazilian youth had left education by the time they turned 18 and that, at age 15, 8% of Brazilian youth had already left education. MEC data shows how, in 2011, nearly one in ten children (9.6%) who were in education in the previous year, were no longer there – although some improvement can be observed in this indicator (down from 13.2% in 2007). 8.1 million Brazilians aged 15-24 did not finish fundamental education. Figure 2.18 places Brazil's performance in an international context by comparing the proportion of 20-24 year-olds who have left school without attaining an upper secondary education. At 33.3%, Brazil's rate is over twice the OECD average.

Figure 2.17. **Percentage of 15-year-old students reporting that they have repeated a grade at least once, Brazil, OECD and selected other countries, 2012**

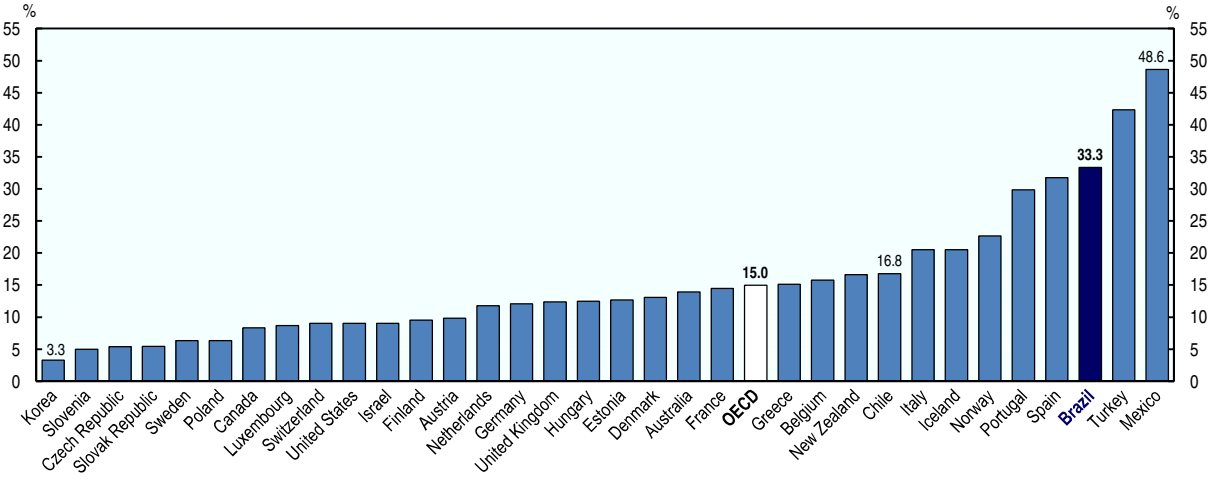


Source: OECD PISA 2012 Database, Table IV.2.2, http://dx.doi.org/10.1787/888932957422.

StatLink http://dx.doi.org/10.1787/888932995973

Figure 2.18. **Drop-out rates[a] in Brazil and OECD countries, 2011**

Percentage of population aged 20-24



a) Share of 20-24 year-olds having left school and not holding an upper secondary degree.

Source: OECD calculations based on national labour force surveys; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932995992

There is no single reason for dropping out. It could be related to lack of schools, transport problems, poor health, lack of family resources, good labour market opportunities, or simply lack of interest on the part of young people. Cardoso and Verner (2006) also points to teenage pregnancy as a risk factor. The fact that the drop-out rate is greatest in cities where there is more employment opportunity (FGV, 2009) suggests that the opportunity cost of education (i.e. the wage that young people could earn when working) is a major consideration. However, the same study found that by far the most common reason given for dropping out was lack of interest (40% of respondents, compared with 27% citing economic reasons and 11% mentioning difficulty in access) – a finding echoed by Neri and Buchmann (2007) and Gama Torres et al. (2013). In an interview for the OECD, Simon Schwartzman, a leading political scientist in Brazil, explained that it is not the lure of jobs, but the poor quality of teaching and an irrelevant curriculum that drive students out of school.

Addressing high drop-out rates

- Policies to tackle the *quality* of education (already discussed) may increase the attractiveness of education to young people, and hence reduce the drop-out rate.
- Reducing *grade repetition* is another strategy that might help address the issue of early school-leaving: elsewhere, the OECD has argued that in countries where more students repeat grades, overall performance tends to be lower and social background has a stronger impact on learning outcomes than in countries where fewer students repeat grades (OECD, 2011b).
- *Early detection and individual, tailored support* for young people at risk of dropping out has also been shown to be effective (Biavaschi et al., 2012). Tutoring has been shown by the international evidence to be an effective policy to improve student performance (Glewwe et al., 2011). In the context of Brazil, Guimarães and Sampaio (2013) found that students who had extra private tutoring classes increased their scores significantly.

The Ministry of Education is currently working on a new programme (*Programa Nacional de Adequação de Idade/Ano Escolar* – National Programme to Tackle Age-Grade Distortion) which would be targeted specifically at youth who have fallen behind with the aim of helping them complete upper secondary education. Although, details are still being worked out, this initiative is strongly welcomed.

- *Increasing flexibility* in how qualifications are acquired might also increase the attractiveness of education to young people. Barros et al. (2012) argue that it might be better to organise school years by semesters (or even by quarters) and to adopt a credit system so that students can come in and out of the system when suits them (e.g. for seasonal work) and not lose an entire school year when doing so.
- The same authors argue that more *subject choice* should be introduced in Brazilian secondary education to make it more attractive to young people. Schwartzman (2010) has equally argued that the curriculum in Brazil is too standardised and overloaded with a large number of compulsory subjects. Bassi et al. (2012) have argued that in Latin America, academic programmes offered in school lack relevance, and that curriculum reform should consider a greater integration of academic programmes with vocational education – an issue that shall be addressed in more depth later in this report.
- Although the *returns to secondary education* in Brazil have been falling, they are still very high by international standards. This presents something of a conundrum, and one possible explanation is that parents and students are simply not aware of the benefits of education. A resulting policy intervention would be to provide better information about the benefits of education and careers advice. An experimental study by Nguyen (2008) in Madagascar has shown that increasing perceived returns to education strengthens incentives for schooling when individuals underestimate the actual returns, and that such an intervention is extremely cost-effective.
- More direct *monetary incentives* have also been effective at increasing enrolment rates of students, as evidenced by the *Bolsa Família* programme described earlier. Similar initiatives in other countries have also proven highly effective, like the Education Maintenance Allowance (EMA) in the United Kingdom (see Box 2.4), which pays varying amounts of benefit depending on family income. Extending the variable benefit for adolescents (BVJ) of *Bolsa Família* may therefore be something to consider, as well as paying the benefit directly to adolescents. Indeed, some concerns have been raised about what impact *Bolsa Família* cash transfers have on the independence and aspirations of adolescents (Paixão and Dore, 2010). Paying the benefit directly to the adolescent may remedy some of this problem.
- Other OECD countries have often tackled early school-leaving with an increase in the *age of compulsory schooling*. In Brazil, a new bill (4306/12) is being discussed in congress which would make upper secondary education compulsory as well. It is unclear, however, whether increasing the compulsory schooling age in Brazil would be effective at tackling high drop-out rates. Enforcement will clearly be a problem, as even at age 15 not all students are currently in school. International evidence on the effect of raising the compulsory schooling age on dropout is mixed (Lyche, 2010). If Brazil does raise the age of compulsory schooling again, some flexibility should be introduced, similar to the recent raising of the statutory age in England, which allows for part-time study and training instead of traditional school participation.

Box 2.4. **Education Maintenance Allowance (EMA) in the United Kingdom**

Conditional cash transfer programmes have been proven very effective mechanisms for reducing school drop-out rates, not only in developing countries, but also among OECD countries. The Education Maintenance Allowance (EMA) is a means-tested benefit that subsidises children to remain in school for up to two years beyond the statutory age. It is paid on a weekly basis to the adolescent, conditional on his/her attendance at lessons.

EMA was originally introduced in England as part of a pilot, which has been rigourously evaluated by Dearden et al. (2009) who found that the transfer's impact on full-time education participation rates was substantial: in the first year after the compulsory schooling age, it increased participation by around 4.5 percentage points, and in the second year by around 6.7 percentage points. The evaluation also found that those receiving the full payment had the largest initial increase in participation.

National rollout followed in 2004. In England, EMA was discontinued in 2010 (a move which was heavily criticised), but the cash transfer remains in place in Wales, Scotland and Northern Ireland.

Re-engaging youth with the education system

Brazil has a number of initiatives in place to reach out to youth who have already dropped out of the system and attempt to re-engage them and raise their educational attainment:

- The *Youth and Adult Education* programme (EJA) targets young people and adults who did not complete fundamental or upper secondary education. For entry into the fundamental education programme, individuals need to be aged 15, and 18 for participation in the upper secondary education programme. Programmes can either be classroom-based or through a combination with distance-learning.

  In 2011, 4 million students were enrolled on EJA courses, two-thirds in fundamental education and one-third in upper secondary education. Most individuals (89%) were enrolled in classroom-based courses. programmes have recently been at the centre of some negative news coverage, including the low level of completion of these programmes (Mader, 2012) and the fact that, in a drive to improve schools' positions in the IDEB league tables (which takes into account progression), troublesome youth have sometimes been transferred from regular classes into EJA classes (Fernandes, 2011). Related to the drop-out rate, MEC (2009), using the special supplement of the PNAD in 2007, estimated that 42.7% of EJA participants never completed. Amongst the reasons for dropping out, the most common ones cited were difficulties in balancing studies with work and family life (27.9% and 13.6%, respectively). According to the same study, 87.6% of those who had enrolled in EJA courses attended classes in the evening.

  One particular variety of EJA is PROEJA, which is the integration of youth and adult education with vocational education. Currently, only a very small proportion of EJA (1.6%) is provided in this manner, but if the new PNE is approved, the objective would be to offer at least 25% of EJA in an integrated manner during the final years of fundamental education and in upper secondary education.

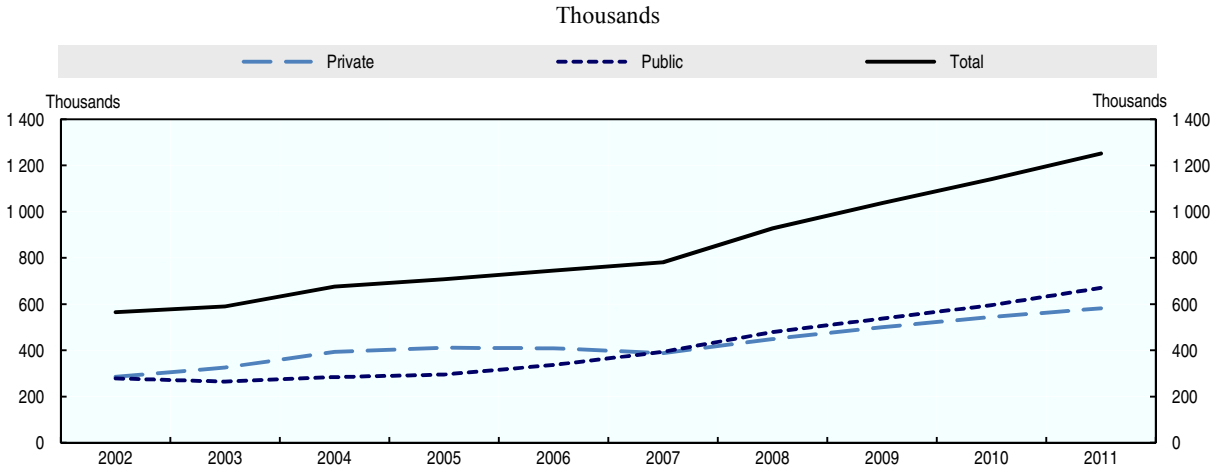
- The comprehensive *ProJovem* programmes (discussed in more detail in Chapter 4 of this report) use Youth and Adult Education (EJA) in combination with vocational and wider social training in an attempt to reengage disadvantaged youth with the education system, raise their educational attainment and better prepare them for insertion into the labour market.

- Finally, another government initiative to increase the proportion of youth and adults with fundamental and upper secondary education qualifications is through *certification*: the National Youth and Adult Competency Certification Exam (*Exame Nacional para Certificação de Competências de Jovens e Adultos* – ENCCEJA) and the National Upper Secondary Exam (ENEM). Passing these exams confers onto the candidate the respective qualification. Certification helps mitigate an important information problem in the labour market by making the skills possessed by individuals more transparent to potential employers. Whether labour market outcomes of these individuals are similar to those who gain their qualifications through the traditional channels should be an urgent area of research. A similar certification programme exists to recognise vocational skills acquired in the workplace (*Rede Certific*).

Vocational education

The number of students enrolled in upper secondary vocational education (excluding Youth and Adult Education) has more than doubled in the last ten years (Figure 2.19).

Figure 2.19. **Enrolment in vocational upper secondary education, Brazil, 2002-11**



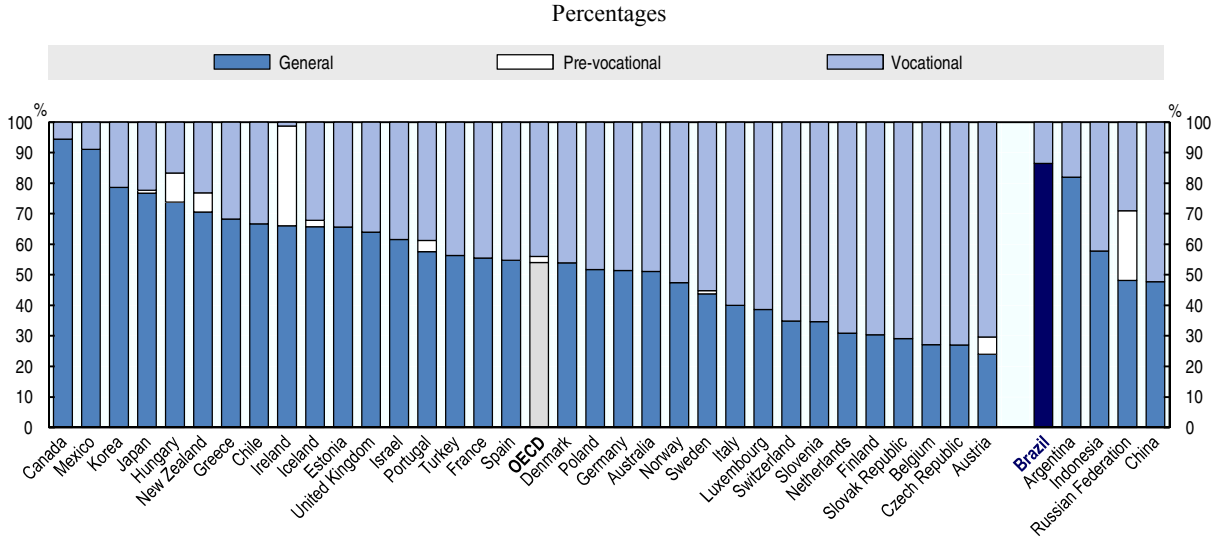
Source: MEC (2011), *Sinopse das ações do Ministério da Educação 2011* [Summary of interventions of the Ministry of Education 2011], Ministério da Educação.

StatLink http://dx.doi.org/10.1787/888932996011

Yet vocational education in Brazil represents a very small portion of total enrolments in education (Figure 2.20),[27] despite evidence that returns are high and labour market outcomes are positive. The new National Education Plan (PNE) currently being considered by the Senate proposes to double enrolments in upper secondary vocational education. However, even if Brazil managed to achieve this, it would still find itself considerable below the OECD average.

In addition, the number of apprenticeships is extremely low. In 2012, a mere 260 000 apprentices were hired, out of a potential 1.2 million (calculated by applying the minimum quota of 5% to all eligible occupations). This represents less than 1% of the youth population aged 15-24. Yet the international evidence shows that countries that have a strong dual apprenticeship system exhibit much smoother transitions from school to work (Quintini and Manfredi, 2009; and Quintini, Martin and Martin, 2007).

Figure 2.20. **Upper secondary enrolment patterns by programme orientation, Brazil, OECD and selected other countries, 2011**



Note: Data refer to 2010 for Canada and Argentina. Data exclude ISCED 3C for Turkey.

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table C1.3, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

StatLink http://dx.doi.org/10.1787/888932996030

PRONATEC

To achieve its ambition of expanding vocational education, Brazil set up the PRONATEC programme (*Programa Nacional de Acesso ao Ensino Técnico e Emprego* – National Vocational Education and Employment Programme) in 2011, which is well-recognised by, and receives support from, all major stakeholders in the country. Key elements of the programme are:

- Expansion of the federal network of technical schools (*Expansão da Rede Federal*). As mentioned at the beginning of this chapter, the objective is to have 562 units operational by 2014, which should raise the capacity of these schools to 600 000 places.
- Strengthen the state network of vocational education (through the *programa Brasil Profissionalizado)*. Funds from the federal government are made available to states and municipalities to strengthen schools (with infrastructure, better management and teacher training) that provide integrated vocational education in upper secondary schools.
- Investments in distance learning courses (*Rede e-Tec Brasil*). Professional qualification courses are offered free of charge through distance learning by training institutions of the federal network, the teaching units of SENAI, SENAC, SENAR and SENAT, and state vocational training schools. In 2012, e-Tec registered 134 000 enrolments.
- Agreements with the *Sistema S* to increase the provision of free training places for young people from poor backgrounds (*Acordo de Gratuidade com os Serviços Nacionais de Aprendizagem*). By 2014, SENAI and SENAC are expected to invest two-thirds of their net revenues on free courses for workers and young people from poor backgrounds. The equivalent targets for SESC (Commerce's Social Service) and

SESI (Industry's Social Service) are one-third. In 2011, around 625 000 courses were provided free of charge, 580 000 of which were professional qualification courses (initial and continuous training), and nearly 45 000 upper secondary courses (leading to the qualification of *técnico*) – Briasco (2012).

- Loans for vocational tertiary courses taken in private institutions (*FIES-Técnico e Empresa*). *FIES* (*Fundo de Financiamento ao Estudante do Ensino Superior*) was originally set up to provide loans for students attending private higher education institutions. With PRONATEC, the idea is to extend *FIES* to students taking vocational courses in private institutions (*FIES Técnico*). In theory, *FIES Técnico* can also benefit students taking vocational courses at secondary level, although priority will be given to those studying at tertiary level (Andrés, 2011). In addition, *FIES Empresa* will be set up for firms wishing to take out loans to finance professional development of their staff.
- The provision of bursaries (*Bolsa Formação*). Bursaries covering fees (if applicable) as well as a stipend for food and transport will be provided for courses in state and federal schools as well as in training units of the *Sistema S*. Two types of bursaries will be offered:
  - *Bolsa Formação Estudante* aimed at students in public upper secondary education, prioritising "vulnerable" students (although no clear criteria appear to have been set which define "vulnerable" students) attending vocational courses of at least 800 hours; and
  - *Bolsa Formação Trabalhador*, mainly aimed at the unemployed and *Bolsa Família* recipients, for professional qualification courses of at least 160 hours.

The emphasis on free provision and/or the provision of loans to overcome liquidity constraints is right, given that the main reasons for dropping out of vocational courses were related to finance: 25.5% of those who dropped out of professional qualification courses and 24.5% of those who dropped out of secondary level vocational courses gave financial reasons for dropping out (MEC, 2009). Similarly, 18.3% of young people who never attended vocational education cite lack of finance as their reason (Neri, 2012).

Another reason given by young people for not enrolling in vocational education is lack of provision (13.0%) – another barrier which the government is seeking to address through PRONATEC and the improvements of the federal and state networks of vocational schools.

Individuals from poorer backgrounds are more likely to cite cost and lack of access as reasons for not enrolling (Neri, 2012), so ensuring that places are appropriately targeted is key. This is particularly important as, in Brazil, the higher the socio-economic class of the individual, the higher his/her likelihood of attending vocational education (Neri, 2012). Providing free, untargeted access to vocational education could, therefore, be highly regressive.

Finance and access are not the only reasons for dropping out and lack of participation. According to MEC (2009), dissatisfaction with the course taken accounts for another 20% of reasons for dropping out (although the exact reason for dissatisfaction is not clear) and lack of interest is the main reason for youth not participating in vocational education in the first place (63.8% according to Neri, 2012). These data suggest that more attention should be placed on the quality and relevance of courses on offer, as well as on advocating the benefits of vocational qualifications in terms of labour market outcomes. One initiative which could be taken in order to increase the attractiveness of vocational

courses to young people is to clarify the pathways between vocational and academic qualifications, and make the transition between the two of these easier (Briasco, 2012) so that going down one route does not necessarily mean there is no way back. This might make young people more willing to experiment with vocational education, particularly when it is seen by society as a less preferable alternative.

Apprenticeships

As far as apprenticeships are concerned, the actual number of apprentices hired in Brazil is extremely low, and considerably below the estimated potential. One study (Neri, 2012) uses the *Pesquisa de Orçamento Familiares* (Household Budget Survey) over 2008-09 and finds that only 0.29% of 15-29 year-olds take on an apprenticeship. Given their effectiveness in ensuring a smooth transition from school to work,[28] more efforts should be undertaken to increase the number of apprenticeships.

One issue is with the (lack of) monitoring of the law requiring firms to recruit between 5% and 15% of their workforce as apprentices, so that many firms do not comply, despite the risk of being fined. However part of the answer to the question of how to increase the number of apprenticeship places may lie in offering firms a carrot rather than a stick. In Brazil, apart from a lower contribution to the FGTS, there are no incentives in place to encourage firms to provide apprenticeships, yet taking on apprentices is costly for firms (training facilities, staff time, and wages). Other countries have used a mixture of social security rebates, lower minimum wages, and direct subsidies to encourage firms to take on apprentices – Box 2.5 provides some examples.

Another issue might be the lack of training opportunities in the region/occupation where firms are active (Corseuil, Foguel and Gonzaga, 2013). This is a challenge particularly for smaller firms in more remote areas. In the United Kingdom, such problems have been partly overcome by setting up Group Training Associations – bodies bringing together a number of small employers for the purpose of training provision. Similar organisations in Australia (Group Training Organisations – GTOs) have also proven useful in reducing the risk for smaller employers in taking on an apprentice (as apprentices are employed by the GTOs, not the employers themselves) as well as some of the bureaucracy associated with employing an apprentice (GTOs run the recruitment process and pay salaries). They function as not-for-profit organisations supported by public authorities, with some charges to employers.

Finally, there is a need in Brazil to create better synergies between the public employment service (SINE) and the apprenticeship system. Unemployed youth coming in contact with the employment services should be made aware of the apprenticeship opportunities that exist in their area. A pilot is already underway to set up a *Estação Juventude* – a one-stop shop where youth could find out about all services available to them. Certainly, these *Estações Juventude* would have to play a critical role as intermediator. In Brazil, a number of non-governmental organisations exist which connect young people to possible apprenticeship opportunities: *Conexão Aprendiz* and *Nube* are two such organisations.

Box 2.5. **Encouraging apprenticeships**

Direct subsidies

Several countries use direct subsidies to encourage employers to take on apprentices. In the United Kingdom, the National Apprenticeship Service provides Apprenticeship grants with a value of GBP 1 500 to employers with up to 1 000 employees recruiting 16-24 year-olds. Eligible employers are those who have never employed an apprentice before, or those who have not recruited one in the last 12 months. Up to ten grants can be made to any one employer. In Austria, companies are financially rewarded for every additional apprentice hired over and above the number hired in the previous year, or if they return to hiring apprentices after having taken a break. The Australian Apprenticeships Incentives Program provides a wide range of employer incentives and benefits, which are larger if the apprenticeship place is created in a trade experiencing a skills shortage. Australia also provides additional incentives (AUD 3 350) for hiring young apprentices (under the age of 20). An evaluation of these subsidies (Deloitte, 2012) found that they had a significant effect on commencements, although more needs to be done to retain apprentices and avoid them from dropping out.

