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# Employment policy implementation mechanisms in Brazil

Claudio Salvadori Dedecca

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# Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on Social Justice for a Fair Globalization,1 and which has now been widely adopted by the international community.

The comprehensive and integrated perspective to achieve this goal are embedded in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda (2003) and, in response to the 2008 global economic crisis, in the Global Jobs Pact (2009) and in the Conclusions of the recurrent discussion on Employment (2010).

The Employment Policy Department (EMPLOYMENT) is fully engaged in global advocacy and in supporting countries placing more and better jobs at the centre of economic and social policies and of inclusive growth and development strategies.

Policy research, knowledge generation and dissemination is an essential component of the Employment Policy Department's action. The publications include books, monographs, working papers, country policy reviews and policy briefs.[2]

The *Employment Policy Working Papers* series is designed to disseminate the main findings of research initiatives on a broad range of topics undertaken by the various branches, units and teams in the Department. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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[1] See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

[2] See http://www.ilo.org/employment.

# Foreword

Job creation is a priority for all countries. Yet satisfactory job creation is an uphill battle because today's economic environment and policy circumstances are not necessarily aiding this collective effort. Employment challenges have been mounting, but policymakers are faced with limited, and even reduced, fiscal resources. It means that policy interventions for job creation need to be highly effective.

The ILO assists member states to formulate national employment policies (NEPs) as established in the Employment Policy Convention, 1964 (No.122). For the years 2012-2013 alone, 73 requests for technical assistance by countries seeking advice on and support for the formulation of their national employment policies have been received. This is why the Employment Policy Department is developing a series of tools that will guide and support ILO constituents in prioritizing policies based on informed choices and consultations.

As an independent evaluation in 2012 of the ILO's work on employment policy has pointed out, such NEPs, however well-formulated and well-designed, can remain as abstract entities unless the necessary institutional arrangements are put in place to ensure their timely and effective implementation. This needs to be complemented by coordination, monitoring and evaluation mechanisms to adapt them to changing economic circumstances.

In the light of these concerns, the ILO, with support from technical cooperation funds secured under the ILO-Korean Government Partnership Programme launched a cross-country project entitled "Comparative analysis of employment policy implementation mechanisms across countries" in the first quarter of 2013. The following countries and region are covered by the project: Argentina, Bosnia and Herzegovina, Burkina Faso, Brazil, China, Republic of Korea, South Africa and the European Union (EU) including two of its member states, the United Kingdom and Germany.

The paper discusses the NEPs implementation mechanism in Brazil. It comprises ten sections. The history of employment contracts and relationships is addressed in the first and second sections, from the perspective of the structuring of the Brazilian labour market, in association with national employment policies.The third section analyses the institutional framework established for these policies by the 1988 Federal Constitution. The fourth section presents the institutional structure of employment policies. The fifth section explores the implementation mechanisms of the policies, such as coordination, monitoring and evaluation. The sixth section analyses the social dialogue process initiated in 2005, aimed at restructuring employment policies and establishing a public employment system. Based on information on the institutional framework of employment policies, the seventh section focuses on the conditions and limits of their funding by the Workers' Support Fund. The eighth and ninth sections explore the Federal Government's response and the role played by employment policies in responding to the 2008 global crisis. And finally, the paper shares some comments on the progress and challenges of current national employment policies.

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# Acknowledgement

This working paper was prepared by Mr Claudio Salvadori Dedecca, Professor of Social and Labour Economics, State University of Campinas, Brazil. Comments on the draft of the paper from reviews by officials from the Ministry of Labour and Employment of Brazil, by the ILO officials in headquarters and Anne Posthuma in field office, and by participants at the seminar on “Employment Policy Implementation Mechanisms: Some country experiences” on 4-5 November 2013, are acknowledged with appreciation.

The paper was prepared as part of a project that was managed by Yadong Wang under the overall guidance of Azita Berar Awad and Iyanatul Islam.

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# 1 Introduction

The Brazilian constitutional framework is the mandatory starting point for any analysis of national employment policies. Even though some employment policy modalities were already an integral part of Brazilian labour protection from the mid-1960s, they only became fully institutionalized and implemented after the adoption of the 1988 Federal Constitution. By establishing a new legal order for the unemployment programme, in association with employment mediation and labour force qualification services, and as an integral part of social protection, the Federal Constitution has given the Brazilian State a clear mandate for the conduct of a minimum set of employment policies on an ongoing basis.