Tax credits and social security rebates

Another form of subsidising the provision of apprenticeship places is to grant tax credits and/or social security rebates. In France, certain firms receive a tax credit of EUR 1 600 per apprentice taken on, increasing to EUR 2 200 if the apprentice has a disability or is considered disadvantaged. Some firms are also exempt from social security contributions for the apprentices they take on. On top of this, each region in the country provides additional subsidies for the hiring of apprentices. In Canada, employers can claim up to CAD 2 000 per year for each eligible apprentice under the Apprenticeship Job Creation Tax Credit.

Minimum wage

The cost of hiring apprentices can also be lowered by agreeing a special sub-minimum wage for this category of workers. Several countries do this. In France, the minimum wage for apprentices will depend on their age as well as the year of training they are in, starting at 25% of the national minimum wage for an 18-year-old in her first year and rising to 93% for those aged 21+ in their fourth year. In Germany, a "training allowance" is agreed upon by the social partners, which also varies by the apprentice's age and experience with the firm.

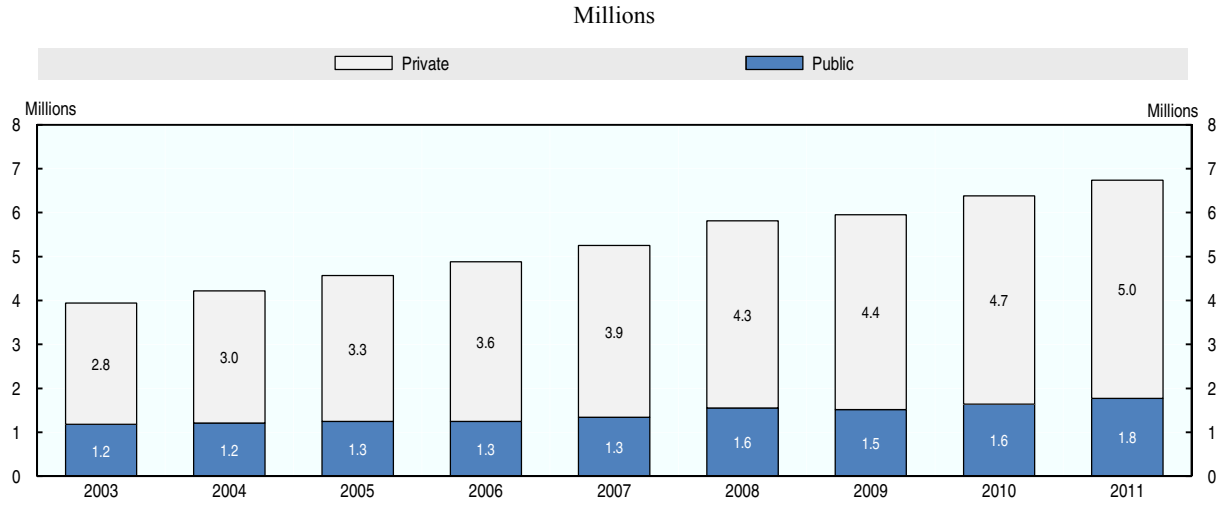
Levy financing

An interesting and more indirect mechanism for incentivising the supply of apprenticeships is to force all companies to contribute to a special training fund, while only those who offer apprenticeships will benefit from it. All companies in Denmark pay a yearly contribution of nearly EUR 400 (2012 figures) per employee into the Employers' Refunds for Apprentices Fund (AER). The AER then compensates companies every 24 months for each apprentice hired. In France, workplace training is funded through an apprentice tax paid by all businesses which is set at 0.05% of the salaries for firms with fewer than 250 employees and 0.06% for firms with more than 250 employees. Exemption from the tax is conditional on firms training a specified number of apprentices.

Tertiary education

Tertiary enrolments in Brazil have increased rapidly over the past few years, as a result of increasing attainment at secondary level, the lure of high returns, and growth of the private higher education sector. Enrolments in the public sector increased by 50% between 2003 and 2011, and enrolments in the private sector by 80%. Overall, the number of enrolments has increased by 71% over the period (Figure 2.21).

Figure 2.21. **Enrolments in tertiary education by sector, Brazil, 2003-11**



Source: MEC (2011), *Sinopse das ações do Ministério da Educação 2011* [Summary of interventions of the Ministry of Education 2011], Ministério da Educação.

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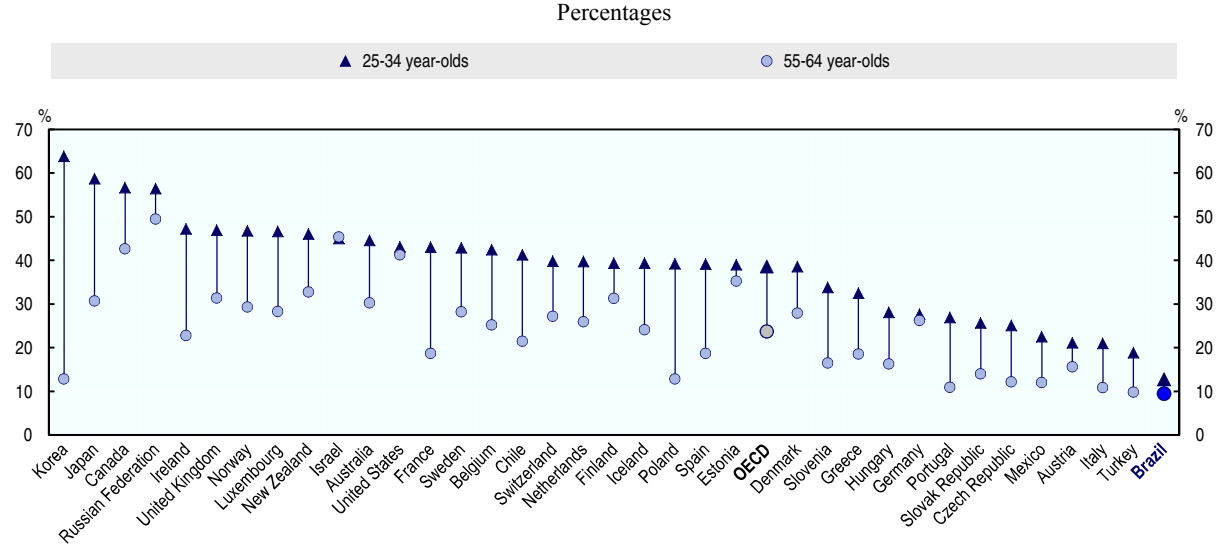
By international standards, however, Brazil still has extremely low attainment in tertiary education; 11.6% of 25-64 year-olds in Brazil held a tertiary degree, well below the OECD average of 31.5% (Figure 2.22). Even the progress Brazil has made over time ranks amongst the poorest among countries with available data. Indeed, while the increase in enrolments in Brazil may have been impressive, this occurred at a time of a rapidly growing youth cohort, meaning that the participation rates themselves have increased much less.

Figure 2.22. **Population that has attained tertiary education by age group, Brazil, OECD and selected other countries, 2011**



Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table A1.3a, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

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Historically, the tertiary education system has received preferential treatment by those in power to serve political interests, at the expense of public secondary education (Wjuniski, 2013). According to ICHEFAP (2006), the Brazilian higher education system "fits the elite public/mass private model of higher education, in which the public system has been kept small, relatively well-funded, academically selective, and for the most part socially elite, while a large, tuition-dependent private system of very diverse quality has been encouraged to absorb the rapidly growing demand for higher education." Six Brazilian universities appear in the Shanghai Academic Ranking of World Universities (ARWU) 2012, and all six of them are public institutions. Richer students are more likely to attend these public institutions: according to recent data from the *Síntese de Indicatores Sociais* (IBGE, 2012), 17.3% of those attending public universities are from the top two income quintiles, compared with 10.1% of those attending private universities.

In recent years, a number of actions have been taken by the Brazilian government in an attempt to increase and widen participation in tertiary education:

- *Expansion of the federal network of universities*: initiated in 2003, the number of federal universities increased from 45 in 2003 to 59 in 2010, increasing access to university for 123 municipalities.
- REUNI (*Programa de Apoio a Planos de Reestruturação e Expansão das Universidades Federais* – Support Programme for the Restructuring and Expansion of Federal Universities) was introduced in 2007 with the objective to increase and widen participation in federal universities. It aimed to increase the number of enrolments in federal universities from 133 000 in 2007 to 229 000 in 2012, and to increase the graduation rate to 90%. Funding was made available to universities for investments in infrastructure and equipment. In addition, the programme sought an increase in the number of evening courses as well as to raise the student-staff ratio from 10:1 to 18:1.
- ProUni[29] (*Programa Universidade para Todos* – University for All Programme): introduced in 2005, this is a means-tested scholarship scheme to cover fee costs for high-attaining students from public schools[30] attending private universities. Applicants need to have obtained a minimum score of 450 on the ENEM test. Students with a per capita family income of less than 1.5 minimum wages are entitled to a full scholarship, whereas students with an income of between 1.5 and 3 minimum wages are entitled to a partial scholarship (50%). The scholarships are given by the universities themselves, in return for some tax exemptions. In 2011, around 500 000 students were in receipt of a ProUni scholarship. A quasi-experimental study by Hirata (2012) finds that ProUni increased the probability of university enrolment, and that full-bursary students had a lower probability of dropping out than partial-bursary students – although there is some evidence to suggest that a large number of bursaries offered were not taken up, while institutions continued to receive the full tax relief (Andrés, 2011).
- FIES (*Fundo de Financiamento ao Estudante do Ensino Superior* – Higher Education Student Support Fund): is a means-tested[31] loans system for students attending private universities. Loans are intended to cover the cost of fees and are directly paid to universities. Students pay quarterly contributions of up to BRL 50 while studying, as well as during the first 18 months after graduation. After that, the graduate will have to pay off the outstanding loan value over a period of three times the length of the course, plus one year. Interest is charged at 3.4% per year. Over 150 000 new loans were issued in 2011 (UOL, 2013b), which increased to nearly 370 000 in 2012 (Estadão, 2013).

- PNAES (*Plano Nacional de Assistência Estudantil* – National Student Assistance Plan) was launched in 2008 and aims to improve the continuation and graduation rates of poor students in public universities by providing financial assistance with living costs. In 2010, there were 743 000 beneficiaries, with a total budget of BRL 304 million (MEC, 2011a).

Emphasis is placed on expanding higher education, and the proposed new National Education Plan (PNE) includes a target to increase gross enrolment rates to 50% and net enrolment rates to 33% of 18-25 year-olds. However there is also an attempt at increasing quality. The plan includes a target to increase the proportion of university teaching staff with masters and doctorates to 75% (35% with doctorates), and the government set up the National System for the Evaluation of Higher Education (*Sistema Nacional de Avaliação da Educação Superior* – SINAES) in 2004 which evaluates institutions, courses and student performance using information from ENADE as well as institution and course evaluations.

In order to address the social gradient in the student body of public institutions, the Brazilian government has recently introduced the *Lei das Cotas* (Quota Law) – an affirmative action law which imposes quotas on federal universities for the recruitment of students from poor backgrounds. By 2016, 50% of enrolments will have to be reserved for students from public secondary schools (25% for students with a per capita family income below one and a half minimum wages, and 25% for students with a per capita family income above that). In both cases, institutions will also be expected to respect minimum proportions of ethnic minority students, based on census statistics. To assist with the cost of their studies, the government has also recently announced that quota students will receive a stipend of BRL 400 per month (Souza, 2013) – *Bolsa Permanência* (Staying-On Scholarship) – rising to BRL 900 per month for indigenous and *quilombola*[32] students.

Quota systems are not new in Brazilian higher education (Andrade, 2004). The states of Rio de Janeiro and Bahia have previously introduced quota systems. An evaluation of one such scheme at the University of Brasília (Francis and Tannuri-Pianto, 2012) found that it raised the proportion of black students at the university and that the displacing students were from lower socio-economic status families on average.

It is not clear, however, that the *Lei das Cotas* is the right way of tackling social disparities in higher education in Brazil, nor is it clear that it focuses on the right problem. One of the key issues is that the Brazilian higher education system is highly regressive. Free, highly selective public universities are attended primarily by richer students, while poorer students are forced to attend fee-charging, private institutions. Even under the *Lei das Cotas*, 50% of free places at public institutions will be taken up by well-off students, many of whom could afford to pay for their university education.

For reasons of equity (and of efficiency as shall be argued in the next section), the government should consider charging full-cost tuition fees to those who can afford it, and only subsidise education for those individuals who cannot.[33] Such policies would also free up resources which could be spent on creating additional places for poor students (or, indeed, on lower levels of education). The international evidence suggests that the introduction of fees does not reduce participation, as long as it accompanied by a decent student support system (which already exists in Brazil under the guise of ProUni and *FIES*, although they should then be extended to students attending public institutions as well). Income-contingent loans[34] of the type introduced in Australia, New Zealand and the United Kingdom can be an effective way to promote access and equity while sharing

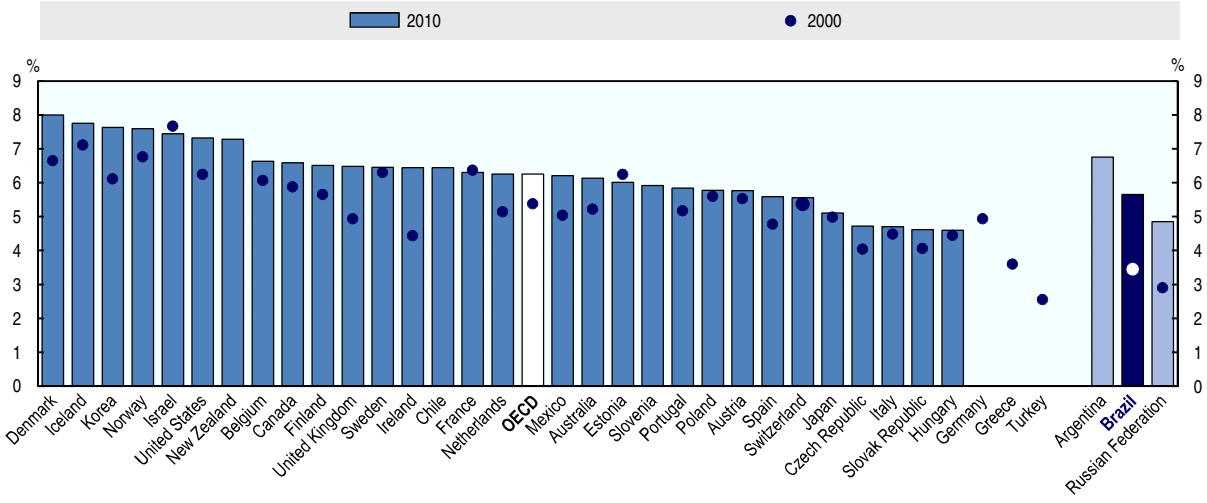
the costs of higher education between the state and students. Alternatively, Andrade (2010) has argued that a targeted voucher system would increase the efficiency of the Brazilian higher education system, as compared with the current system. The same author also argues that such systems would increase competition between public and private institutions, which would have additional desirable effects in the long-run.

Education spending and efficiency

In 2010, Brazil invested 5.6% of its GDP on education, which was below the OECD average of 6.3% (Figure 2.23). Recently, a law was passed which would dedicate 75% of the royalties from new oil exploration contracts (signed after 3 December 2012) to education, as well as 50% of the Pre-Salt Social Fund (*Fundo Social do Pré-Sal*). The proposed new National Education Plan (PNE) had originally intended to go further even and pledge an increase in educational expenditure to 10% of GDP.[35] A large portion of this additional funding is likely to get earmarked to ECEC as well as increasing teacher salaries.

Figure 2.23. **Expenditure on education institutions, Brazil, OECD and seleted other countries, 2000 and 2010**

Percentage of GDP for all levels of education: 2000 = 100, constant prices



Note: Data for Canada refer to 2009 instead of 2010. For Canada, Denmark, Greece, Japan and the Slovak Republic, some levels of education are included with others. Data for Chile refer to 2011 instead of 2010. For Brazil, Estonia, Hungary, New Zealand, Norway, the Russian Federation, Switzerland and Turkey, data refer to public expenditure only (for Switzerland, they refer to tertiary education only; for Norway, to primary, secondary and post-secondary non-tertiary education only; for Estonia, New Zealand and the Russian Federation, data are available for 1995 and 2000 only).

Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, Table B2.1, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en.

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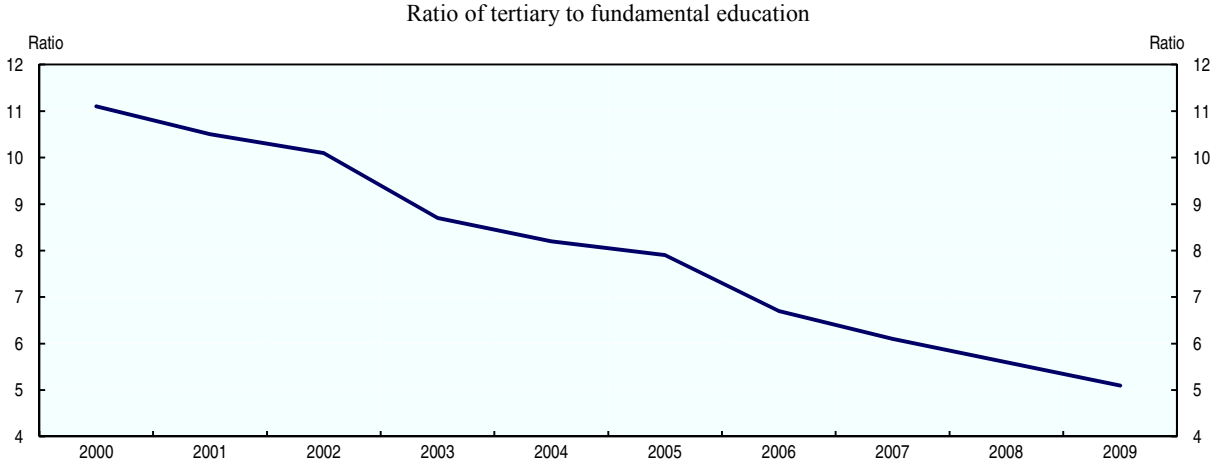
Brazil devotes the largest share of that expenditure to primary and secondary education: 4.3% of GDP in 2010, compared with the OECD average of 3.9%. In contrast, Brazil invested only 0.9% of its GDP on tertiary education – the second lowest investment among the 37 countries for which data are available (1.6% on average across the OECD). However, although Brazil spends a relatively small share of its GDP on tertiary education, its spending in that area is highly inefficient given the low number of

student enrolments. As a result, its expenditure per student in higher education is extremely high in comparison with its spending per student in both primary and secondary education.[36] Although the public per-student spend on primary, secondary and post-secondary non-tertiary education in Brazil is considerably below the OECD average (USD 2 653 versus 8 412), its per-student spend in tertiary education is higher than the OECD average (USD 13 137 versus 11 382). MEC figures demonstrate that the ratio of public spending on tertiary versus fundamental education has nearly halved between 2000 and 2009 (Figure 2.24), however Brazil still spends five times as much on a tertiary student than on a fundamental education student.

Figure 2.24. **Public expenditure per student in Brazil, 2000-09**



Source: MEC (2011), *Sinopse das ações do Ministério da Educação 2011* [Summary of interventions of the Ministry of Education 2011], Ministério da Educação.

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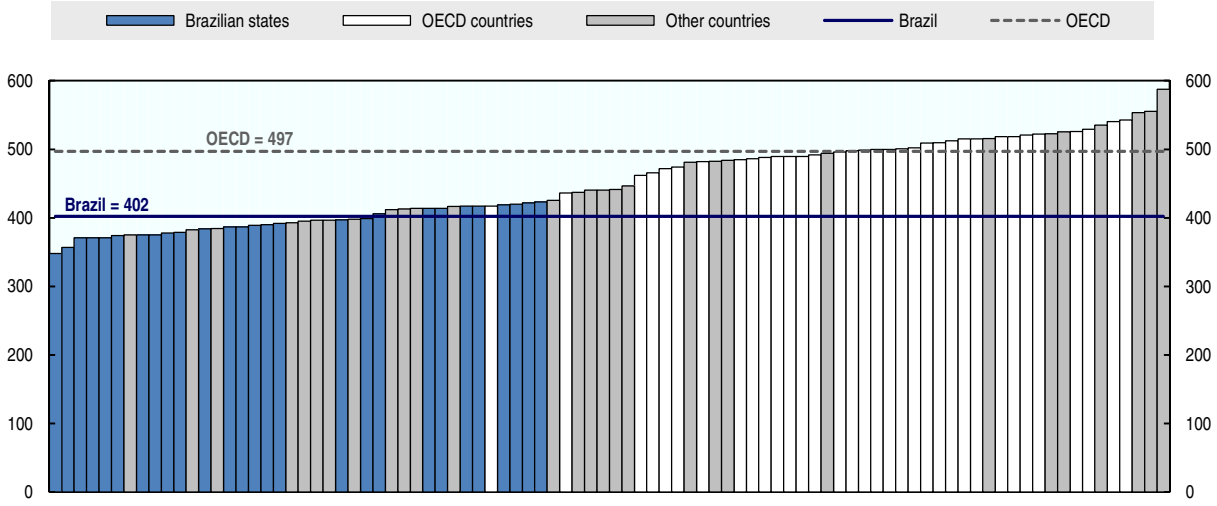
An increase in education spending to 10% of GDP would elevate Brazil considerably above the top spenders in the OECD (Iceland, Korea, Denmark, New Zealand, the United States and Israel). Although it may be argued that Brazil has a larger youth population as well as greater capital investments to make, this increase in public spending will only have the desired impact if the money is wisely spent. Redressing the balance in expenditure per student between the tertiary sector, on the one hand, and primary and secondary (and, indeed, ECEC) on the other, is crucial. However, simply throwing money at lower levels of education will not solve the problem either. In a paper echoing international research (e.g. Hanushek and Woessman, 2011), Diaz (2012) shows clearly how increasing municipal spending on primary education in Brazil does not automatically guarantee improvements in the quality of education, but that it is how that spending is made which will determine educational outcomes. In Brazil, considerable margins exist to increase spending on initiatives which would increase quality and reduce the drop-out rate and grade repetition in primary and secondary schools.

Corruption presents another threat to the efficacy of additional spending. According to Ferraz, Finan and Moreira (2012) corruption in the use of federal funds (FUNDEF) occurred in 35% of municipalities audited, and 8% of resources were diverted. Moreover, the authors find that this has a significant effect on test scores, as well as drop-out and failure rates.

Equity

The issue of equity has already been raised on a number of occasions in this chapter, particularly with regards to the socio-economic gradient which exists in access to education. In this final section, the large geographical inequalities which mark Brazil are highlighted as a particular challenge for Brazilian policy makers. Figure 2.25 breaks down Brazil's performance on PISA by state. The spread of performance within Brazil is striking, with some states (Alagoas and Maranhão) performing at the very bottom of the distribution, whereas other Brazilian states perform near the OECD average (Distrito Federal and Espírito Santo).

Figure 2.25. **Average PISA attainment (across all three tests) by country and by Brazilian state, 2012**



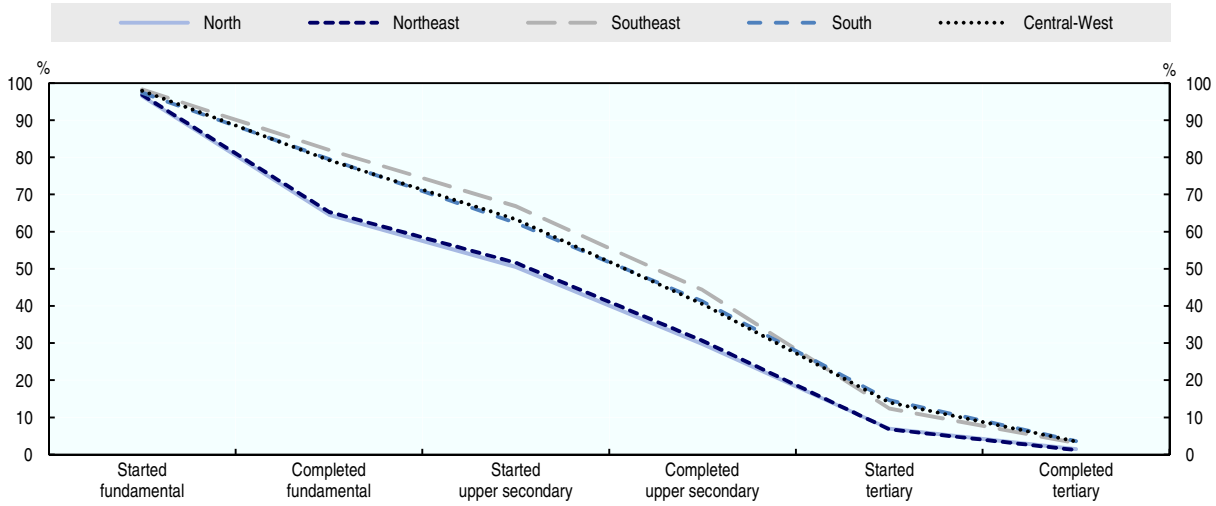
Source: For data referring to Brazilian states, http://exame.abril.com.br/brasil/noticias/es-tem-melhor-educacao-do-brasil-segundo-pisa-veja-lista; and OECD (2013), *PISA 2012 Results: What Makes a School Successful? Resources, Policies and Practices (Volume IV)*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264201156-en.

StatLink http://dx.doi.org/10.1787/888932996125

Similar inequalities are apparent in enrolment and completion rates. Figure 2.26 shows the proportion of 15-24 year-olds who started/completed each level of education, by region. Striking is the large (17.5 percentage points) gap which appears between the top and the bottom region in terms of fundamental education completion – a gap which explains many of the later regional inequalities in educational attainment. Tackling non-completion of fundamental education in more disadvantaged regions should therefore be a key priority, and effective targeting of policies will be necessary.

Figure 2.26. **Educational attainment of youth (15-24) by region, Brazil, 2012**

Percentage of 15-24 year-olds



Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932996144

Between school and work

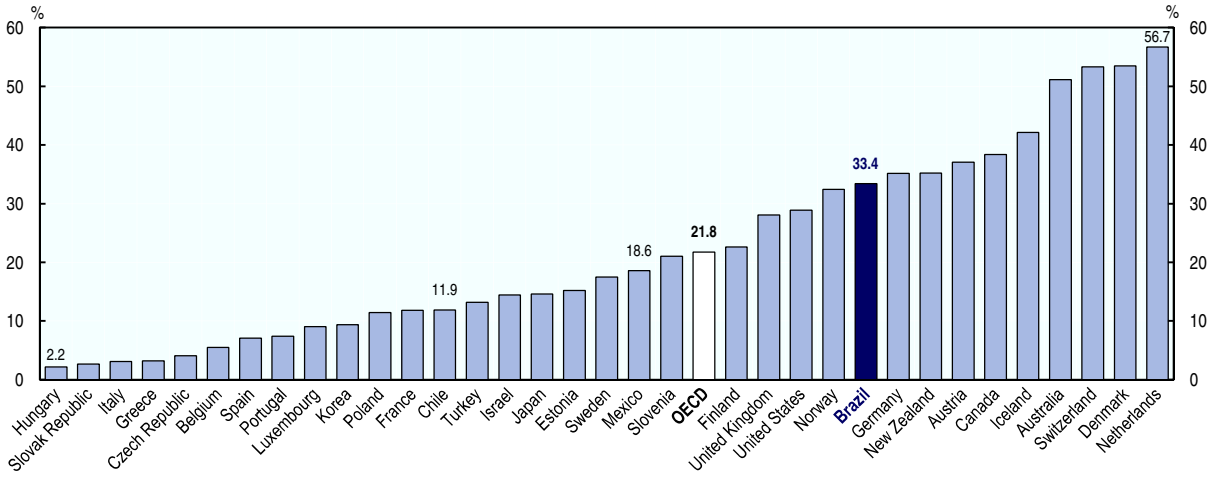
In countries which adopt a *study first, then work* approach, the transition from school to work is more abrupt and less successful than in countries where study and work are combined to a greater extent (OECD, 2010). Early exposure to work can boost motivation, help students decide what they intend to do later, and lead to the acquisition of useful skills which are rewarded in the labour market. Evidence from the United States suggests that work experience can lead to better post-school labour market outcomes, including higher wages (OECD, 2010a) and the OECD's extensive work on vocational education has shown that workplace learning is a powerful tool in vocational education and training (OECD, 2010b). However, excessive involvement in the labour market while studying can be deleterious to school performance, possibly leading to drop-out – particularly where work and study are unrelated. Allowing students to flexibly combine the two activities while ensuring their complementarity is therefore critical in securing successful school-to-work transitions.

Combining study and work

Spósito (2005) shows how the proportion of youth who combine study and work in Brazil increased between 1981 and 2001, and argues that the expansion of education participation did not come at the expense of participation in the labour market. In other words: although the proportion of young people studying increased, a greater proportion of young people did so by combining study with their job. This is to a large extent because the short school day in Brazil allows young people to combine work and study. The proportion of students in Brazil who work is higher than the OECD average (Figure 2.27). Although gaining work experience while in school can be a very positive thing, it has been argued earlier in this that student performance would improve with an increase in instruction time.

Figure 2.27. **Share of working students, Brazil and OECD countries, 2011**

Percentages



Source: OECD calculations based on the *OECD Education Database*, www.oecd.org/edu/database.htm; and IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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Internships

Work experience while studying is also most useful where work and study are closely related. Although apprenticeships are a key link between the world of study and the world of work, they have already been discussed at length elsewhere in this chapter, and so will not be discussed again in this section.

One other mechanism to provide young people with practical and relevant work experience is internships. In Brazil, these are governed by law (Law 11788/2008) and are aimed at vocational and tertiary education students. Interns are not considered as employees of a firm. They generally receive a transport allowance and a bursary (although these are optional when the internship is an integral and compulsory part of a course). Working hours are regulated and are generally limited to 20 hours per week for students at non-tertiary level and 30 hours for those at tertiary level (although 40 hours are allowed in cases where courses alternate classroom-based teaching and work experience).

According to ABRES (Asociação Brasileira de Estágios – Brazilian Association of Internships) around one million internships are offered every year in Brazil – 740 000 at tertiary level, and 260 000 at secondary level. The number is much lower at secondary level because of restrictions imposed by law on the age at which young people are entitled to work (normally 16, but 14 in the case of apprenticeships). Overall, this means that only around 11% of tertiary students do an internship, and 3.1% of secondary level students.

More students should be given the opportunity to undertake an internship and spend time in the workplace in order to develop relevant skills which the labour market values. An example of a highly successful programme in the United States is Career Academies, which helps young people attain a secondary school qualification, combined with technical training around a career theme. A key aspect of the programme is close partnerships with local employers in order to provide work-based learning opportunities. A rigorous evaluation of the programme found that it had increased the subsequent earnings of at-risk young people by an average of 17% over the eight year follow-up period (Kemple, 2008).

In Brazil, there are a number of constraints which limit the potential of internships. First, on the part of firms, many treat internships as a way of obtaining cheap and relatively highly qualified labour and, in many cases, the internship offered bears little relationship to the subject of study of the intern (MTE, 2011). The age limits also preclude a large portion of secondary education students from gaining work experience.

As in the case of apprenticeships, it would make sense to allow younger people (aged 14 and 15) to gain work experience while studying. The practice of making internships a compulsory part of courses (vocational, but also tertiary) should be generalised. And companies hiring interns should be monitored more closely to ensure that adequate working conditions and learning experiences are provided to the interns.

Evening classes

As mentioned earlier, schooling in Brazil is organised in three sessions (morning, afternoon and evening). Evening classes may be taken, on the one hand, by students who do not have a choice (because of capacity constraints at the school level) and, on the other hand, by students who choose to do so because it allows them to combine study with their working life. Evening classes therefore play an important role in allowing those who have dropped out of school and/or are working to keep engaged with school and increase their educational attainment, and hence to increase the proportion of the workforce with upper secondary qualifications. At fundamental education level, only a small proportion of students study at night (1.4% in 2011), as shown in MEC (2011b). In upper secondary school, this percentage is much higher, with about a third (32.7%) enrolled in evening classes. This proportion is declining rapidly (down from 44.1% in 2005). Because many of these students are likely to be from more deprived backgrounds, it is important that the quality of evening classes be improved, and access maintained.

Notes

1. Note that states and municipalities had until 2010 to implement the nine-year primary schooling cycle.
2. In practice, most upper secondary schools are managed by the states, while municipalities focus on fundamental education schools. 63% of enrolments in fundamental education in 2011 were at the municipal level, compared to just 1% of upper secondary school enrolments (MEC, 2011b). The municipalisation of fundamental education happened to a large extent at the end of the 1990s, as a result of FUNDEF (Orellano et al., 2012).
3. According to Evans and Kosec (2012), a relatively large proportion of crèche spaces are government-contracted (*conveniado*): in 2009, 29% of crèche spaces were fully private, and another 14% *conveniado*. Similarly they find 19% of pre-school provision is private and another 5% *conveniado*.
4. The proportion of secondary school graduates coming through the private sector (as well as their overall numbers) have been falling over time (Diaz, 2012).
5. Tertiary education is divided into graduate and postgraduate education. The latter offers two types of programmes: *lato sensu* (specialisation courses/certificates, MBAs) and *strictu sensu* (master and doctoral programmes). Graduate programmes usually last four to six years. At postgraduate level, master courses usually take two years, and doctoral study another two years.

6. Vocational education at upper secondary level is provided either: in an integrated manner with ordinary upper secondary education (*integrado* – in parallel within the same institution); concurrently (*concomitante* – simultaneously, but in different institutions); or subsequently (*subsequente* – i.e. after the completion of normal upper secondary education).

7. Another 2% were in teacher training. The vast majority of vocational courses were subsequent to completing ordinary upper secondary education (9% of the 13%). The integrated and concurrent modes accounted for 3% and 2% respectively (MEC, 2011b).

8. No age limit for youth with disabilities.

9. Applied to positions which are classified as requiring apprenticeship training following the Brazilian Occupational Classification (*Classificação Brasileira de Ocupações* – CBO). This will exclude positions which require a higher education qualification or positions of directorship, management or confidence.

10. One issue is that some of the major surveys such as the *Pesquisa Mensal de Emprego* (PME – Brazil's Labour Force Survey) and the *Pesquisa Nacional por Amostra de Domicílios* (PNAD – the National Household Survey) do not collect data on whether or not individuals hold secondary or tertiary vocational qualifications (the PME does ask questions about professional qualification courses).

11. Also, Mendes (2004) points out that, because states had more resources than municipalities, they could afford to spend more on state public schools, which led to a difference in quality between municipal and state public schools.

12. FUNDEF was introduced on a pilot basis in the state of Pará in July 1997.

13. Under FUNDEF, these included: *Fundo de Participação dos Estados*; *Fundo de Participação dos Municípios*; state value-added tax (ICMS); revenue from the federal value-added tax levied on exports (IPI-Exp); and federal transfers to the states in compensation for the revenue losses associated with the exemption of exports of primary and semi-manufactured goods from value-added (IC MS) taxation.

14. In addition, the revenue base on which these percentages were applied was increased to include the *Imposto sobre a Propriedade de Veículos Automóveis* (IPVA), the *Imposto Territorial Rural* (ITR) and the *Imposto sobre transmissão causa mortis e doação* (ITCD).

15. ENEM is also used to rank secondary schools, but one obvious problem with this ranking is that the worst-performing students might be excluded from taking the test. Another issue is that there is no focus on value-added (Andrade, 2011).

16. CEDEPLAR (2006); Janvry, Finan and Sadoulet (2007); Oliveira (2009); Cacciamali, Tatei and Batista (2010); Costanzi, Souza and Ribeiro (2010); Pedrozo Junior (2010); Pellegrina (2011); Glewwe and Kassouf (2012); Chitolina (2012); Simões (2012); and Oliveira and Soares (2013).

17. De Brauw et al. (2012) do find that *Bolsa Família* delays entry into the labour market by 0.8 years.

18. School expectancy is calculated by adding the net enrolment rates for each single year of age. Unlike graduation rates, which measure the expected percentage of the population just beginning education to graduate from a specific level, expected years in education takes account of all participation in education, including discontinuous and incomplete participation in education programmes.

19. Lorel (2008) offers a longer-term perspective on educational inequalities in Brazil and shows how, between 1950 and 2000, there has been a strong reduction in the education Gini index.

20. Improvements in Brazil's test scores are likely to have been held back by progress the country has made in increasing enrolment rates. As pointed out by Bassi et al. (2012), "it is to be expected that the scores achieved in the tests will be negatively affected when (the proportion of young people who are in school at 15 years of age) increases, since students coming into the test pool who were not previously included come from the poorest families." On the other hand, Bassi et al. (2012) find that the main reason for Brazil's improvement in the PISA score is not an increase in the average mathematics proficiency levels of Brazilian ninth graders, but a reduction in age-grade distortion among the population of 15-year-olds tested.

21. For a recent review see Duncan and Magnuson (2013).

22. Estimates from PNAD differ somewhat from the estimates in Figure 2.13. According to PNAD, 30% of 3-year-olds and 52% of 4-year-olds were enrolled in 2005, compared with 43% and 68%, respectively, in 2011. Although these figures are higher, they are still substantially below the OECD average, and the magnitude of change is similar.

23. Public ECEC places provided through the private sector already exist in Brazil, where they are called *conveniado* – although they currently occupy a relatively small proportion of the overall number of spaces provided. Interestingly, municipalities have the liberty to compensate *conveniado* spaces at higher or lower levels, providing the freedom to create incentives for private provision for difficult-to-reach populations, as has taken place in Chile (Evans and Kosec, 2012).

24. A recent paper by Taylor and Tyler (2012) demonstrates how teacher performance evaluation can increase the productivity of teachers, particularly those performing relatively poorly, even in the long-run. The authors conjecture that, through evaluation, teachers learn new information about their own performance, and subsequently develop new skills, or increase long-run effort, or both.

25. Although Glewwe et al. (2011), summarising the evidence on school resources and educational outcomes in developing countries, find, rather surprisingly, that in-service teacher training reduces student time in school. They conjecture that this might be because training takes teachers out of the classroom, so that the primary effect is similar to that of teacher absence.

26. At the time of this report going to press, the PNE had been approved by House of Representatives, and was awaiting debate in the Senate.

27. This has not always been the case. In the 1970s, Law 5692/71 made vocational education compulsory in upper secondary school. However, due to lack of resources, teachers without the necessary qualifications, as well as lack of interest, the law was hardly binding (Severnini and Orellano, 2010). Araújo (2001) shows that there was a fall in the importance of vocational education during the 1990s: in 1990, 40% of upper secondary school enrolments in São Paulo were in vocational courses, and this had fallen to under 9% by 1999. Similarly, according to Hasenbalg and Silva (2003), at the end of the 1960s, about a third of secondary school enrolments and qualifiers were in vocational education.

28. In the context of Brazil, see Corseuil, Foguel, Gonzaga and Ribeiro (2012). For an international perspective, see van der Velden and Wolbers (2003).

29. ProUni is a federal programme. Each state in Brazil will have a number of its own programmes in place. For instance, the state of São Paulo offers three types of scholarships: *Programa Escola da Família*, *Aluno Pesquisador* and *Jovens Acolhedores*.

30. Or students from private schools, conditional on having been in receipt of a bursary. Disabled students are also entitled, regardless of the type of school they attended.

31. Individuals whose per capita family income is over 20 minimum wages, or where the monthly tuition fee costs are inferior to 20% of the gross per capita family income, are not eligible to apply. The size of the loans also depends on family income.

32. *Quilombolas* are communities of ex-slaves of African origin who had escaped from their masters. *Quilombolas* are also sometimes referred to as Maroons.

33. Such a policy recommendation is not new in the context of Brazil [see, for instance, World Bank (2001)].

34. In these systems, the repayment of loans is contingent on the student's earnings after graduation, building in an automatic safety net to avoid individuals being unable to repay their debt. Some commentators have argued that repayments under such systems are more appropriately described as payroll deductions, not as credit card debt (Barr, 2011).

35. According to Figueiredo's (2013) calculations, dedicating even 100% of the oil royalties to education would not increase educational expenditure to 10% of GDP.

36. Wjuniski (2013) shows how, in order to satisfy elites, many successive governments in Brazil have strongly invested in higher education, at the expense of lower levels of education. Primary education received a strong boost from the military regime (1964-84) in order to support the industrialisation and import-substitution strategy. However, it was also the same military regime which decided to withdraw secondary education as a public good, and gradually introduced loans for students instead. This led to irreversible damage to the secondary education system, which survives to this day.

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Chapter 3

Demand-side factors driving youth employment in Brazil

This chapter explores a range of demand-side issues, such as skills shortages and mismatches, the costs of wages and social security, and their impact on youth employment in Brazil.

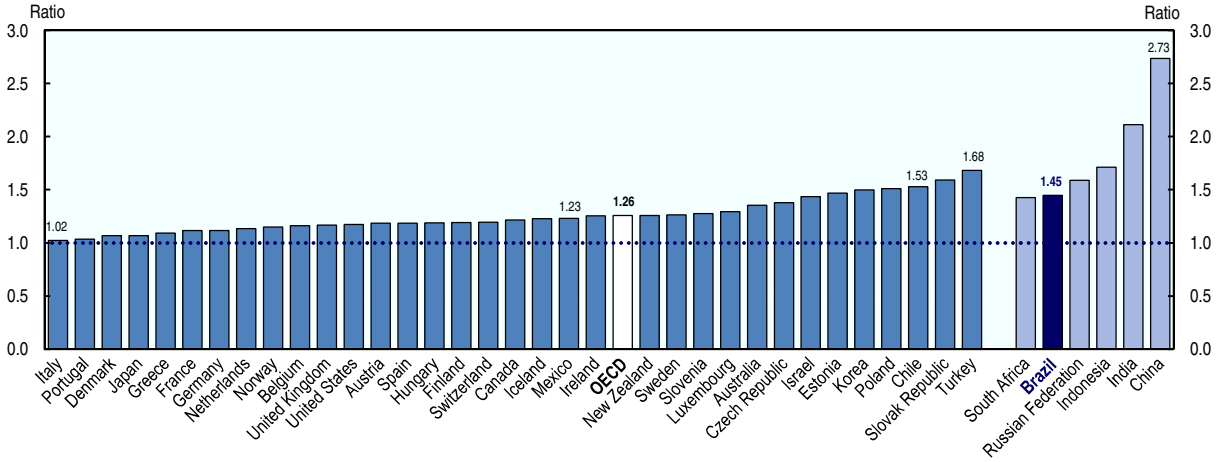
Introduction

The previous chapter focused on supply-side factors which may explain youth labour market outcomes in Brazil. However, this is only part of the story. What happens to youth once they leave school does not only depend on the qualifications and skills they possess, but also on the demand that exists for those skills and qualifications. In this chapter, a range of demand-side issues are explored and their impact on youth employment analysed. Employment, and youth employment in particular, depends to a large extent on the health of the economy. In addition, the relative demand for old and young workers will depend on sectoral growth and the varying skill requirements across sectors. This chapter also corroborates the returns to education analysis presented in Chapter 2 by showing the prevalence of both skills shortages and mismatches (undereducation) in the Brazilian labour market. A key focus of this chapter is on the cost of hiring youth. The statistics reveal that both minimum wages and social security contributions in Brazil are high by OECD standards. Employment protection legislation, on the other hand, is likely not to be a major obstacle to youth employment – except, perhaps, in the extent to which it limits temporary agency work, frequently a springboard for youth into more permanent and better quality jobs.

Economic growth and youth employment

Brazil's relatively strong labour market performance over the past decade can be attributed at least in part to favourable macroeconomic conditions. Although the ratio of 2011 to 2001 GDP (at constant prices) is smaller than those observed in other emerging economies (e.g. China, India, Indonesia and the Russian Federation), Brazil's economic growth has been equivalent to the better performers amongst the OECD countries (Figure 3.1).

Figure 3.1. **Ratio of 2011 to 2001 GDP, Brazil, OECD and selected other countries**



Note: GDP at constant prices.

Source: OECD calculations based on International Monetary Fund, *World Economic Outlook Database, April 2013*, www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx.

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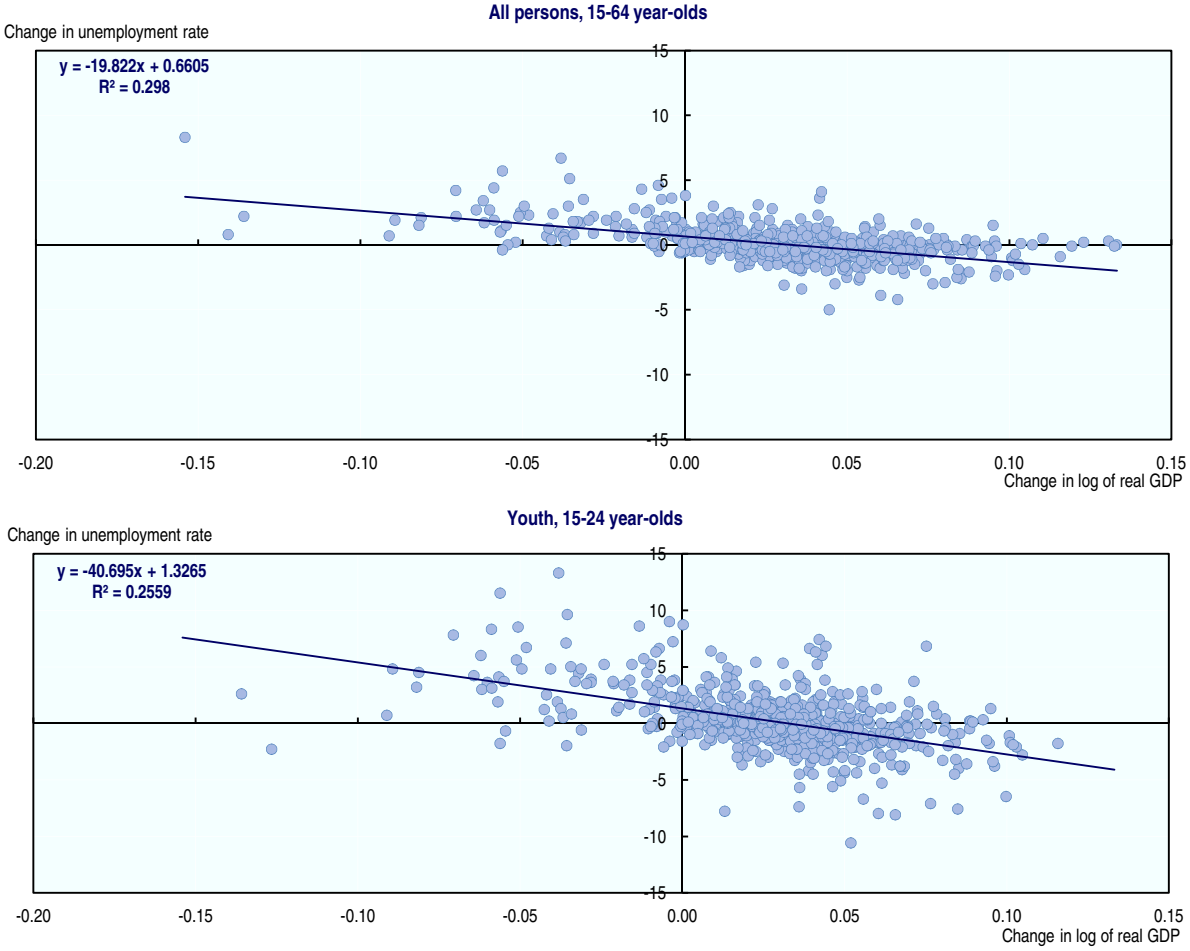
Across countries, there is indeed a strong relationship between economic growth and labour market performance. Figure 3.2 shows the relationship between changes in the unemployment rate and changes in the logarithm of real GDP over the period 1988-2010 for OECD countries and a selection of emerging economies (Brazil, China, India, Indonesia, the Russian Federation and South Africa). There is a clear negative relationship indicating that faster growing economies experience greater reductions in unemployment – a relationship more widely known as Okun's Law and observed across countries as well as time periods (Ball, Leigh and Loungani, 2013). Figure 3.2 also shows that this relationship is stronger for youth, and that there exists more variability around the average. This suggests that youth unemployment rates are considerably more sensitive to changes in GDP.

Figure 3.2. **Okun's Law for OECD and selected emerging countries**

First differences in unemployment rates and log of real GDP, 1988-2010 annual averages



Note: The sample includes all OECD member countries as well as six emerging economies (Brazil, China, India, Indonesia, the Russian Federation and South Africa). Each point in the chart represents a country-year observation of the first differences in the unemployment rate and the log of real GDP.

Source: OECD calculations based on ILO, *Key Indicators of the Labour Market (7th Edition)*, http://kilm.ilo.org/kilmnet/ for unemployment data; and International Monetary Fund, *World Economic Outlook Database, October 2012*, www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx for GDP data.

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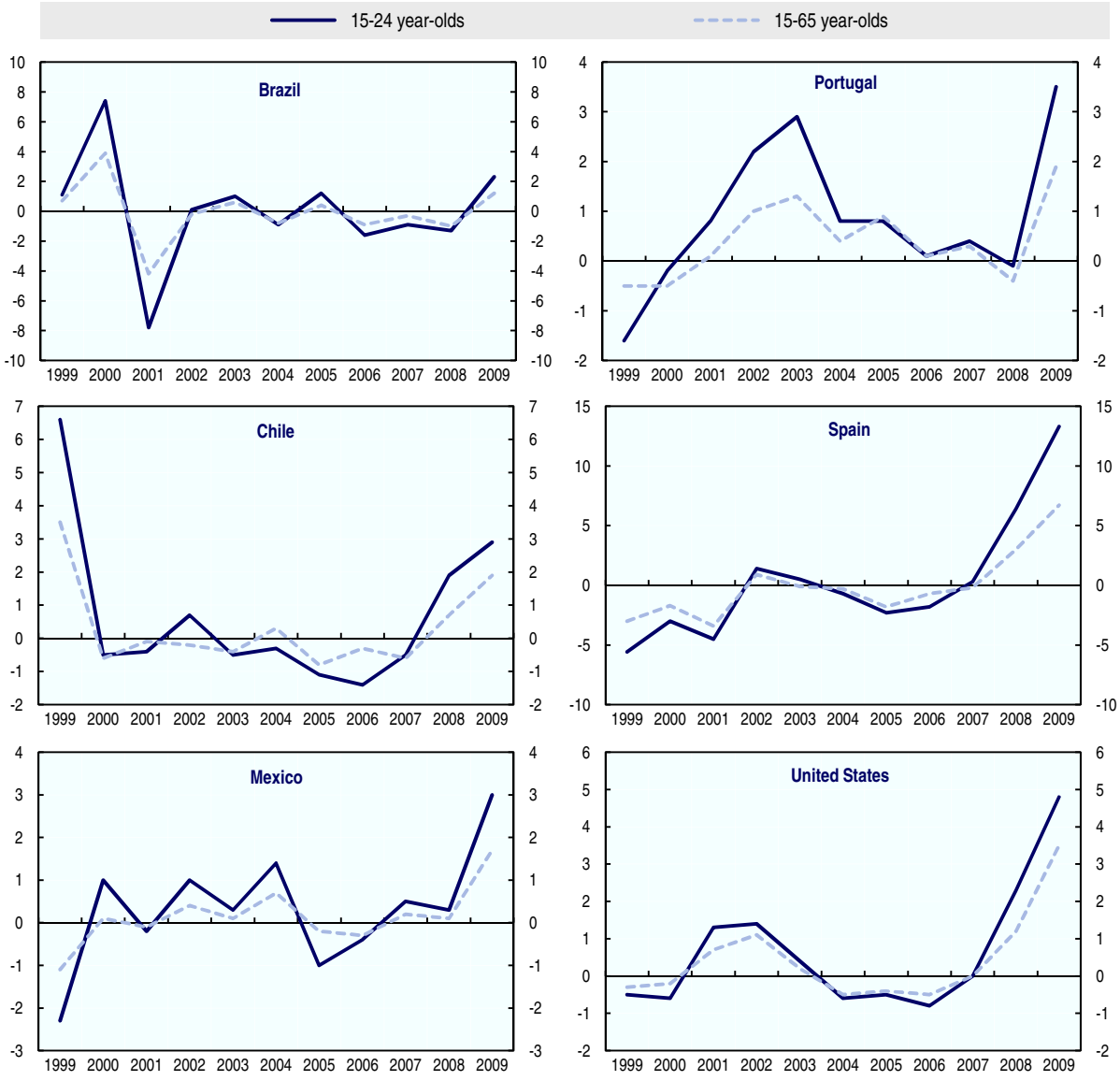
Figure 3.3 looks at trends in youth and overall unemployment rates over time (1999 to 2009), for Brazil and other selected countries. The higher volatility of youth unemployment rates can be observed in all six countries considered. In particular, the greater increase in youth unemployment in 2009 is very noticeable – although the difference is smaller in the United States, Spain and Brazil in the central years.

Figure 3.3. **Changes in unemployment rates by age group, Brazil, Chile, Mexico, Portugal, Spain and the United States, 1999-2009**

First differences (percentage points)



Note: Each point in the chart represents a first difference of the unemployment rate in the current and in the previous year.

Source: OECD calculations based on ILO, *Key Indicators of the Labour Market (7th Edition)*, http://kilm.ilo.org/kilmnet/.

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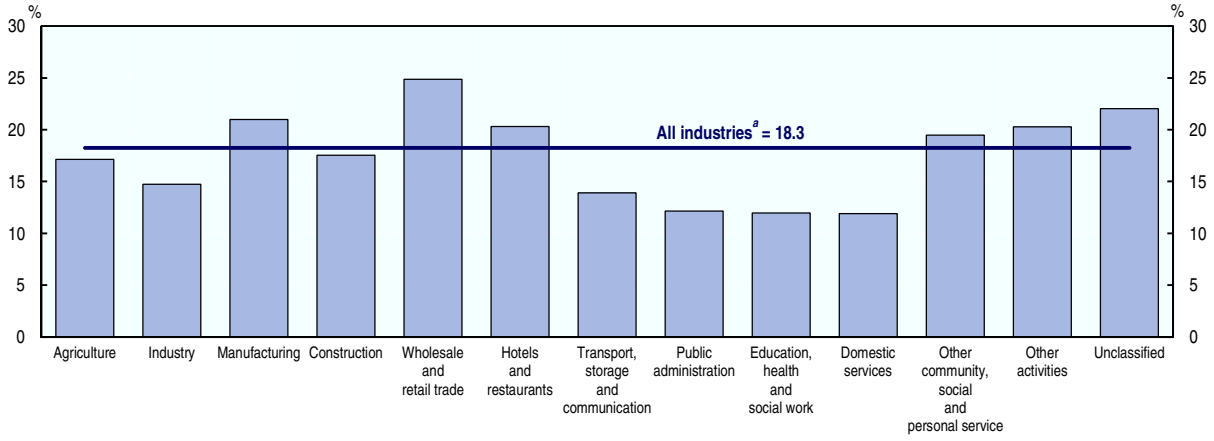
Where are the jobs for youth?

A higher and more volatile unemployment rate for youth than for adults partly reflects the fact that the sectors that youth are most likely to be employed in tend to be characterised by high turnover as well as more precarious work. In Brazil, the manufacturing, trade, and hotel and restaurant industries have a younger than average workforce. 18.3% of employees across all sectors in 2012 were aged 15-24, but in these three sectors, the proportions were 21%, 24.9% and 20.3%, respectively (Figure 3.4). Sectors employing fewer young people include industry (14.7%), public administration (12.2%) and education, health and social work (12%). As argued previously, the sectors that youth are most likely to be employed in tend to be characterised by high turnover as well as more precarious work.

Figure 3.4. **Proportion of workforce aged 15-24 by industry in Brazil, 2012**

Percentages



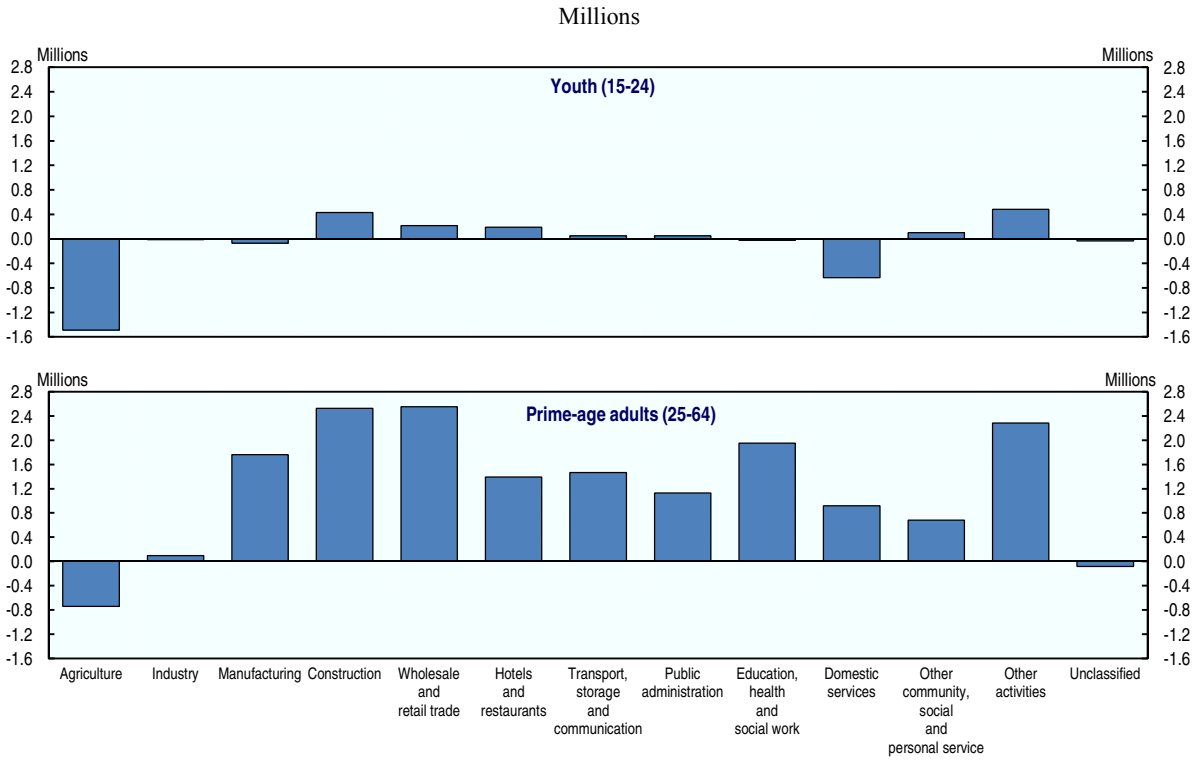
a) Weighted average.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932996258

Between 2003 and 2012, the number of jobs filled by youth has declined by around 740 000, while the number of jobs occupied by prime aged adults has increased by around 16 million. The decline in youth jobs has primarily occurred in the agricultural sector (-1.5 million jobs) and domestic services (-630 000). The latter could be related at least in part to the classification since 2008 of domestic work as dangerous work (and hence prohibited to those aged under 18). Industries which have created jobs for young people include the construction sector, hotels and restaurants, as well as the wholesale and retail trade industry (Figure 3.5).

Figure 3.5. **Increase in employment by industry and age group, Brazil, 2003-12**



Note: This figure shows the difference in the number of youth/prime-age adults in each sector between 2003 and 2012.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

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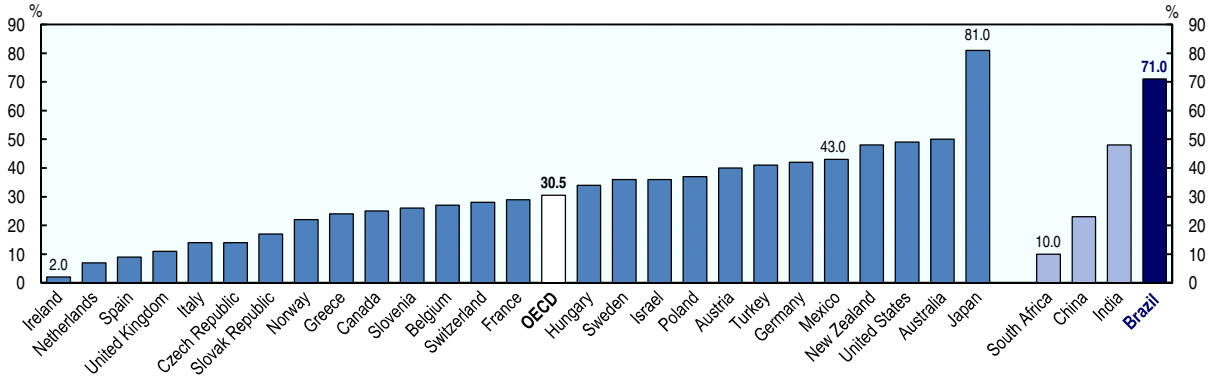
Skills shortages and mismatches

Skills shortages

Skills shortages arise when employers are unable to recruit workers with the required skills at the going rate of pay. A recent review of the literature for Brazil (Nascimento, Gusso and Maciente, 2012) rejected the idea that there is a general shortage of skilled labour and that, when there are shortages, these are restricted to certain professions and regions, as well as concentrated among the lesser skilled.

This evidence sits uneasily with the views of employers on skills shortages in Brazil, as well as with the high returns to education discussed in the previous chapter of this report. Starting with the latter, although it is true that the returns to education have been falling as a result of increases in the supply of qualified workers, the evidence presented in Chapter 2 showed very high returns to education in Brazil, indicating that the demand for educated workers still outstrips supply by a significant margin. This view of the situation appears to be corroborated by a series of employer surveys about difficulties in filling vacancies, which consistently put Brazil at the extreme end of the distribution (i.e. amongst the countries where employers are most vocal about skills shortages). Figure 3.6 shows the share of employers who report having difficulties filling specific job roles in a selected number of OECD and emerging economies. After Japan, Brazil is the country where employers report having the greatest difficulties.

Figure 3.6. **Percentage of employers having difficulty filling jobs, Brazil, OECD and other selected countries, 2012**



Source: ManpowerGroup (2012), *Talent Shortage Survey 2012*, https://candidate.manpower.com/wps/wcm/connect/IECampus/be31f5804b6f7c07ada6ff4952b5bce9/2012_Talent_Shortage_Survey_Results&_&ManpowerGroup.pdf?MOD=AJPERES.

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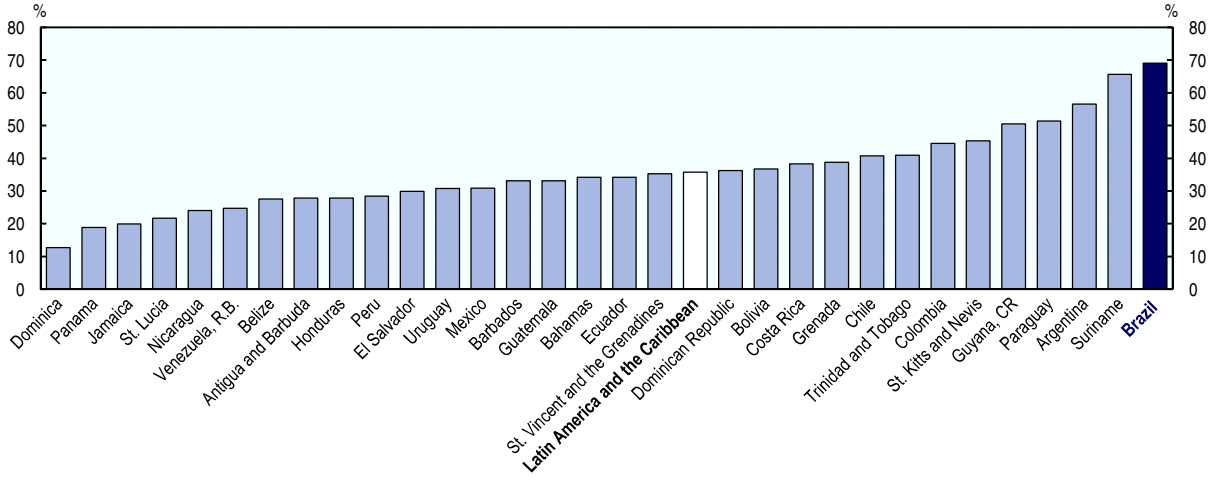
The same picture emerges from the World Bank's enterprise surveys. Figure 3.7 shows the percentage of firms identifying an inadequately educated workforce as a major constraint in Latin American and Caribbean countries. As in Figure 3.6, Brazil is one of the countries where employers report most shortages.

Figure 3.7. **Percentage of firms identifying an inadequately educated workforce as a major constraint, Brazil, Latin American and Caribbean countries, 2010**



Source: OECD calculations based on World Bank (2010), *World Bank Enterprise Surveys*, www.enterprisesurveys.org/.

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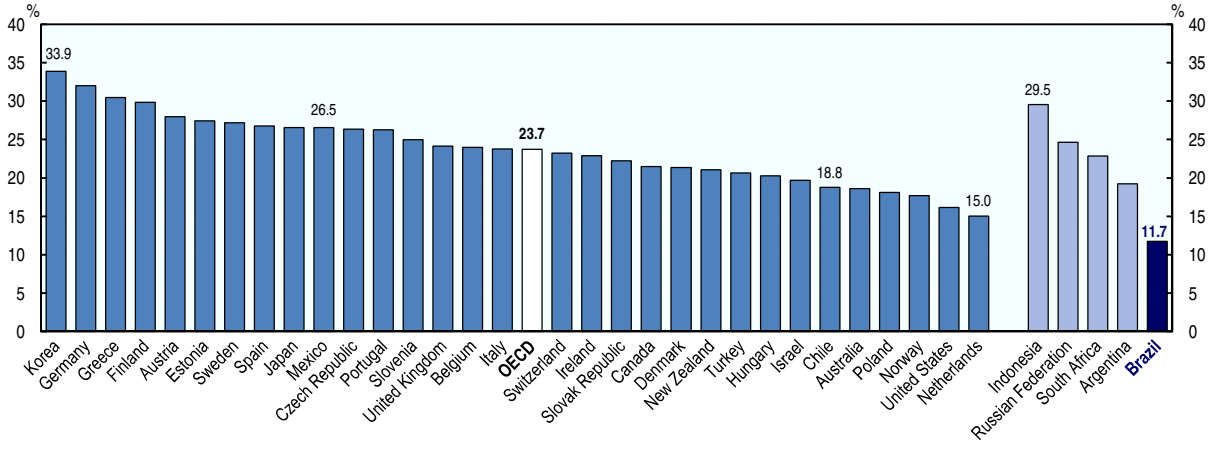
The literature review by Nascimento, Gusso and Maciente (2012) does highlight a potential issue with a lack of graduates with technical/scientific backgrounds. The supply of science graduates is a concern aired not only in Brazil, but in countries across the OECD. However, when looking at the percentage of graduates who qualify in the fields of: science; engineering, manufacturing, construction; and agriculture;[1] Brazil has the lowest share among OECD and emerging economies with available data (Figure 3.8).

Figure 3.8. **Science, engineering and agriculture graduates, Brazil, OECD and other selected countries, 2011**

Percentage of all tertiary-type A and advanced research programmes graduates



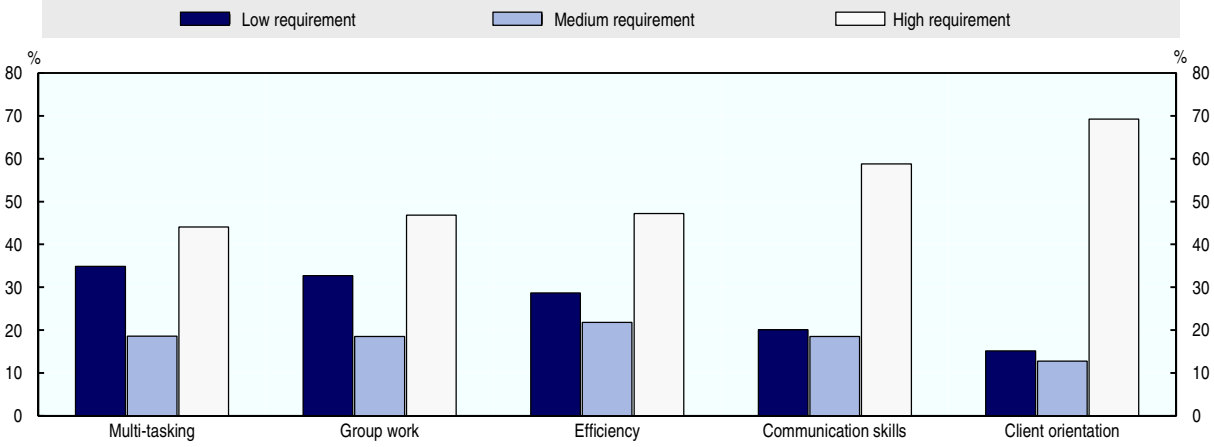
Source: OECD calculations based on the *OECD Education Database*, www.oecd.org/edu/database.htm.

StatLink http://dx.doi.org/10.1787/888932996334

Bassi et al. (2012), as part of their review of skills, education and employment in Latin America, carried out a Demand for Skills Survey among 1 200 firms from Argentina, Chile and Brazil to investigate the skills sought when hiring young people graduating from secondary school. When asked about the value of different types of skills, firms reported socio-emotional skills as being more valuable than general or industry-specific knowledge – and these are particularly difficult to find in Brazil according to the firms participating in the survey.[2] Similarly, a survey of workers' skills use at work reveals that employers place high importance on workers' abilities to be client-oriented, to have good communication skills and to be able to do group work (Figure 3.9).

Figure 3.9. **Workers' perception of skills use at work in Brazil, 2012**

Percentages



Source: Silva, S.P. (2012), "Percepção dos trabalhadores sobre intensidade e exigências no ambiente de trabalho" [Workers' perceptions on pressure and expectations at work], *IPEA Boletim Mercado de Trabalho*, No. 52.

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Skills mismatches

Skills mismatches arise when a worker's skills are not well suited for the requirements of the job he/she performs, i.e. the worker either has skills to perform more demanding tasks than required (overskilled) or lacks the skills to perform well the required job tasks (underskilled). Due to data limitations, the focus has frequently been on qualifications rather than skills mismatch. It was concerns about falling returns to education which led to a boom in research on over-education in OECD countries (Leuven and Oosterbeek, 2011) and these studies tended to suggest that as many as one in four workers were over-qualified on average across OECD countries (Quintini, 2011).

In Brazil (as in other emerging economies) only a few studies have looked at the issue of over-education (Santos, 2002; Diaz and Machado, 2008; and Esteves, 2009) and, as expected, the degree of over-education is lower than what is commonly found in OECD countries. More interesting is the degree of under-education that was estimated. Diaz and Machado (2008) estimate that as many as 53% of workers in Brazil may be under-educated for the jobs they perform – with this proportion being significantly higher in the poorer North and Northeast regions. Once again, this corroborates the evidence presented in the previous sub-section, that Brazil may be facing significant skills shortages.

Policy options

The drive to expand education (in particular vocational and higher education) has already been discussed in Chapter 2 of this report – and is a step in the right direction to tackle skills shortages in Brazil. However, what this section has also made explicit, is that more efforts should also be directed towards career guidance and helping young people choose a programme of study with rewarding labour market outcomes. The career benefits of studying science, engineering or mathematics should be advertised more widely and students better accompanied and prepared to take such courses. In addition, employers could be involved to a greater extent in curriculum design and development in order to ensure that the right skills are being taught. Employers are in the best position to identify their current and emerging skills needs, and need to work in partnership with the public sector to feed into relevant programmes. As argued throughout this report, employers also need to build bridges with schools, universities and other education providers to offer more opportunities for work-based learning, both through apprenticeships and internships.

Brazil has also undertaken steps to use migration as a tool to alleviate short-run skills mismatches. Whereas it takes time to adapt curricula, change young people's preferences, and channel individuals through the education system, migration presents a quick-fix to immediate skills shortages. In 2012, the Brazilian government awarded 73 000 visas to workers from abroad, most of whom were highly qualified in areas like engineering, technology, systems analysis, oil and gas, civil construction and infrastructure. Due to high demand for qualified foreign personnel, the General Immigration Office (*Coordenação Geral de Imigração*) is simplifying the process by bringing in the Electronic Register of Firms. This online system for firms seeking to import foreign professionals would reduce the quantity of documents necessary for a visa request, as well as the overall time required to obtain a visa.

Wages and labour costs

A statutory minimum wage can help ensure that fair wages are paid to workers. However, if set too high it can have a negative impact on employment.

Minimum wage

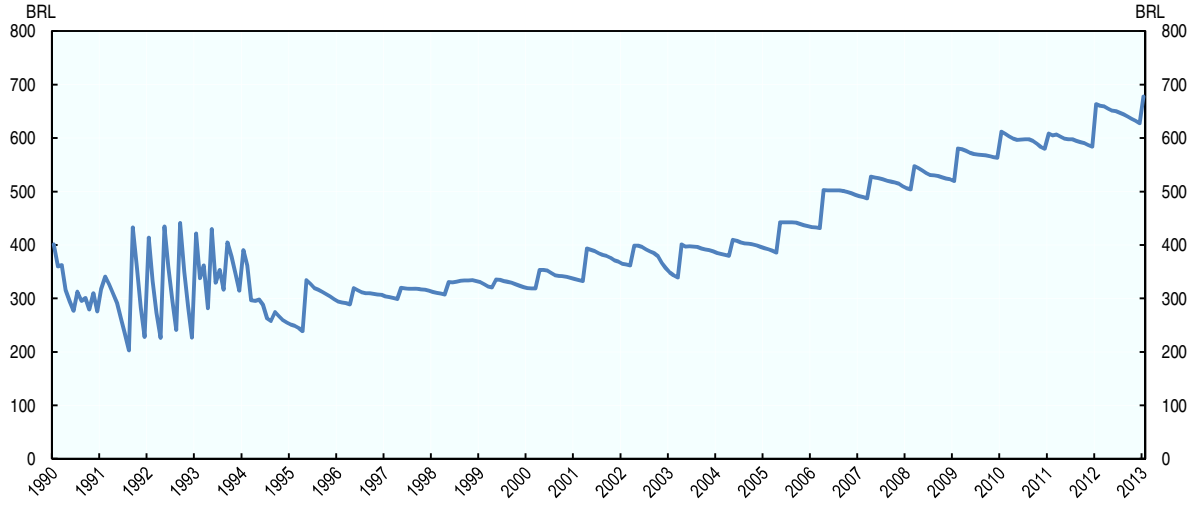
There have been large (real) increases in the minimum wage

Brazil has had a minimum wage since July 1940, which was included in the Consolidated Labour Code (*Consolidação das Leis do Trabalho* – CLT) in 1943 and, in 1963, extended to cover rural areas. Initially the minimum wage varied by state and sub-region, but it was turned into a single national minimum wage in 1984 (later consolidated by the 1988 Constitution). Since 2000, however, states are allowed to set their own minimum wage[3] (as long as it is superior to the national minimum wage). Five states have introduced such wage floors: Rio de Janeiro in 2000; Rio Grande do Sul in 2001; Paraná in 2006; São Paulo in 2007 and Santa Catarina in 2009. There is no sub-minimum wage available for youth.

The value of the national minimum wage has (since the economic stabilisation in 1994) been set annually. Since 2007, the value has been revised in line with inflation over the previous year and real GDP growth over the past two years (i.e. in line with nominal GDP growth). This has led to considerable increases in the real value of the minimum wage: between January 2000 and January 2013 its value has more than doubled (Figure 3.10). In 2012, the minimum wage was equivalent to around 69% of the national median earnings of full-time workers (as derived from PNAD). This was up from around 60% in 2001. This minimum wage ratio is high by OECD standards (47% in 2011)[4] – although Turkey (71%) has an equally high minimum wage.

Figure 3.10. **National minimum wage, real terms, Brazil, January 1990 to January 2013**

Brazilian reals (BRL) at constant prices, January 2013



Source: OECD calculations based on IPEA, "Salário Mínimo Real" [Real Minimum Wage], *IPEA Data*, www.ipeadata.gov.br/.

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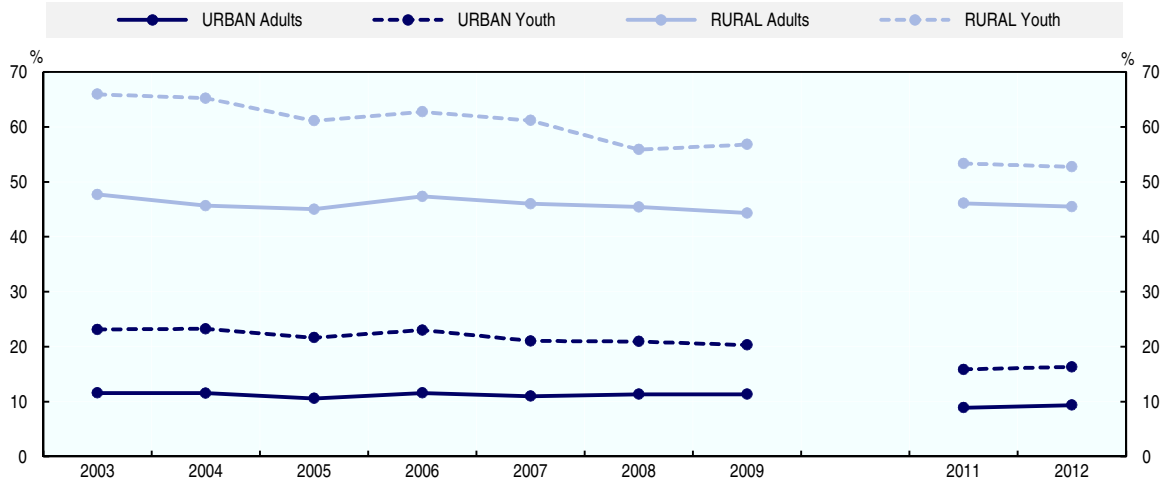
As a result of such increases, one would expect the proportion of individuals earning below the minimum wage to have increased over time, as firms avoid paying the minimum wage in efforts to prevent increasing costs. However, as Figure 3.11 illustrates, the proportion of individuals earning below the minimum wage has been falling slightly over time – suggesting increased compliance. Four remarks are important here. *First*, this evidence is consistent with the increases in formality outlined in Chapter 1. *Second*, the proportion of individuals earning below the minimum wage is still very large, particularly for youth. *Third*, the proportion earning below the minimum wage is significantly higher in rural areas (and in regions such as the North and Northeast). *Fourth*, an increasing proportion of young people earning at or above the minimum wage might raise concerns about the employment effects of such a policy – an issue which shall be explored in greater detail in the next sub-section.

Figure 3.11. **Fraction below the minimum wage by age and area of residence, Brazil, 2003-12**

Percentage of all full-time employed



Note: Data for 2010 are not available.

Source: OECD calculations based on IBGE, *Pesquisa Nacional por Amostra de Domicílios* [National Household Survey], www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2012/default.shtm.

StatLink http://dx.doi.org/10.1787/888932996391

Inconclusive evidence regarding the employment effects of minimum wages, particularly for the young

A large number of studies have investigated the impact of minimum wages in Brazil, with no clear conclusion as to its effect on employment. Earlier papers (e.g. Foguel, 1998; and Carneiro and Corseuil, 2001) using data from the 1980s and 1990s uncovered significant employment effects (a 10% increase in the minimum wage leading to a 10% reduction in employment), whilst others (mostly concentrating on the 1990s) have found more modest employment effects (e.g. Fajnzylber, 2001; Neumark, Cunningham and Siga, 2006; and Lemos, 2009a), with a 10% increase in the minimum wage leading to a fall in employment of around 1%. Lemos (2009b) concludes that there is little evidence of adverse employment effects. Hardly any research has explored the effect of the national minimum wage during the first decade of the 2000s, however. Jales (2012) is an exception, and concludes that there are significant unemployment effects on the formal sector of the economy.

There have also been a few recent studies analysing the effect of the state minimum wages. Corseuil, Foguel and Hecksher (2013) look at the state-level minimum wages (or wage floors) in Paraná and São Paulo. Apart from the fact that these state wage floors are rarely adhered to, the authors find effects for only one out of three employment groups, and the effect is positive rather than negative. Moura and Neri (2008) look at the experience of the states of Rio de Janeiro and Rio Grande do Sul, and similarly find that non-compliance is very high and that effects on employment levels are negligible.

Very few studies have looked specifically at the effect of minimum wage increases on young people. Foguel (1998) finds that the minimum wage has a slightly bigger effect on new entrants to the labour market, while Faynzylber (2001) finds mixed results by age depending on the sector and the part of the wage distribution looked at. At the bottom of the wage distribution (earning less than 1.1 minimum wages), formal salaried teenagers (aged 15-19) are more responsive to minimum wage increases than adults (20+), and the same is found for informal salaried teenagers earning less than 0.9 minimum wages. For the self-employed and those in the informal salaried sector earning around one minimum wage, however, the employment elasticities are larger for adults. Finally, Lemos (2009a) finds no employment effect for teenagers (aged 15-19).

Most studies also break down the employment effects by informal/formal sector lines. If the labour market were segmented, one would expect the minimum wage to lead to decreases in employment in the formal sector accompanied by increases in employment in the informal sector. While the results of Carneiro and Corseuil (2001) suggest that increases in the minimum wage contribute to the informalisation of the labour force, Foguel (1998) finds little evidence for this theory and only finds a very small (positive) effect on formality. Fajnzylber (2001) find that the negative employment effects in the informal sector are larger than in the formal sector (consistent with a scenario where informal workers move into the formal sector because of its increased attractiveness after a minimum wage increase, or move out of the labour force motivated either by lower employment prospects or by increases in household income brought about by the higher earnings of other family members) – while Lemos (2009b) finds no effect on either sector.

Summarising the large body of research on the employment effects of the minimum wage in Brazil, there is surprisingly little consensus about its true impact.[5] Moreover, it is disappointing that the topic has received little attention recently, despite very large real increases in the minimum wage. In addition, most research has utilised the PME which covers metropolitan areas only (i.e. 30% of the Brazilian population – Emilio, Ponczek and Botelho, 2012). It is possible that the minimum wage would have more impact in rural areas, where wages are generally lower than in urban areas. Finally, it is equally surprising that the impact of the minimum wage on youth has not been investigated in greater detail, given the level of youth unemployment and the fact that this group of young people is more likely to earn wages at the minimum wage level. In Brazil, the level of the minimum wage is relatively high, which could provide an argument for setting up a sub-minimum wage for youth to encourage employers to hire more young people. Out of 25 OECD countries which had a statutory minimum wage, nearly half (12) had a sub-minimum wage for youth. On average, the sub-minimum wage for youths aged 17 was set at 72% of the adult minimum wage (Table 3.1).

A sub-minimum wage might make particular sense in the case of apprentices, in which case it would be more appropriately called a "training wage": the lower level of compensation would reflect the fact that, at the beginning of an apprenticeship contract, young people's productivity is lower. Given that, apart from lower contributions to the FGTS (2% instead of the standard 8% of earnings), Brazilian employers receive little support to meet the cost of taking on apprentices, such training wages would result in increased incentives for providing apprenticeship places.

Table 3.1. **Minimum wages (MW) for adults and youth in OECD countries, 2011**

Country	Adult MW	Adult MW/ Median wage (%)	MW at 17/ Adult MW (%)	Notes
Australia	Yes	54	–	
Austria	–	–	–	
Belgium	Yes	50	73	Youth sub-minima were fixed in 1991 as percentages of the MW for workers aged 21 and over: 94% for 20-year-olds; 88% for 19-year-olds; 82% for 18-year-olds; 76% for 17-year-olds; and 70% for 16-year-olds and younger workers.
Canada	Yes	45	–	
Chile	Yes	..	75	
Czech Republic	Yes	35	80	Reduced MW for workers under the age of 19 (80%) and for workers aged 19-21 with less than six months job tenure (90%).
Denmark	No	–	–	
Estonia	Yes	39	–	
Finland	No	–	–	
France	Yes	60	90	For younger workers with less than six months work experience in their activity of employment, the MW is reduced by 10% for workers aged 17 and by 20% for workers younger than 17.
Germany	No	–	–	
Greece	Yes	51	87	MW for blue-collar workers less than 25 years of age (introduced 14 February 2012).
Hungary	Yes	50	–	
Iceland	No	–	–	
Ireland	Yes	48	70	MW for workers aged under 18 (70% of adult minimum).
Israel	Yes	..	–	
Italy	No	–	–	
Japan	Yes	38	–	
Korea	Yes	41	–	Youth MW has been replaced by a MW based on experience.
Luxembourg	Yes	42	80	Single workers aged 17. Workers aged 15 and 16 are entitled to 75% of the adult MW.
Mexico	Yes	18.4[a]	–	Mean wage instead of median wage.
Netherlands	Yes	47	40	Youth are entitled to a reduced MW, varying from 30% for 15-year-olds to 85% for 22-year-olds.
New Zealand	Yes	59	60	As of 1 April 2008, only paid to "new entrants" aged 16-17, i.e. with less than three months of job tenure, otherwise adult rate applies.
Norway	No	–	–	
Poland	Yes	45	–	
Portugal	Yes	57	75	Non-agricultural workers aged under 18.
Slovak Republic	Yes	46	75	Reduced MW for workers aged 16 and 17 (75%) and for those under the age of 16 (50%).
Slovenia	Yes	58	–	
Spain	Yes	44	–	
Sweden	No	–	–	
Switzerland	No	–	–	
Turkey	Yes	71	–	For under 16-year-olds, the MW is 85.6% of the adult MW.
United Kingdom	Yes	53	60	MW for workers aged 16 and 17. For workers aged 18-20, the MW is 81.5% of the adult MW. Median wage calculated from LFS.
United States	Yes	38	–	
OECD	**25/34**	**51**	**72**	

–: Not applicable; ..: Not available.

a) Calculated as a proportion of the average, not the median, wage.

Source: OECD Database on Minimum Wages, www.oecd.org/els/emp/lfs-minimumwagesandgrossearningsoffull-timeemployees.htm.

StatLink http://dx.doi.org/10.1787/888932996562

The introduction of a sub-minimum wage for youth is not entirely without controversy, however, and some have argued that it may institutionalise the incidence of low-pay jobs among youth and lead to segmented labour markets where youth find it difficult to move to better-paid jobs. In addition, a couple of countries have abolished the sub-minimum wage applicable to youth on discrimination grounds – although the age restriction has sometimes simply been replaced with a tenure restriction (e.g. Korea). Reductions in the cost of hiring youth can, however, be achieved through other means, such as reductions in social security contributions and/or direct wage subsidies. Both of these will be discussed later on in this chapter.

These alternative approaches would also not require a change in the Consolidated Labour Code – which would be needed in the case of a sub-minimum wage and which, as discussed in Box 1.2, is extremely difficult to achieve.

The minimum wage as an instrument to tackle inequality

Although the minimum wage has been an important instrument for reducing inequality (Barros, Corseuil and Cury, 2000; Firpo and Reis, 2007; and Barbosa Filho, 2012), many authors have argued that its effectiveness has been reduced over time (Barros and Carvalho, 2005; and Afonso et al., 2011). Barros et al. (2010) conclude that "A very active minimum wage policy continues to be pursued, despite the fact that […] increases in the minimum wage are much less effective in reducing inequality than expansions in *Bolsa Família* benefits." Similarly, Giambiagi and Franco (2007) show that *Bolsa Família* is much more effective at tackling inequality than the minimum wage is.[6]

The tax wedge, social security contributions, and corporate tax

In addition to the recent steep increases in the minimum wage, non-wage costs can also contribute to high labour costs which may discourage employers from creating formal jobs and hiring youth.

The tax wedge is a measure of the gap between total labour costs faced by employers and the net take-home pay received by employees. This difference will be made up of a combination of personal income tax, as well as employer and employee social security contributions. Recent estimates of the tax wedge in Brazil, India, Indonesia, China and South Africa found that the tax wedge in Brazil is similar in size to those of many OECD countries (Gandullia, Iacabone and Thomas, 2012).

However, the make-up of the tax wedge in Brazil is very different from that generally encountered in the OECD. In particular, there is no effective personal income tax burden on individuals earning the average wage in Brazil.[7] Employee social security contributions are also relatively low. In contrast, employer social security contributions are considerably above the OECD average. This is confirmed by Figure 3.12, which shows how Brazil's employer labour tax and contributions (as a percentage of company profits) tower above the OECD average and those encountered in some other emerging economies.

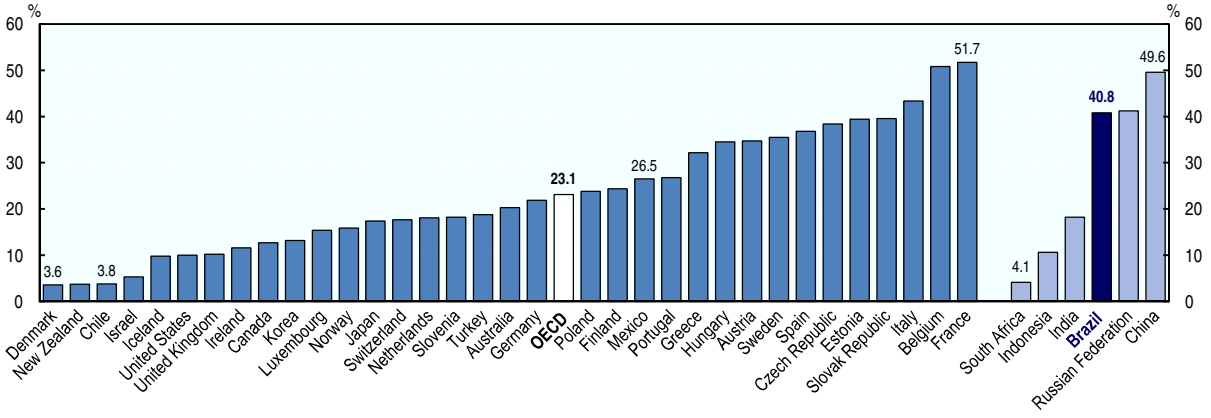
In addition to high social security contributions, firms in Brazil face a very high profit tax.[8] Together this means that firms in Brazil face the highest total tax rate (as a percentage of commercial profit) amongst the group of OECD and emerging economies considered in this report (Figure 3.13).

As mentioned in Chapter 1 of this report, there is evidence (both for Latin America more generally, as well as for Brazil in particular) that reducing non-wage labour costs can have a positive effect on formality (Lehmann and Muravyev, 2012; and Bosch, Goni and Maloney, 2007). In addition, reducing payroll taxes can have positive employment effects (e.g. Nickell, 2004; Bassanini and Duval, 2009) and the general trend amongst

OECD countries over the period 2000-09 has been towards a reduction in employer social security contributions (Brys, 2011). Given Brazil's high non-wage labour costs as well as relatively high youth unemployment rates, some reductions in social security contributions (targeting specific sub-groups of youth, such as the long-term unemployed) should be considered. Recent policy changes (as part of the *Brasil Maior* programme) have already reduced the contributions of 40 sectors to the National Social Security Institute (*Instituto Nacional do Seguro Social* – INSS); instead of the standard 20% payroll contribution, firms in these selected sectors will now pay a rate of either 1% or 2% on their gross revenue, depending on the sector. The stated aim of the policy is to lower labour costs and make enterprises more competitive to face the current international crisis, also leading to an increase in formal jobs. An extension of this policy to target the recruitment of specific sub-groups of young people more specifically should be considered (e.g. those in training, or those youth encountering the greatest difficulty in finding a job).

Figure 3.12. **Company labour tax and contributions, Brazil, OECD and selected other countries, 2012**

Percentage of commercial profits

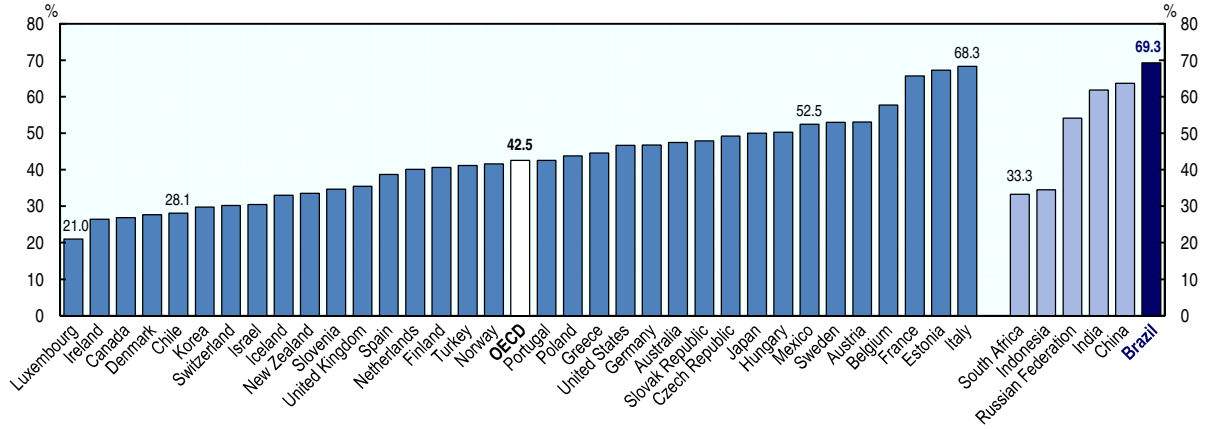


Source: World Bank (2013), *Doing Business 2013*, www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf.

StatLink http://dx.doi.org/10.1787/888932996410

Figure 3.13. **Total company tax rate, Brazil, OECD and selected other countries, 2012**

Percentage of commercial profits



Source: World Bank (2013), *Doing Business 2013*, www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf.

StatLink http://dx.doi.org/10.1787/888932996429

Employment protection legislation

All countries, including Brazil, have in place rules and legislation to protect workers against abusive employer practices with respect to hiring and firing. However, there are considerable differences across countries in the strictness of these rules which has been associated with differences in the degree of job turnover and employment rates for young people.

Regulations governing teenage employment

As in most OECD countries, the minimum legal age for paid work in Brazil is 16, once compulsory schooling has been completed. As mentioned previously, an exception is made for apprenticeships (which start at age 14). Working conditions are strictly regulated for those under 18: they are banned from work that constitutes a physical strain or from employment in nocturnal, unhealthy, dangerous, or "morally harmful" conditions. In addition, youngsters under the age of 18 need the permission of their parent or guardian in order to work. Although such regulations are in line with those in most OECD countries, they do automatically restrict the number of jobs available to youth.

Notice period, severance pay, and the cost of dismissal

The ILO's Convention 158 (Termination of Employment) came into force in 1985 and has been ratified by 34 countries. It aims to ensure a certain level of employment security for workers. In particular, Article 4 of the Convention establishes the need to base termination of employment on a valid reason – related either to the worker's capacity or conduct, or to operational requirements. Brazil is the only country which has denounced the Convention (in 1996 – i.e. at a time when the government was pushing through significant economic reforms). Indeed, it was argued that the convention led to a "broad prohibition of dismissals" and would be a "step back in the course towards less state intervention and more collective bargaining" (Lepage-Saucier, Schleich and Wasmer, 2013). As a result, the concept of "unfair dismissal" does not really exist in Brazil since the law allows for "unjustified" dismissal (*demissão sem justa causa*) as long as the required notice period and the indemnity pay are respected.

The 1988 Constitution increased the notice period in Brazil from a standard period of one month to a period proportional to the individual's job tenure. However, until 2011, no law regulated this constitutional change and so notice continued to be given one month prior to dismissal, regardless of tenure. In 2011, Law 12506 changed this and increased the notice period by three days for every year of service, up to a total maximum of 90 days (30 days standard notice period, plus up to 60 days depending on job tenure). During the last 30 days of the notice period, the employee may use up to two hours per day (or seven consecutive days) to look for another job. Alternatively (and because productivity nears zero during this final month), employers can simply give workers 30 days paid leave instead.

Indemnity pay consists of the release of the accumulated funds in the workers' Guarantee Fund for Length of Service (*Fundo de Garantia por Tempo de Serviço* – FGTS) plus a severance payment equivalent to 40%[9] of those accumulated funds. The FGTS was set up in 1967 and employers contribute the equivalent of 8% of the worker's salary to it each month (including a "13th" month). Access to the fund is granted only in very specific circumstances, such as retirement, death, diagnosis with a terminal illness, the purchase of a property and unjustified dismissal.[10] In sum, the FGTS combines a mandatory savings account with a severance payment upon unjustified dismissal (Hijzen, 2011).[11]

The labour law of September 2001 was introduced to deal with the effects of a Supreme Court decision that threatened the solvency of the FGTS system. The Supreme Court ruled that all FGTS account balances active in 1990 needed to be adjusted by 68.6% to make up for the real-term losses incurred as a result of the stabilisation plans of the 1990s. The law reflects the agreement reached between the government, workers and firms and resulted in an increase of the fine for unjustified dismissals from 40% to 50% of the accumulated FGTS balance, with the additional 10% being paid directly to the government. In addition, the contribution to the fund was increased from 8% to 8.5% of the employee's wages every month [but this was a temporary measure that lasted until the end of 2006 only (Corseuil, Foguel and Gonzaga, 2013)]. The combined effect of these changes in the law was to increase firing costs.

Despite these increases in firing penalties, and the fact that the total value of severance pay is relatively high by OECD standards for workers with four years of tenure (OECD 2011), it is not clear that even now they present a major disincentive to dismissal for firms in Brazil – particularly when the employment relationship has been short (which presents firms with an incentive to dismiss workers sooner rather than later, therefore increasing turnover). For short employment relationships, firms may be more sensitive to the cost of the advance notice (although, as will be discussed in the following sub-section, the notice period in Brazil is very low by OECD standards).[12]

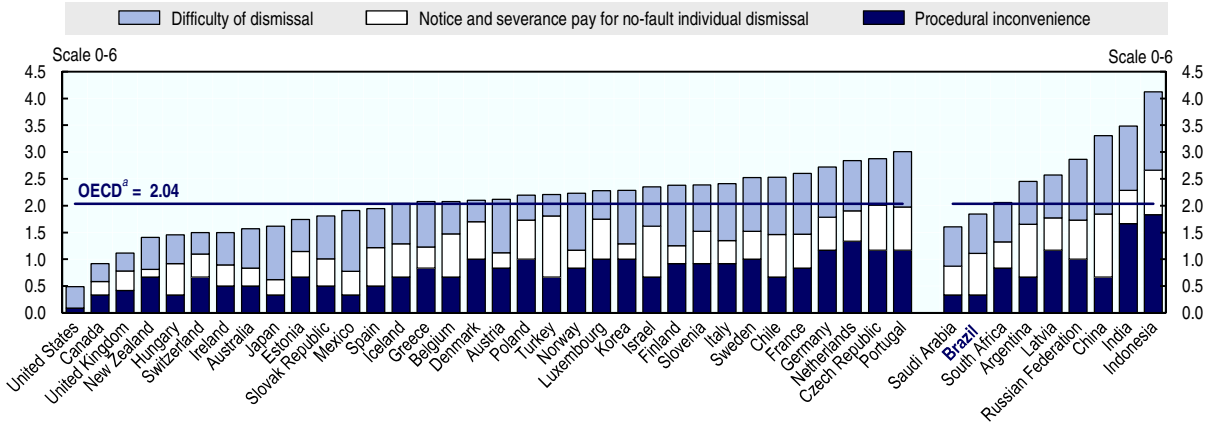
It has also been argued that the way the FGTS fund is structured creates incentives for "fake" or "arranged" dismissals in order for workers to cash in on their savings. *First*, the penalty is paid by the employer directly to the employee as opposed to a social fund held for all workers as a group. *Secon*d, the fund has, in the past, been poorly managed by the government leading to low (or even negative) returns (Robalino et al., 2009). Taken together, these two aspects provide workers with a significant incentive to induce their own dismissal and get hold off their FGTS accounts.[13] As a result, there have been several calls made to alter the structure and functioning of the FGTS. Gonzaga (2003) advocates a system where the returns on the FGTS accounts increase proportionately with job tenure. He also strongly argues that the firing fine should not be paid directly to the employee. Eichhorst, Marx and Pastore (2011) further observe that the current system does not create incentives for workers to accumulate and hold on to their FGTS funds to supplement their pensions upon retirement.

Despite its shortcomings, the OECD regards schemes such as the FGTS as best practice in the area of severance pay (OECD, 2013). This is because such schemes (if well-designed) induce no disincentives on the part of firms for dismissals or voluntary separations. Similar fee-based insurance schemes or individual saving accounts exist in Austria, Chile, Norway and Sweden.

Employment protection in Brazil seen from an international perspective[14]

The OECD has recently revised and updated its estimates of employment protection across the OECD, as well as for selected emerging economies (including Brazil) – OECD (2013). Brazil's level of protection for permanent workers against individual dismissal is below the OECD average (Figure 3.14). Brazil has a short notice period and procedures to be followed are simple and straightforward. In addition, employment relations in Brazil can be terminated even for no reason (i.e. there is no "unfair" dismissal as such).

Figure 3.14. **Protection of permanent workers against individual dismissal, Brazil, OECD and selected other countries**



Note: Data refer to 2013 for OECD countries and Latvia, 2012 for all other countries. The figure presents the contribution of different sub-components to the indicator for employment protection for regular workers against individual dismissal (EPR). The height of the bar represents the value of the EPR indicator.

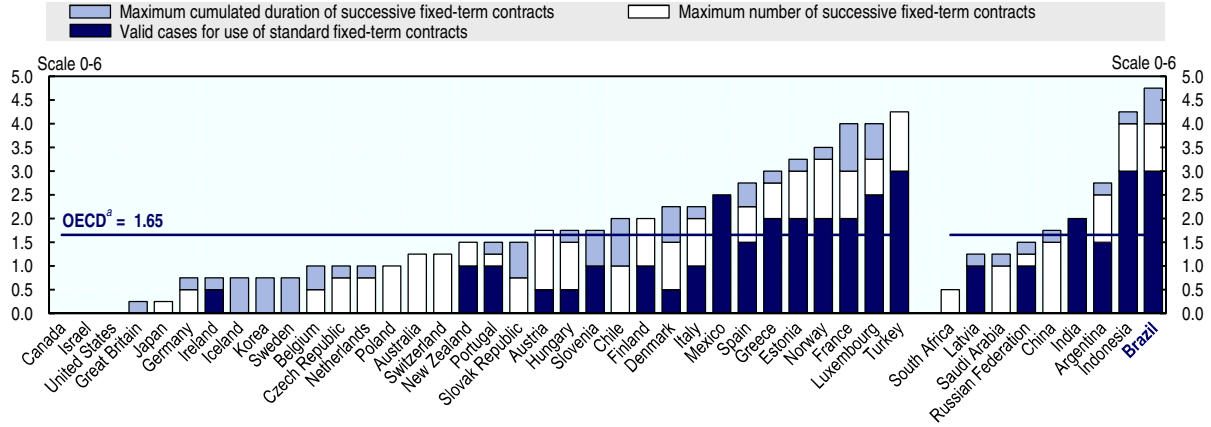
a) Unweighted average of the EPR indicator for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

StatLink http://dx.doi.org/10.1787/888932996448

By contrast, employment legislation surrounding fixed-term contracts in Brazil is the highest among OECD and emerging economies considered in the report (Figure 3.15). This is because of the strict conditions set by law on the use of fixed-term contracts, as well as the limitations on their duration and the number of renewals. In more than half of OECD countries, no specific justification is required to hire individuals on fixed-term contracts. Moreover, the OECD's indicators of the strictness of Brazil's regulation on fixed-term contracts does not reflect the fact that, in Brazil, hiring through fixed-term contracts needs to be agreed with unions first.

Figure 3.15. **Regulation on standard fixed-term contracts, Brazil, OECD and selected other countries**



Note: Data refer to 2013 for OECD countries and Latvia, 2012 for all other countries. The figure presents the contribution of different sub-components to the indicator of regulation for standard fixed-term contracts (EPFTC). A standard fixed-term contract is defined here as a generic employment contract with a precisely specified end date (in the form of day, month and year at which the employment relationship is set to end, if the contract is not renewed). The height of the bar represents the value of the EPFTC indicator.

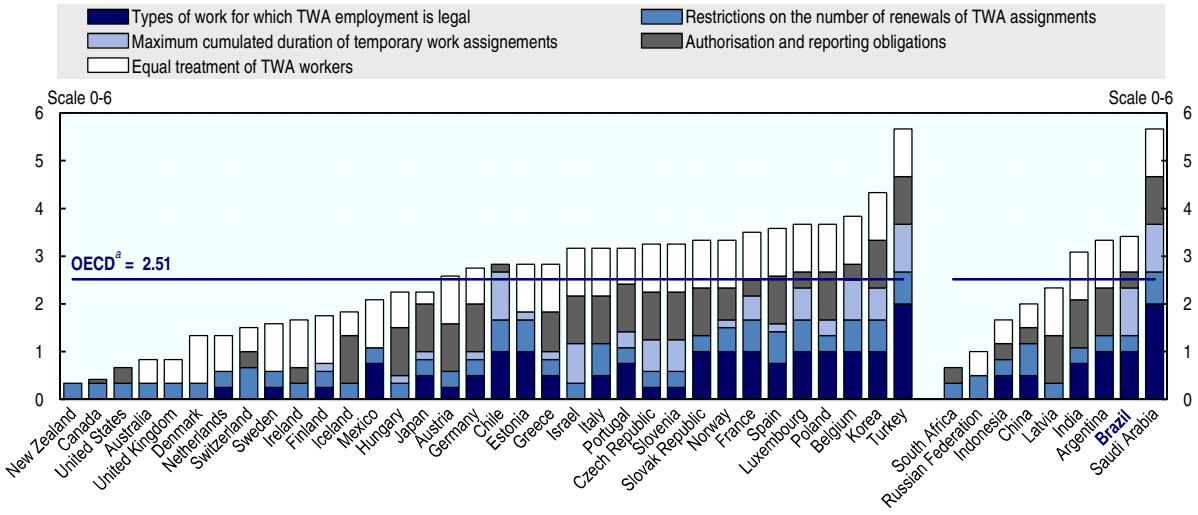
a) Unweighted average of the EPFTC indicator for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

StatLink http://dx.doi.org/10.1787/888932996467

Finally, the strictness of Brazil's regulations surrounding temporary agency work (TWA) is also above average for the OECD. As is the case for fixed-term contracts, this is primarily due to restrictions on the type of work for which TWA employment is allowed, as well as restrictions on the duration and the number of renewals of such contracts (Figure 3.16).

Figure 3.16. **Regulation on temporary-work-agency employment, Brazil, OECD and selected other countries**



Note: Data refer to 2013 for OECD countries and Latvia, 2012 for all other countries. The figure presents the contribution of different sub-components to the indicator of regulation for temporary agency work (TWA) employment (EPTWA). TWA employment is defined here as the employment of workers with a contract under which the employer (i.e. the agency), within the framework of its business or professional practice, places the employee at the disposal of a third party (i.e. the user-firm) in order to perform work (i.e. the assignment) under supervision and direction of that user-firm by virtue of an agreement for the provision of services between the user-firm and the agency. The height of the bar represents the value of the EPTWA indicator.

a) Unweighted average of the EPTWA indicator for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

StatLink http://dx.doi.org/10.1787/888932996486

Notes

1. Science covers ISC fields 42 (Life sciences), 44 (Physical sciences), 46 (Mathematics and statistics) and 48 (Computing). Engineering, manufacturing and construction covers fields 52 (Engineering and engineering trades), 54 (Manufacturing and processing) and 58 (Architecture and building). Agriculture covers fields 62 (Agriculture, forestry and fishery) and 64 (Veterinary).
2. Note that the findings from this survey corroborate the previous employer surveys of skills shortages mentioned in this chapter. In Brazil, firms also appear to have more difficulty finding graduates with firm-specific and general knowledge than in Chile or in Argentina.
3. Technically, the term "minimum wage" in Brazil is reserved for the national minimum wage, and state minimum wages should be referred to as "wage floors" (*piso salarial*).
4. OECD LFS – Minimum relative to median wages of full-time workers.

5. This parallels the international debate, where the impact of minimum wages is an equally contentious issue. For recent reviews of the international debate, see for example Neumark, Salas and Wascher (2013) and Schmitt (2013).

6. Another interesting implication of increasing the minimum wage in Brazil is that it has a significant impact on government budgets, because the minimum wage is tied to social security benefits and other government programmes and salaries. So an increase in the minimum wage will generally engender an increase in those expenditures as well.

7. Ramos and Rodrigues (2010) investigate the effect of income tax on labour supply (the number of hours worked) in Brazil and find no effect, which they attribute to the presence of a large informal sector (i.e. following an increase in personal income taxes, more individuals will choose to work in the informal sector in order to avoid paying taxes, while not reducing the number of hours worked). This is not, however, a hypothesis they formally test.

8. Not only do Brazilian firms face some of the highest taxes in the world, but also one of the most complex tax systems in the world (Menezes-Filho and Scorzafave, 2009). According to the authors (based on the World Bank's Doing Business indicators), Brazilian firms spend on average 2 600 hours per year on paying taxes – the highest such rate in the world by a considerable margin (367 in the average Latin American country or 176 in the average OECD country.

9. This indemnity, or firing penalty, was initially set at 10% of the amount deposited, but was increased to 40% in 1988.

10. Withdrawals in the case of unfair dismissal account for about two-thirds of FGTS expenditure (Hijzen, 2011).

11. Because the fund itself is accumulated during the employee's time at the firm, it cannot be considered a severance payment but is more appropriately described as a labour cost.

12. Gonzaga (2003) estimates that, before the 1988 constitutional change, a worker needed to be employed in the same job for a period of at least ten years in order for the fine to reach the value of one month's salary. The 1998 constitutional change reduced this to two and a half years in the job, and the September 2001 law further reduced it to two years.

13. Barros, Corseuil and Foguel (2001) analyse the 1990 PNAD and show that 62% of unemployed workers who say they have quit their previous formal job (i.e. voluntary resignation) also answered that they had received their FGTS balance. Another striking fact which seems to corroborate the fake dismissal theory is that, in Brazil, 50% of job separations are employer-initiated and are unjustified (DIEESE, 2011a).

14. One aspect of employment protection which is not reflected in these indicators is the complexity of the law (CNI, 2008) as well as uncertainty in the application and interpretation of that law by the Employment Tribunal (Kawaguchi and Murao, 2012). Anecdotally, both of these factors add to employers' reluctance to take on younger workers – particularly when the justice system acts slowly and bureaucratically.

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Chapter 4

The role of welfare and activation policies in Brazil

This chapter analyses both active and passive labour market policies aimed at youth in Brazil. It discusses the role of the public employment service, unemployment insurance and severance pay in helping youth find work, as well as the effect on work incentives of welfare programmes like Bolsa Família*. The chapter also looks at Brazil's largest labour market policy for youth* ProJovem*, and discusses the possible role that entrepreneurship programmes and hiring subsidies could play.*

Introduction

This final chapter analyses welfare and labour market policies aimed at youth. Brazil's youth strategy strongly emphasises education. By contrast, labour market policies are relatively rare. They are also relatively new. It was only in 2003 that the first national programme aiming to address the situation of youth in the labour market was implemented: the *Programa de Estímulo ao Primeiro Emprego* (the First Job Stimulus Programme). It included a mixture of hiring/wage subsidies, entrepreneurship training and other interventions aimed at citizenship and social responsibility, but it was discontinued only four years later. By then the Brazilian government had published its first comprehensive strategy aimed at improving the situation of youth in the country – the *Política Nacional da Juventude* (National Youth Policy) – and two national bodies dealing specifically with youth issues and with a strong co-ordination role were set up – the *Conselho Nacional da Juventude* (National Youth Council) and the *Secretaria Nacional da Juventude* (National Youth Secretariat). To replace the earlier programmes aimed at youth, *ProJovem* (a comprehensive youth training programme) was launched and, in 2007, it was extended to cover a range of other programmes in order to ensure a more integrated and comprehensive approach to helping youth.

Although the relative absence of labour market policies in Brazil may have been justified by the impression that its labour market is buoyant and that, therefore, such policies would be redundant, this report has shown at length that the position of youth in the labour market in Brazil is a cause for concern and that youth unemployment and inactivity rates are probably higher than they need be. As a result, the OECD recommends a stronger focus on active labour market policies in years to come. Reductions in social security contributions and sub-minimum wages for young workers have already been discussed to some extent in previous chapters; but the use of direct employment subsidies (or hiring credits) should also be considered, particularly to help disadvantaged youth obtain jobs in the formal sector. More encouragement of, and support for, entrepreneurship activities are also needed. In addition, it is recommended that the *ProJovem* programme be improved by incorporating an on-the-job training component – similar to those found in other training programmes across Latin America.

This chapter also argues that the public employment services need to become more relevant to young people and cater for their particular needs. Job-search assistance in particular has been proven internationally to be an effective means of increasing young people's employment chances – however, this may require significant additional investments in the capacity of the country's public employment service.

Finally, while active labour market policies can act as a springboard into the labour market, appropriate safety nets need to be provided for youth who encounter more difficulty in finding employment. In Brazil, an argument can be made to provide financial support for first-time jobseekers (jobseeker allowance) who currently are not covered by unemployment insurance. At the same time, while *Bolsa Família* lifts young families with children out of extreme poverty, the programme needs to be designed in such a way as to encourage and assist young people to look for work and, hence, finding a more sustainable path out of poverty.

Welfare and unemployment benefits for youth

Unemployment insurance

Brazil is one of six[1] countries in Latin America which has introduced an unemployment insurance system

Unemployment insurance (UI) was introduced in Brazil in 1986 and has existed in its present form since 1994. UI covers individuals in the (formal) private sector[2] who lose their work through unjustified dismissal.[3] There is also a benefit paid to workers temporary laid-off, which enables them to follow training during their time out of work, called *Bolsa Qualificação* (see Box 4.1).

Box 4.1. ***Bolsa Qualificação*, temporary lay-offs and experience rating**

In 1998, the government introduced *Bolsa Qualificação* as a new modality of the unemployment insurance scheme. Under this strand, employers can "suspend" workers for a period of two to five months and discontinue the payment of their salaries (as well as social security contributions). During that time, the worker participates in a training course and the government pays an unemployment benefit. Upon completion of the course, the worker returns to the firm and cannot be dismissed for a period of three months without the employer being forced to pay compensation. After this period, the employer can dismiss the worker who then receives any remaining unemployment insurance instalments (with a minimum of one regardless of how many have already been used up). The measure was designed to allow firms more flexibility in times of economic downturns while reducing the number of job losses. In 2010, however, *Bolsa Qualificação* only accounted for 0.8% of all UI recipients (DIEESE, 2011a).

Many countries operate similar schemes to provide firms with some flexibility and breathing space during hard economic times. In the United States and Canada, for example, workers can be temporarily laid off without ending their employment relationship. During such times, workers are entitled to benefit payments. However, the risk exists that such schemes are abused by employers: they can easily shift the entire burden of difficult times onto society and so the incentive exists to lay off too many workers – instead of using other tactics like cutting prices or building inventories. In order to avoid such perverse behaviour and make firms internalise the social cost of temporary lay-offs, the United States operates an unemployment insurance system which incorporates experience rating. Experience rating means that unemployment insurance contribution rates of an individual firm increase with layoffs or with the amount of unemployment benefits paid to workers whom the firm has laid off (Fath and Fuest, 2005).

Recipients are entitled to between three and five monthly payments[4] depending on their employment record over the last three years: three instalments for 6 to 11 months of employment; four instalments for 12 to 23 months of employment; and five instalments for 24 or more months of employment. In order to be eligible, the claimant needs to have completed at least six months of consecutive employment,[5] and not have received unemployment benefits in the last 16 months.

The minimum value of the benefit is set equal to the minimum wage, whilst any amount payable above that will depend on the worker's average salary in the last three months of employment (but is capped at BRL 1 235.91 in 2013). For average salaries of BRL 1 090.43 the benefit is set at 80% of the average salary earned. For average salaries between BRL 1 090.44 and BRL 1 817.56, any value above BRL 1 090.44 is multiplied by 50% and, for average salaries BRL 1 817.56, the payment

is fixed at BRL 1 235.91 maximum (i.e. 1.82 times the minimum wage). In 2009, the value of the unemployment benefit was equivalent to approximately 55% of the last salary,[6] and this replacement ratio has increased rapidly over time as a result of increases in the minimum wage (DIEESE, 2011a).[7]

Despite increased obligations, there still is no job-search requirement

Individuals can apply for unemployment benefit by submitting their application either to SINE (the public employment service), a local Ministry of Labour and Employment office (*Posto de Atendimento das Superintendências Regionais do Trabalho e Emprego* – SRTE) or a branch of the *Caixa Económica Federal*.[8] Wherever they enter the unemployment insurance system, however, their files are passed on to the public employment service. Workers who applied for UI through the SRTE or *Caixa* will be contacted in case a suitable work or training opportunity arises. Only in 2011 (Law 12513) was the benefit made conditional on the recipient not refusing a job offer commensurate with his/her qualifications and previous earnings – although the law does not specify what "commensurate" means and what (or whether) the unemployed has recourse to any valid reasons for refusing a job offer (e.g. caring responsibilities or health reasons).[9] In addition, workers claiming unemployment benefit for the third time in ten years are now expected to take a professional qualification course (minimum 160 hours) offered free of charge through the *Sistema S* – a measure which was introduced in the context of the PRONATEC programme (Presidential Decree 77.721/2012).

Despite these increased mutual obligations (which are a move in the right direction), there is still no clear requirement placed on the unemployed to demonstrate job-search effort. In some countries of the OECD, job-search requirements for benefit recipients are very strict. In Australia, Portugal, the Slovak Republic and the United Kingdom job-search activity needs to be proved fortnightly (or more frequently). In Austria, Estonia, France, Japan, Korea, Lithuania, Malta, Romania and Switzerland, it is monthly (Venn, 2012). Overall, between 1997 and 2011, there has been a tendency to introduce stricter job search and availability criteria across the OECD (Venn, 2012). Although a greater emphasis on mutual obligations in the case of Brazil may be desirable, this would come at the cost of significant additional investments in the capacity of the public employment service.

Coverage remains relatively low, particularly for youth

The coverage of the UI system is relatively low given that it only applies to formal workers in the private sector, as well as to unjustified dismissals. In addition, high turnover in the Brazilian labour market, combined with the employment period requirements for receiving the benefits, means that a large section of the population would be ineligible to receive the benefit – affecting youth more than adults. OECD estimates based on PNAD 2012 show that 56% of 25-64 year-olds working in the private sector (including informal) would be eligible to claim unemployment benefit, compared with 42% of 15-24 year-olds (if dismissed unfairly[10] and assuming that they have not already claimed unemployment benefit in the previous 16 months).[11] DIEESE (2011a) estimate that, in 2010, 27% of unemployment benefit recipients were under the age of 25. Considering that just over 46% of the unemployed are young (PNAD, 2012), youth are considerably less likely to be eligible for unemployment benefits.

Given that part of the purpose of unemployment benefits is to assist individuals in finding work, less support is available to youth and, in the case of those seeking their first job, none will be available. For the latter, some countries in the OECD provide special

financial support to assist in the jobseeking process. In Australia, for example, Youth Allowance supports young people with financial assistance if they are 16-21 year-old and looking for full-time work or undertaking approved activities and, in the United Kingdom, there is a special Jobseeker's Allowance for 16-24 year-olds. Brazil should consider introducing a similar benefit for young jobseekers.

The duration of unemployment insurance is short, but increasing generosity is likely to have only a limited impact on youth while adding to public expenditure burdens

As discussed above, eligible individuals receive between three and five instalments, depending upon their previous job tenure. A number of commentators in Brazil have argued that this is too short. Silva et al. (2003), Amorim and Gonzalez (2009), MTE (2010) and DIEESE (2011a) have all made this point based on the length of time it takes individuals to find a new job. An independent evaluation of the scheme (MTE, 2010) has argued that the number of instalments should be increased to a maximum of eight. In OECD countries, the average maximum period for receiving unemployment insurance was 16 months in 2010.[12] The shortest durations are found in the Czech Republic (five months) and Israel, the Slovak Republic and the United Kingdom (six months each).

While the general consensus is that the generosity of benefits (including duration) negatively impacts the exit rate from unemployment (Venn, 2012), an increase in the duration of unemployment benefits in Brazil is unlikely to have a major impact on unemployment duration given the current low level of generosity, and a number of studies looking at previous extensions of unemployment benefits (Cunningham, 2000) or at differences in eligibility based on tenure (Hijzen, 2011) confirm this or have argued that the benefits of an extension may be sizeable given the low levels of disposable income of UI exhaustees (Gerard and Gonzago, 2012). Occasionally, in times of economic crisis, the duration of unemployment benefit has been extended by a couple of months. This occurred, for instance, during the recent recession when two extra instalments were given to workers made redundant between November 2008 and February 2009 (ILO, 2010).

On the downside, because adults are more likely to be eligible for unemployment insurance than youth, a longer duration of the coverage would disproportionately benefit adults. Given limited resources, some kind of jobseeking allowance for youth (as discussed in the previous section) might therefore be more desirable.

The impact on informality

UI claimants are not allowed to work while receiving benefits, but there is some anecdotal evidence to suggest that some may find a job in the informal sector for the duration of their unemployment benefit (Ramos and Reis, 1997; and Eichhorst, Marx and Pastore, 2011)[13] – suggesting that there are efficiency costs associated with UI in the presence of a large informal sector. Indeed, Hijzen (2011) suggests that such moral hazard is potentially important. However, Gerard and Gonzago (2012), looking at an extension of UI in Brazil, find that only a fraction of the cost of UI extensions was due to perverse incentive effects and conclude that the efficiency costs were relatively small. They even present evidence to suggest that, in Brazil at least, the efficiency losses are smaller in areas with large informal sectors. Elsewhere, Margolis (2008) finds that UI as a whole helps formal sector workers from being pushed into the informal sector and Ulyssea's (2008) model and Hijzen (2011) confirm this.

Bolsa Família

Bolsa Família and its impact on school participation and attainment of beneficiaries' children have already been discussed at length in Chapter 2 of this report. However, *Bolsa Família* may also have an impact on the labour supply of its recipients. The direction of this effect is ambiguous a priori, and is essentially an empirical question.

On the one hand, the pure income effect of the cash transfer could mean that households now have to work less in order to maintain the same level of income. In addition, because the benefit is means-tested, there may be a disincentive to find work (at least in the formal sector) for fear of losing entitlement to the benefit. Indeed, even if no overall effect on labour supply is observed, there might still be a shift from formal into informal employment in order to avoid losing the benefit. The negative effect on labour supply might also be operating through more indirect mechanisms: as children in the household spend more time in school and work less, parents may need to spend more time on childcare (e.g. bringing children to school) or carrying out household chores previously performed by children – reducing the amount of time that parents can dedicate to the labour market.

It is also possible, however, that conditional cash transfers increase the labour supply of parents in the household. Most obviously, a loss of income associated with children working less (and which is greater than the value of the cash transfer) may need to be compensated for by parents working more. These substitution effects have been argued to be greater in rural areas because of higher child labour rates and the higher cost of schooling (Ribas and Soares, 2011). In addition, if children are now at school, this may actually free up some parental time (in particular maternal time) which was previously spent caring for children.

The evidence presented in the literature so far is mixed. Some research has found positive effects on parental labour supply (Chitolina, 2012; Ferro and Nicolella, 2007 for urban mothers; Mattos, Maia and Marques, 2010 for men on the extensive, but not the intensive, margin; Ribas and Soares, 2011 for participation of household additional workers in rural areas; Tavares, 2008 for mothers); other papers find no (or insignificant) effects (Foguel and Barros, 2010); yet others still find a negative impact (Ferro and Nicolella, 2007 for rural mothers and urban fathers; Pedrozo Junior, 2010; and Ribas and Soares, 2011 for the formal sector in urban areas; Teixeira, 2010 finds a negative impact on hours worked). The effect on formality is equally ambiguous (de Brauw et al., 2012; Holanda Barbosa and Corseuil, 2011; and Holanda Barbosa and Corseuil, 2013). This mirrors the international evidence on the impact of conditional cash transfer programmes on work incentives (OECD, 2011).

In addition, none of the research has focused separately on young recipients of *Bolsa Família* (18-24 year-olds). Given the lower incomes of this group and their relative labour market disadvantage, this would seem to be a major omission from the research agenda to this date – particularly as benefit dependency early on in life is likely to have scarring long-term effects on economic and social integration.

That said, any negative impact of *Bolsa Família* on work incentives is generally found to be small. This does not mean, however, that Brazil should no longer monitor the situation carefully, particularly with regards to young recipients of the benefit. In addition, it would seem that the design of *Bolsa Família* could be improved so as to ensure that individuals and their households find a long-term way out of poverty by participating more effectively in the labour market and gaining more independence and autonomy (Menezes-Filho and Scorzafave, 2009; and Souza, 2011). One option would be

to introduce a taper for withdrawal of the benefit, so that there is not a 100% loss of the benefit once household income increases over a certain threshold.[14] The change introduced in 2008, as a result of which families have a minimum of two years during which they can stay in the programme regardless of what happens to their income, may also have had a positive effect on work incentives. In addition, re-integration into *Bolsa Família* is made easier if families can show that programme exit is having a deleterious effect on the schooling of children aged 17 and under.

Public employment services

Public employment services play an important role in matching labour demand and supply through the provision of information, placement and active support services. Brazil's public employment service (*Sistema Nacional de Emprego* – SINE) was established in 1975. It currently has 1 620 offices around the country and 4 325 238 workers were registered with the service in 2010 (DIEESE, 2011c).

A relatively large portion of those registered with SINE are youth (37.8% in 2010). This is not entirely surprising given the type of vacancies handled by the Public Employment Service (PES) in Brazil. 67.1% of vacancies channelled through SINE in 2010 were in trade and services, while another 28.9% were in manufacturing and construction. Most of the vacancies are for positions requiring low-level skills. The most common vacancies in 2010 were for call centre operators, production line assistants and cleaners (DIEESE, 2011c). These are all sectors and occupations where youth are more prevalent. The proportion of those who find work through SINE who are young (39.6%) is proportional to the number registered.

Only a minority of jobseekers in Brazil use the public employment service

That said, only a minority of jobseekers in Brazil use the PES (DIEESE, 2010; and OECD, 2011) and a large portion of individuals still find work through social networks and personal contacts (Guimarães, 2009). According to an independent evaluation of the service, SINE was used in fewer than 30% of hires (MTE, 2010) but administrative data on the number of formal hires (CAGED) suggests that only around 9% of workers find a job through SINE (Cardoso Junior, 2009). Analysis of 2012 PME data suggests that, of all those unemployed who had taken steps to look for a job over the past 358 days, only around 1.5% had gone through SINE (with little difference between youth and adults). The vast majority went directly to employers (70%), and 8.9% went through a relative, friend, or colleague.

This suggests that the PES lacks attractiveness/relevance to jobseekers in Brazil, and MTE (2010) finds that young people (particularly those looking for their first job) are less satisfied than adults with its services. More needs to be done, therefore, to attract this age group to the PES and provide them with tailored services.

Outreach is critical, but challenging

Reaching out to unemployed or inactive young people is not easy, however, particularly where resources are scarce. In some countries, this task is facilitated by the availability of reliable administrative data. In Norway, for example, the authorities use individual level data to track and stay in touch with school leavers, referring them to the PES where necessary. Similarly, in the Netherlands, the Regional Registration and Coordination institutes (RRC) monitor and keep records of young people who do not have basic qualifications and ensure that those who are inactive are contacted and supported.

In Brazil, SINE should work closer with schools to identify youth at risk while they are still studying and ensure that they receive career guidance, effective safety nets and job-search assistance when experiencing difficulties integrating into the labour market. One recent, and welcome, development has been the announcement of closer collaboration between the Ministry of Social Development (MDS) and SINE, in an attempt to improve the labour market insertion of *Bolsa Família* recipients – although it is perhaps disappointing that the measures fall short of making registration with SINE an additional condition for receiving the cash transfer. The *Estação Juventude* – a one-stop shop for youth services currently being piloted – will need to ensure close collaboration with SINE (or, even better, should be co-located with them).

Finally, providing youth with some type of jobseekers' allowance (as recommended in one of the previous sections) could work as a carrot to attract more young people into the PES.

Early intervention is key

Outreach also needs to ensure that young people are caught early enough to avoid them slipping into a situation where they are neither in employment, nor in education or training (NEET). Many countries are placing increased emphasis on early intervention. In April 2013, the EU's Council of Employment and Social Affairs Ministers approved the Commission's proposal on implementing a Youth Guarantee in EU member states. The Youth Guarantee consists of a promise that every young person under the age of 25 receives an offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed. The scheme is modelled on similar successful programmes in the Nordic countries [Sweden, Norway and Finland in particular (see Box 4.2)], but Austria, Denmark, Germany, the Netherlands, Poland, Portugal, Australia and New Zealand also have Youth Guarantees in place. These schemes, generally led by the PES, are characterised by early, targeted and highly customised interventions, often with a strong focus on job search and personal development plans to assist the young person in their job-search efforts.

Box 4.2. **Youth Guarantees in the Nordic countries**

The Youth Guarantee in Finland (*Nuorten Yhteiskuntatakuu*) is aimed at unemployed persons under the age of 25 (as well as university graduates under the age of 30). Within the first three months of a young person being registered as a jobseeker, the PES is required to: *i)* develop a personal development plan; *ii)* carry out a needs assessment of what support is needed to find employment; and/or *iii)* offer a job, study place or another activation measure that can help the employability of the jobseeker (training, coaching, counselling, subsidised work, start-up funding).

The Job Guarantee for Young People in Sweden (*Jobbgaranti for Ungdomar*) is aimed at unemployed young people aged 16-24 who have been registered with the PES for over three months. Youth are referred to the programme for a period of four months. They initially get educational and vocational guidance, and job-search coaching, and then work experience, education, training, business start-up grants or employability rehabilitation. A person in the 18-24 age range can participate for up to 15 months.

In Denmark, age and education determine what measures apply – ranging from guidance to introductory courses and schemes to build bridges to the world of work.

Assisting youth in their job search is an effective tool to help them into work

The emphasis placed by the Youth Guarantees on job-search assistance is not arbitrary. Indeed, the international evidence has shown that public employment services can play a significant role in helping youth into work by providing them with job-search assistance and coaching, which has been found to be amongst the most cost-effective labour market programmes (Betcherman, Olivas and Dar, 2004; Betcherman et al., 2007; Card Kluve and Weber, 2010; and OECD, 2005). In the case of youth (and first time jobseekers in particular) activities such as writing a CV and preparing for an interview can be highly effective and low-cost interventions. Ensuring quicker, more efficient matching between vacancies and young jobseekers would also help attenuate the negative impact of high turnover on youth unemployment rates in Brazil.

Active labour market policies

Brazil's youth policy is almost exclusively education-driven and focused. Even its largest training programme (*ProJovem*) prioritises reengagement with the education system and the acquisition of basic qualifications. Although Chapter 2 of this report demonstrated that the importance attached to education is well-placed and that it should continue to form the cornerstone of Brazil's youth policy, this section will argue that some additional labour market measures might be useful in improving employment outcomes for young people. In particular, youth programmes in the rest of Latin America, which tend to have a strong emphasis on work-based training, could serve as a useful model for the *ProJovem* programme in Brazil. Secondly, entrepreneurship training and support for youth is virtually inexistent in Brazil – while the evidence shows that such programmes can be useful in promoting self-employment. Finally, lowering the cost of hiring youth in Brazil through the use of employment subsidies could serve as an incentive for firms to take on more young people, and could help disadvantaged youth in particular gain access to formal sector jobs.

Training programmes

Training programmes can be useful in increasing the productivity, employability and/or earnings of young people experiencing difficulties integrating into the labour market. According to Betcherman et al. (2007), skills training programmes are the most common intervention aimed at young workers – particularly in Latin America and the Caribbean – and the international evidence (Betcherman et al., 2007; and Card, Kluve and Weber, 2010) suggests that training programmes yield positive results.

ProJovem Integrado

The Brazilian government has set up a number of training programmes aimed at reengaging disadvantaged youth with the education system, raising their educational attainment and better preparing them for insertion into the labour market. Combined under the umbrella of *ProJovem Integrado*, the various programmes are: *ProJovem Adolescente*, *ProJovem Urbano*, *ProJovem Campo* and *ProJovem Trabalhador* (see Box 4.3). Each one of these is aimed at a different sub-section of youth and is managed by a different line ministry. Although the different strands also differ somewhat with regards to their aims and content, they generally aim to provide a comprehensive approach (including training in ICT, communication, life skills, as well as community action and job search), with a particular focus on raising the educational attainment of participants (including, in some cases, professional qualification courses).

Box 4.3. ***ProJovem Integrado***

ProJovem Integrado consists of four separate initiatives:

- ***ProJovem Adolescente*** is under the responsibility of the Ministry of Social Development (*Ministério do Desenvolvimento Social e Combate à Fome* – MDE), as it is aimed primarily at 15-17 year-olds coming from families in receipt of *Bolsa Família* (although it also benefits young people in care). The aim of the programme is to complement the social assistance provided to families, by better preparing young people for family and community life, and creating the necessary conditions for their (re-) insertion and their persistence in the educational system.

  Participation in the programme is not conditioned on a return to school. However, because the eligibility criteria are linked to *Bolsa Família*, families of 16-17 year-olds will be in receipt of a cash transfer which is conditional on their children's school enrolment. Young people are put in groups of 15-30 individuals and participate in 12.5 hours of structured activities per week for a period of two years. These activities, which are organised around normal school hours, are built around six cross-cutting themes: human rights and social welfare, work, culture, the environment, health and sports and leisure.

- ***ProJovem Urbano*** is a Ministry of Education (MEC) programme and is aimed at urban 18-29 year-olds who, despite being literate, never completed fundamental education. The programme lasts 18 months, with a study load of 2 000 hours, and has three components: *i)* completion of fundamental education through the Youth and Adult Education (*Educação de Jovens e Adultos* – EJA); *ii)* professional qualification; and *iii)* citizenship training. Participants receive BRL 100 per month, subject to 75% attendance of the programme's activities, as well as timely submission of coursework. In 2012, the programme benefited 110 000 youngsters.

- ***ProJovem Campo*** is also under the responsibility of the Ministry of Education. It is aimed at rural youth aged 18-29 who did not complete fundamental education, and gives them the opportunity to complete fundamental education through EJA, combined with social and professional training (Rural Family Production). The course lasts for a period of two years and participants receive a stipend of BRL 100 every other month, conditional on 75% attendance.

- ***ProJovem Trabalhador*** is under the responsibility of the Ministry of Labour and Employment (MTE), and is also aimed at the 18-29 age group, but specifically at youth who are unemployed and from families who live on less than one minimum wage per month and per capita. Participants are expected to enrol in (or have completed) fundamental education, as well as participate in 350 hours of training – 100 hours of social training (covering topics such as ICT, ethics, citizenship, personal hygiene, rights at work, occupational health and safety at work, and entrepreneurship), and 250 hours of professional training. Participants also receive a stipend of BRL 100 per month, for a maximum duration of six months. In 2011, the programme benefited around 240 000 young people.

The *ProJovem Integrado* was set up in 2008 by consolidating and bringing together under one umbrella a number of policies aimed at youth, including: the original *ProJovem* (then managed by the *Secretaria Nacional da Juventude*); *Agente Jovem* (MDS); *Saberes da Terra e Escola de Fábrica* (MEC); *Juventude Cidadã* and *Consórcio Social da Juventude* (MTE). Although the idea behind the consolidation was to avoid the fragmentation of programmes aimed at youth, recent evaluations (MTE, 2011) suggest that the different components of *ProJovem Integrado* continue to be managed almost independently from one another by the different line ministries.

Robust evaluations of *ProJovem*'s effect on youth outcomes do not exist. More qualitative evaluations exist, but are rare also (e.g. MDS 2010; Soares, Ferrão and Marques, 2011) [15] and frequently are quite old (evaluating the original programmes, prior to their integration into the *ProJovem Integrado* – e.g. UFF, 2007; and Brandão et al., 2008). Generally, these evaluations report that beneficiaries are satisfied with the programme and one study MDS (2010) argues that the *ProJovem Adolescente* participants were more likely to be working or actively looking for work, as well as more likely to be working in a formal job – although the control group was not constructed in a rigorous way and significant selection issues are likely to be at play.

These evaluations also raise a number of problems with the *ProJovem* programmes, including: poorly trained staff (and a lack of monitoring and evaluation);[16] poor infrastructure, lack of basic equipment, and limited complementary services (particularly in smaller towns); curricula which are out-of-date or not adapted to local circumstances; little, if any, follow-up of participants after programme completion, in particular support in getting a job; and a lack of financial support for participants in the *ProJovem Adolescente* programme.

An evaluation of *ProJovem Urbano* also highlights the very low completion rates of these programmes. Soares, Ferrão and Marques (2011) analyse the first cohort of entrants to *ProJovem Urbano*. Of 95 037 individuals who registered with the programme, 19.3% never received a stipend and another 31.1% (who received at least one stipend) never took any mathematics or Portuguese tests. Of the remaining 49.6%, 33% successfully completed the programme, 26% failed and 41% dropped out. In other words, of the original 95 037 individuals who registered with the programme, only 16.4% successfully completed it.

Two more issues deserve special attention, as they apply not just to *ProJovem*, but to youth programmes in Brazil more generally. One of these is the lack of awareness of the programme's existence among young people. According to UFF (2007) a large portion of beneficiaries said they had never heard of *ProJovem* prior to enrolling in it, and only half of ex-beneficiaries realised that the programme was an initiative of the federal government. This echoes findings from a survey of youth carried out in 2013 (Secretaria Nacional da Juventude, 2013) which found that only 44% of young people could cite at least one government programme aimed at youth, and only 19% of these could name *ProJovem*. Possible reasons for this lack of awareness include the large number of programmes available, the many changes they have been subject to over time, as well as scattered responsibilities for these programmes across different line ministries as well as across different levels of administration.

The lack of effective integration between the different programmes aimed at youth in Brazil has also been criticised (Conjuve, 2011). Combined with the large number of programmes available, this points to the need for a one-stop shop for youth where they can find out about services (particularly employment and education) available to them. This is now being considered and a pilot is underway to set up a *Estação Juventude* (Youth Station) which would do exactly that. For these services to be effective, close integration (or even co-location) with the public employment service (SINE) or social services (*Centros de Referência da Assistência Social* – CRAS) will be critical. Similar one-stop shop services exist in other OECD countries, like Connexions in the United Kingdom (an information, advice and guidance service for young people aged 13-19 covering several areas of youth well-being, including education, housing, health, relationships, drugs and personal finances), New Zealand's new Youth Service (focusing in particular on disengaged 16-18 year-olds) and the *Missions Locales* in France (in existence since 1982, and assisting young people with social and professional insertion). The danger, however, is that if an entirely separate service is set up, this would only add to co-ordination difficulties.

On-the-job training

Even the most employment-oriented component of *ProJovem Integrado* (*ProJovem Trabalhador*) has no work-based component. In this sense, Brazil's youth programmes stand in stark contrast to those offered in most other Latin American countries which often have a strong (if not exclusively) on-the-job training component (see Box 4.4).

Box 4.4. **Training programmes for youth in Latin America**

González-Velosa, Ripani and Rosas-Shady (2012) provide an overview of training programmes for youth offered in Latin America, which the authors have classified broadly into "Type 1" and "Type 2" programmes.

Type 1 programmes

These programmes include *Juventud y Empleo* in the Dominican Republic, *Jóvenes in Acción* in Colombia, *Projovem* in Peru, *Proyecto Joven* in Argentina and *Procajoven* in Panama. Their defining characteristics consist of classroom-based training for a period of two to three months (frequently including a focus on soft skills as well), followed by an internship for a period of one to three months. The management of such programmes is to a large extent tendered out to private training entities and they are demand-linked in the sense that a letter of intention from firms is required specifying the number of interns they will take on, as well as an acknowledgement that the content of the training courses corresponds to their needs. The focus of these programmes is frequently on the poorest and least-qualified youth.

Type 2 programmes

Programmes like *Bécate* in Mexico and *Proempleo* in Honduras are classified as Type 2. Unlike Type 1 programmes, these have no classroom-based components and consist exclusively of on-the-job training. They are carried out by government agencies and young people pass through a highly selective process in order to participate in them. Firms taking on interns need to commit to recruit a certain percentage of youth they take on. In return, firms pay no wages during the internship period.

Detailed evaluations show that these Latin American training programmes generally impact positively on labour market outcomes, particularly in the case of young women.17 In addition, there is some evidence to suggest that the classroom-based components of Type 1 courses do not have much impact (which is not entirely surprising given that they are generally short courses and focus on the most disadvantaged youth),18 but that the internship components do (Ibarrarán and Rosas-Shady, 2008 for Procajoven in Panama; and Martinez, 2011 for Juventud y Empleo in the Dominican Republic). Attanasio, Kugler and Meghir (2008), looking at the Programa Jovenes en Accion in Colombia, find that the number of hours spent on on-the-job training makes a difference to employment outcomes. This evidence points to a need to re-evaluate training programmes in Brazil (ProJovem) and move towards the inclusion of a work-based training component in order to increase their effectiveness. Another promising "second-chance" programme which combines education and training with job training is the YouthBuild programme in the United States, which now also has programmes across the world, including in Brazil (see Box 4.5).

Box 4.5. **YouthBuild USA and YouthBuild International**

YouthBuild USA is a "second chance" programme in the United States targeting 16-24 year-olds from low-income backgrounds who dropped out of school. It is an intensive programme (lasting 8 to 12 months) which provides construction-related training, educational services, counseling, and leadership development opportunities. According to MDRC, "YouthBuild is one of the most promising models serving out-of-school youth, since it contains some of the best elements of youth development programs and has a broad network, serving thousands of youth per year." The programme has expanded rapidly over time, and there are currently 273 YouthBuild programs in 46 states, Washington, DC. and the Virgin Islands engaging approximately 10 000 young adults per year. A detailed and rigorous evaluation of the programme is underway.

Building on the success of the YouthBuild USA programmes, the model has been adapted and replicated around the world (YouthBuild International), including in Brazil, where the programme is targeted at youngsters aged 18-24 living in the underserved Complexo do Alemão, in Rio de Janeiro. It provides them with career counseling, entrepreneurship coaching and leadership training to help them achieve productive and safer livelihoods. The young adults also undergo six months of intensive vocational training in construction in order to be able to contribute to rebuilding their own community. One objective of the effort is to prepare and fully position young people to take jobs in the burgeoning construction industry, as Rio prepares itself as one of 12 host cities of the 2014 World Cup, and as the host of the 2016 Olympics. YouthBuild is demand-driven and through a network of partnerships it aims at ensuring young people are in a job, self-employment or ready for advanced training upon completion of the programme. Of those enrolled, 87% completed the programme and 85% received technical certifications from a construction association representing over 1 000 firms in the city.

Source: YouthBuild USA, YouthBuild International, and MDRC websites.

Promoting entrepreneurship

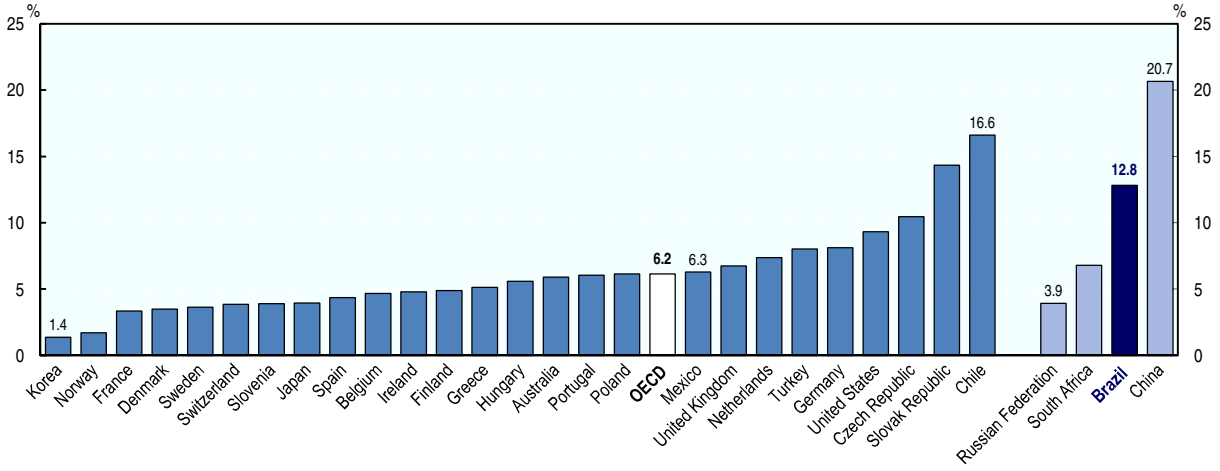
While programmes to stimulate entrepreneurship are less common among OECD countries, they can provide an important stimulus to youth employment in developing and emerging economies (Betcherman et al., 2007). In such countries, a relatively large proportion of youth are engaged in entrepreneurial activity (Figure 4.1), frequently out of economic necessity (GEM, 2011). In Brazil, an estimated 13% of youth were engaged in early-stage entrepreneurial activity in 2011 – a high proportion by OECD standards, but low in comparison to some comparator countries like Chile (nearly 17%) and China (nearly 21%).

The stronger link between entrepreneurship and necessity in less well-off countries frequently means that entrepreneurs are among the poorest and the least educated in society (GEM, 2011). As a result, business survival rates for young entrepreneurs tend to be extremely low. One estimate for Peru shows that more than 75% of microenterprises managed by young people close down within a year of being set up (CEPAL and ILO, 2012).

According to a set of experts interviewed in Brazil by GEM (2011), entrepreneurial capability in the country is low and training for entrepreneurs should be improved. Business leaders argue this is a priority not just because entrepreneurship provides an alternative way of creating jobs, but also because it stimulates initiative, creativity and perseverance – skills valued by many employers (MTE, 2011). Analysis using the GEM data for 2008 (which contained a special set of questions on entrepreneurial training received) shows that young people in Brazil were considerably less likely than young people in most other countries considered to have received entrepreneurial training – whether this is in school, university, or by a government agency outside the education setting (Figure 4.2). In addition, Chapter 2 has already highlighted that the quality of the general education system in Brazil is weak – further explaining why business survival rates are likely to be low (GEM, 2011).

Figure 4.1. **Total early-stage entrepreneurial activity (TEA), 18-24 year-olds, Brazil, OECD and selected other countries, 2011**

Percentage of people aged 18-24 who are either a nascent entrepreneur or owner-manager of a new business



Note: A nascent entrepreneur is defined as someone actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months. An owner-manager of a new business is defined as someone owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.

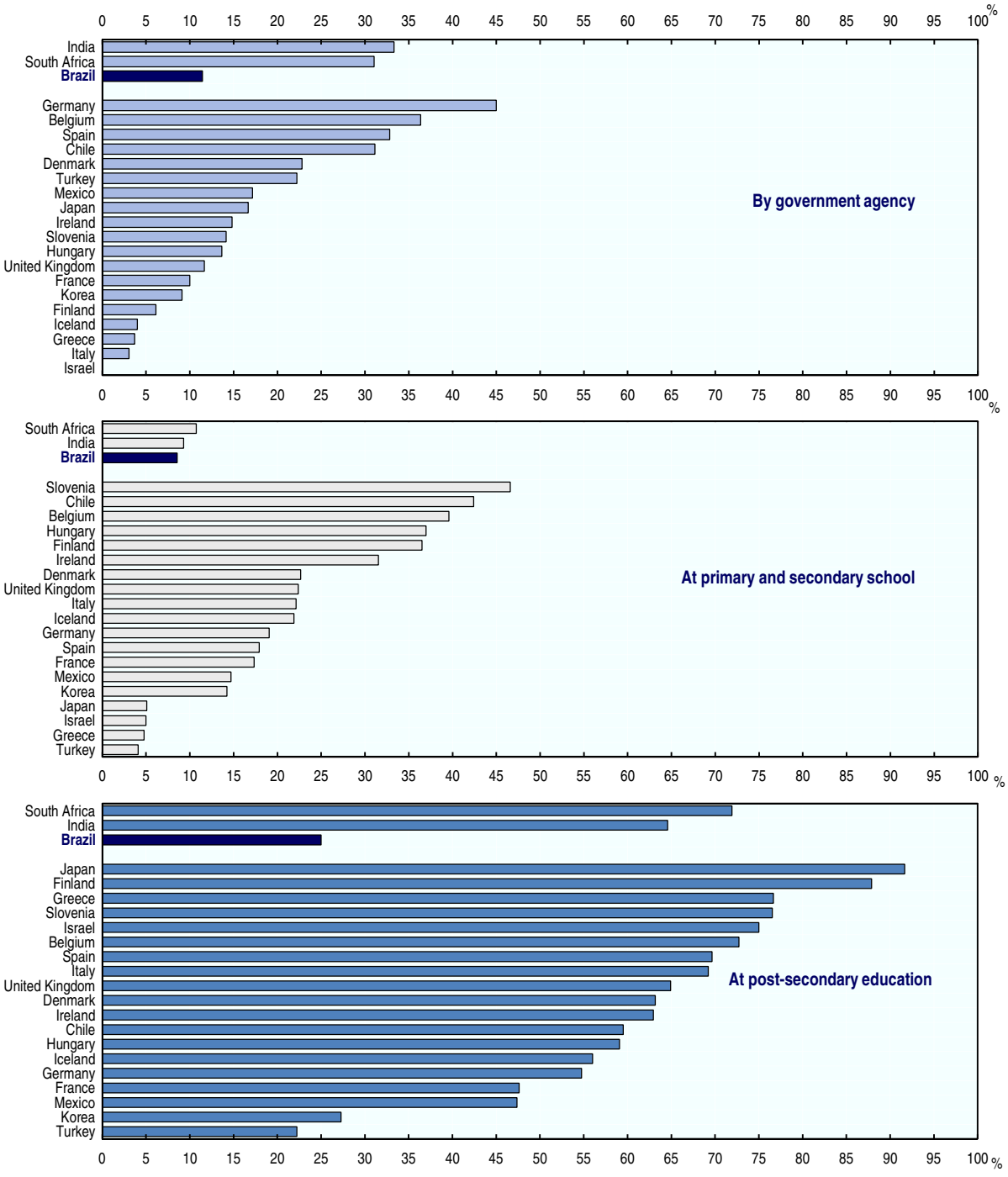
Source: Global Entrepreneurship Monitor (2012), *GEM 2011 Global Report*, www.gemconsortium.org/docs/download/2409.

StatLink http://dx.doi.org/10.1787/888932996505

Over the last few years, several evaluations of entrepreneurship and business training programmes have been carried out in developing and emerging economies around the world, and McKenzie and Woodruff (2012) provide an excellent overview of these studies.[19] Unfortunately, these evaluations rarely investigate long-run outcomes, so it is perhaps not surprising that little impact on business survival rates, or even profits and sales have been detected. However a general finding of these evaluations is that entrepreneurship training leads to improvements in business practices and helps prospective entrepreneurs launch businesses more quickly.

Another finding from the literature is that the largest effects on labour market outcomes come from providing access to credit (Cho and Honorati, 2012). Yet, in Brazil, specific lines of credit or other financial support for youth are inexistent – with the exception of two rural programmes: *Nossa Primeira Terra* (Our First Land) which is a measure provided within the context of the *Programa Nacional de Crédito Fundiário* (National Land Loan Programme) which aims to support landless individuals in acquiring their own land through the means of a loan and where young people benefit from lower interest rates and can apply for additional financial support for infrastructure development projects); and PRONAF (*Programa Nacional de Fortalecimento da Agricultura Familiar* – National Family Agriculture Programme) *Jovem* (Youth) which aims to finance agricultural, rural tourism or handicraft projects in rural areas for young people aged 16-29. The *Programa de Estímulo ao Primeiro Emprego* (First Job Stimulus Programme) introduced in 2003 by the Lula government also contained an entrepreneurship component called *Empreendedorismo e Responsabilidade Social* (Entrepreneurship and Social Responsibility), but along with the remainder of the programme, it was quickly abandoned. Amongst the problems it encountered were the fact that youth needed to go through extensive training before gaining access to the loan, and the programme failed to reach the most vulnerable youth (Guimarães and Almeida, 2012).[20]

Figure 4.2. **Percentage of population aged 18-24 receiving training in starting a business, Brazil, OECD and selected other countries**



Source: Global Entrepreneurship Monitor (2009), *GEM 2008 Global Report*, www.gemconsortium.org/docs/download/264.

StatLink http://dx.doi.org/10.1787/888932996524

There are a couple of general credit schemes available – but not specifically aimed at youth. Yet this group may need targeted help, since they face particular problems in accessing

finance given their lack of business experience, personal savings and resources, as well as their limited knowledge, understanding, and awareness of start-up financing possibilities. The main government source for micro and small enterprises is the Employment and Income Generation Programme programme (*Programa de Geração de Emprego e Renda* – PROGER), which was set up in 1994 with the specific aim to generate employment. It has been estimated that workers' incomes rise about 18% with the support of PROGER loans (Eichhorst, Marx and Pastore, 2011). Information about entrepreneurship programmes should, ideally, be made available through public employment services.

Finally, the administrative burden involved in setting up a business in Brazil is likely to hamper entrepreneurship. According to the World Bank's Doing Business Indicators, 13 procedures are required in Brazil taking a total of 119 days – compared with less than two weeks in Chile, Colombia and Mexico. Overall, Brazil ranks 121 out of 185 economies surveyed. This suggests that there is some margin to streamline administrative procedures in Brazil, which would in turn encourage entrepreneurship and job creation.

Wage subsidies

Wage subsidies (or hiring credits) have a very simple rationale: to encourage new hiring by reducing the cost to employers. This rationale could be particularly relevant in the case of youth, whom employers are frequently reluctant to take on because of their unobserved productivity in the face of potentially high labour costs as a result of recent increases in the minimum wage and high non-wage costs. Lowering the cost of hiring for a pre-determined period of time, with no requirements to take on the individual after the subsidy period runs out, would give employers a low-risk opportunity to observe the worker's real productivity prior to offering him/her a more permanent contract (the "screening effect" – Betcherman, Olivas and Dar, 2004).[21] Wage subsidies tend to be particularly useful for the disadvantaged because they give them an opportunity to sustain or regain skills and work habits, increasing their subsequent employment chances (the "transition effect" – Brown and Köttl, 2012). By increasing the employment chances of the most disadvantaged, wage subsidies also redistribute employment chances to labour market outsiders, increasing competition in the labour market, and putting downward pressure on wages (leading to further, indirect employment effects – Calmfors, 1994).

In practice, wage subsidies can be tricky to implement. One key problem is the risk of deadweight as well as substitution effects. Deadweight losses arise when subsidies are paid for employers to hire workers they would have hired anyway (even in the absence of the subsidy). Substitution effects occur when employers replace non-subsidised workers with subsidised ones, resulting in no overall employment growth. A related problem is that of "churning", where employers continuously hire and fire subsidised employers once the subsidy period runs out in order to keep the wage bill down. Evaluation of wage subsidies in Australia, Belgium, Ireland and the Netherlands have suggested combined deadweight and substitution effects accounting to around 90% (Martin, 2000). Similarly Bartik (2001) estimates that deadweight losses are often well over 90% and, elsewhere, Bartik (2006) has estimated that the typical hiring incentive is only decisive 4% of the time – i.e. that 96% of jobs would have been created anyway.

One option to avoid such high wastage would be to better target wage subsidies at the groups intended to be helped – the least skilled and the long-term unemployed. Focusing on the least skilled (who have the lowest employment probabilities) results in lower deadweight losses – but greater targetting frequently comes at the expense of a higher administrative burden, leading to lower take-up by firms, as well as the risk of stigmatising

beneficiaries (Martin, 2000). Another design option is to ensure that subsidies are only paid in the case of new hiring which results in retention – but again increases in the administrative burden might reduce take-up rates by employers (Neumark, 2013).

Assessments of the effect of wage subsidies on employment have ranged from concluding that "expenditures on subsidised jobs seem a waste of money from the perspective of aggregate labour market outcomes" (Boone and van Ours, 2004) to finding that they "have generally had significant positive effects on improving employment outcomes for youth in transition and developed countries […] with net employment effects from 12 to 15.6%" (Betcherman et al., 2007). Generally, it would appear that wage subsidies targeted at the unemployed could lead to increases in employment (OECD, 2005; and Kluve, 2010), but that much depends on their specific design features. In particular, the most successful wage subsidies have been those targeted at the unemployed; combined with other programmes such as on-the-job training, counseling and job-search assistance (Kluve, 2010); and rewarding net job growth, possibly clawing back subsidies if hiring is lower than required (Neumark and Grijalva, 2013).

In light of the above, it is of interest to discuss Brazil's only experience with a national wage subsidy programme aimed at youth. This wage subsidy was introduced as part of Lula´s *Programa de Estímulo ao Primeiro Emprego* (Law 10748 of 23 October 2003),[22, 23] but was rapidly abandoned after only four years of implementation, despite no robust evaluation of the programme having been carried out. The subsidy reflected many of the best practice characteristics of wage subsidies outlined above, including limits on the numbers of youth recruited with subsidies depending on the size of the firm, as well as checks on overall workforce size and turnover (MTE, 2011).[24] However, among the alleged reasons for its abandonment were the high administrative burdens put on firms (which resulted in low take-up), as well as the very low level of qualifications of the youth registering with the programme, which made it difficult for them to get hired even if subsidised (MTE, 2011).[25] This partly explains the shift of emphasis after the *Programa de Estímulo ao Primeiro Emprego* to professional training programmes.

Elsewhere in this report, it has been observed that the cost of hiring youth in Brazil (relative to hiring adults) is high compared with OECD countries and some emerging economies. The idea of a sub-minimum wage (adopted in half of OECD countries with a statutory minimum wage) and/or reductions in social security contributions for young people have already been floated in Chapter 3. Another alternative which the Brazilian government may want to consider is a re-introduction of wage subsidies, particularly for disadvantaged youth who have been long-term unemployed, and in combination with job-search assistance and training. Stimulating labour demand may also be important now that educational attainment has increased considerably. As argued by Pauli, Nakabashi and Sampaio (2012), the experience of the 1990s (when large increases in educational attainment were not accompanied by equivalent increases in the demand for these qualifications) demonstrates that increasing educational attainment alone is not sufficient to ensure decent job creation. Even if job subsidies do not result immediately in long-term job outcomes for youth, they would provide them with much needed work experience which is critical for their longer-term insertion into the labour market (Abramo et al., 2009). Indeed, when youth are asked what the most important factor is for their insertion in the labour market, 41.6% of 18-29 year-olds respond it is work experience (Abramo et al., 2009). Finally, the evidence presented in this report shows that costs can act as an impediment to formalisation. Even if employment subsidies do not lead to net employment creation, they may well lead to more jobs in the formal sector for "outsider" youth.

Notes

1. ILO (2010).
2. A number of auxiliary benefits are also available for specific groups of workers: fishermen (*pescadores artesanais*), domestic workers (*empregados domésticos demitidos sem justa causa*), and workers rescued from slavery-like conditions (*trabalhadores resgatados de condição análoga à escravidão*). The nature of, and eligibility criteria for, these unemployment benefits differ slightly from those of the main benefit for formal workers, and will not be discussed in this report.
3. As in the case of Brazil, workers in Canada, Estonia, Greece, Italy, Korea, Luxembourg, the Netherlands, Portugal, Romania, Spain, Turkey and the United States who are voluntarily unemployed are not eligible for unemployment benefits (Venn, 2012).
4. The period of coverage and the value of the benefit are increased during periods of high unemployment. During the 2008/09 crisis, unemployment benefits were increased to seven instalments, but were limited to the groups most at risk (Eichhorst, Marx and Pastore, 2011; Amorim and Gonzalez, 2009).
5. Most countries in the OECD require contributions or an employment record, with the exception of Australia and New Zealand. Italy, Portugal and Turkey expect contributions and/or employment periods of two years (Venn, 2012).
6. Although direct comparisons are difficult to make because of differences in methodology, the OECD estimated that, in 2009, the average net replacement rate for a single individual without children earning the average wage was 55%. The equivalent figure for a two-earner married couple with two children was 76%. These figures apply to the initial phase of unemployment and are net of taxes.
7. Overall spending on unemployment benefits in Brazil has also risen as a result of increases in formal sector employment (see Chapter 1 of this report). As a result, Brazil's unemployment insurance system is rather unique in the sense that expenditure increases in times of high employment (Eichhorst, Marx and Pastore, 2011).
8. In 2008, the respective proportions of registrations were 58.9% SINE, 26.6% SRTE, and 8.0% Caixa Económica Federal (DIEESE, 2011a).
9. The concept of suitable employment is discussed in the ILO Employment Promotion and Protection against Unemployment Convention No. 168, 1988. Over time, this concept has become more restrictive in many countries, essentially by moving from a situation in which unemployment benefits would be retracted if the unemployed refused "suitable employment" to one where the withdrawal of benefits occurs upon refusing employment "without reasonable grounds".
10. 50% of job separations are unjustified dismissal (DIEESE, 2011a).
11. These figures are relatively similar to a 2000 estimate by Silva et al. (2003) of the "real coverage rate" for the overall working population of 48.8%. This figure, based on RAIS, will also take into account the 16-month period during which no previous claim can have been made.

12. This excludes Belgium, where the duration is unlimited, and Australia and New Zealand which do not have a compulsory national unemployment insurance fund (although unemployment benefits do exist).

13. Some indirect evidence of this is presented in Corseuil et al. (2009) who show that the probability of finding a job in the formal sector after having lost a formal sector job falls in the first three months of the unemployment spell, but rises again between the 3rd and the 6th months – which coincides with the duration of unemployment insurance in Brazil. The magnitudes are relatively small, however: the probability increases from around 4% to 8% during those three months.

14. Currently the *Cadastro Único* (single registry) is used to register all low-income households and identify beneficiaries of social programmes. It includes all individuals whose per capita household income is less than half a minimum wage or whose total monthly income is below three minimum wages. The cut-off point for *Bolsa Família* is considerably below this level, and so it should be possible to use the existing data to extend eligibility of the benefit by tapering it as income from work increases without introducing additional administrative burdens which are excessive.

15. Guimarães and Almeida (2012) bemoan the lack of research and evaluation without which they argue improvements in the programme (and, as a result, in youth labour market outcomes) will be difficult.

16. One issue raised was the difficulty of attracting qualified staff, given the low remuneration offered – however local governments can now supplement salaries with funds provided by the federal government for *ProJovem* (MDS, 2010).

17. See Ibarrarán and Rosas-Shady (2008), Urzúa and Puentes (2010) and González-Velosa, Ripani and Rosas-Shady (2012) for recent reviews of the literature.

18 In addition, it is possible that the content of such courses it not highly relevant, and private providers may not have the capacity to find out about real business needs and adapt their courses accordingly. In addition, a lack of supervision of these private providers and/or a lack of performance targets are likely to perpetuate poor results.

19. Examples include Bruhn and Zia (2012) who focus on young entrepreneurs in Bosnia and Herzegovina, Karlan and Valdivia (2011) for Peru, Klinger and Schündeln (2011) for El Salvador, Guatemala and Nicaragua, Calderon, Cunha and De Giorgi (2012) for Mexico, and Almeida and Galasso (2010) for Argentina.

20. According to MTE (2011) *ProJovem* also had an entrepreneurship component, but the same mistakes as under the PNPE entrepreneurship strand were made.

21. In addition, as pointed out by Kuddo (2012), the provision of wage subsidies could encourage employers to register their vacancies with the public employment service.

22. The value of the subsidy was BRL 1 500 paid in six instalments to employers. The number of subsidies were restricted and depended on company size. Firms with up to four members of staff could hire one youth; firms with between five and ten employees could hire two youth; and larger firms could hire up to 20% of their workforce through wage subsidies.

23. Another subsidy/internship programme at state level was the *Programa Jovem Cidadão: Meu Primeiro Trabalho* [Youth Citizen Programme: My First Job] implemented in São Paulo in 2000. The programme provided subsidised six-month internships in the private and non-governmental sectors for young people (16-21) attending public upper secondary education. The government paid half of the intern's stipend (BRL 65) and waived the receiving organisation's social security

contributions. No rigorous evaluations of the programme have been carried out, however Madeira (2004) provides a particularly vitriolic critique of the programme, primarily attacking its philosophical foundation according to which the youth unemployment problem in Brazil boiled down to young people encountering difficulties in finding their first job. According to Madeira (2004), young people in fact have little difficulty finding a job, but instead it is the higher turnover rate of youth which needs to be tackled. To do this, she suggests job matching should be rendered more efficient. Madeira (2004) also highlights administrative and legal problems with the PJC programme, which are likely to have contributed to its demise. Interestingly, one of the criticisms of the programme was that it did not manage to live up to expectations – between May 2000 and June 2003, 390 000 young people registered for the programme, while only 25 728 internships were made available. If finding a first job is not an issue of concern, then it is at least puzzling that the programme turned out to be so popular.

24. More specifically, throughout the subsidy, the employer needed to maintain at least the same number of staff as was hired one month prior to the start of the subsidy. Firms that did not comply with the regulations needed to repay the entire subsidy received, and were disallowed from hiring any more youth under the subsidy scheme for a period of 24 months.

25. The programme was aimed at young people aged 16-24 from poor families (per capita family income of up to half a minimum wage) looking for their first job.

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