From the mid-1990s, the national government implemented a variety of job-placement and skills programmes and actions and regularly increased the minimum wage as a strategy to increase basic wages in the national labour market. From 2003, the growth of the economy was accompanied by increasing capacity for job creation, leading to a marked reduction in the unemployment rate to 6 per cent and a significant increase in the share of the formal labour market. To underpin this growth, the Federal Government reactivated its investment development policy, in order to provide long-term sustainability to the expansion.

With the onset of the crisis in the second half of 2008, the Federal Government reinforced its income and credit policies in order to support growth by increasing domestic consumption. Despite the unfavourable fiscal situation, the existence of international reserves greater than the external debt, the limited fall in commodity prices and the continuing inflow of foreign capital gave a degree of freedom to the Federal Government to guarantee growth, even in an adverse international economic environment. In objective terms, the country saw two quarters of contraction of its GDP and four months of decreasing formal employment levels, in 2008 and 2009. In the second half of 2009, the economy and the labour market showed a recovery, and in 2010 the economy grew at around 7 per cent and more than two million formal jobs were created.

The success of the growth maintenance strategy adopted by the Federal Government avoided the need for new initiatives in terms of employment policy. The stagnation in production in the first half of 2009 was only temporary and this, coupled with the recovery of growth from 2010 onwards, allowed the trend in formal employment growth since 2000 to continue. On the other, the policy of maintaining the minimum wage and increased social security benefits in real terms ensured that families' real incomes rose steadily. The increase in employment and family income together combined with a situation of consumer credit expansion were the main factors, albeit at lower levels, underpinning growth with jobs creation and reduction of economic inequality from 2011.

In this context, the Federal Government favoured measures to maintain income and investment stimuli through the increase in credit guaranteed by the public sector. In contrast to other countries, there was no pressure on the Federal Government to undertake specific employment policy measures targeting problems resulting from the international crisis. Therefore, programmes or actions to stimulate job creation and counter unemployment problems were not observed in Brazil. The Federal Government's measures were confined within employment policies determined by the Constitution.

This study presents both the evolution and the structure of Brazilian employment policies. It contains eight sections. First, the history of employment contracts and relationships is addressed from the perspective of the structuring of the Brazilian labour market, in association with national employment policies. Next, it analyses the institutional framework established for these policies by the 1988 Federal Constitution, as part of the country's democratization process that began in the mid-1980s. The third section presents the institutional structure of employment policies as defined by constitutional provisions, their funding and the features of the tripartite management model adopted. The study goes on to explore the policy implementation mechanisms, such as coordination, monitoring and evaluation. This is followed by an analysis of the social dialogue process initiated in 2005, aimed at restructuring employment policies and establishing a public employment system, a process that was suspended in 2007. Based on information on the institutional framework of employment policies, the study focuses on the conditions and limits of their funding by the Workers' Support Fund (*Fundo de Amparo ao Trabalhador* – FAT). The scope of employment policies is set against existing labour market conditions in order to demonstrate the challenges inherent in meeting the demand for job placement and vocational skills services. After presenting the institutional framework of employment policies and their dynamics since 1988, the study explores the role played by the Federal Government and its employment policies in responding to the 2008 global crisis. The study concludes by sharing some comments on the progress and challenges of current national employment policies, with special emphasis on opportunities for sustainable growth in the current decade.

The study has been prepared to reflect both the guidelines established under ILO Conventions, as well as those found in ILO documents on the development and implementation of employment policies by Member States (ILO, 2005, 2009 and 2012).

## 2 The labour market, regulation of employment contracts and relationships and employment policies in Brazil

Even though Brazil has been able to count on ample and formal regulation of employment contracts and relationships since the 1940s, it was only in the 1970s that the first employment policy initiative aimed at employment placement was established. In the mid-1980s, a second initiative was adopted, with the creation of the unemployment insurance programme. But policies aimed at labour protection as well as employment placement services, vocational training and guidance and the generation of employment and income were only enshrined in law in 1988. Throughout the 1990s and the first decade of this century, the Federal Government has been gradually implementing the various policies established by law.

Until 1988, the regulation of employment contracts, labour relations and employment policies had been marked by an aspect that is the key to explaining the significant heterogeneity of Brazil's labour market. The State's systematic presence in the relationship between capital and labour also played a key role. Since the beginning of the 1930s, this presence has been systematically regulated by law. The pinnacle of this process was 1942, when the Consolidated Labour Act was approved, introducing a broad set of regulations on the labour market and employment relations. This new legal mechanism, on which the State has relied ever since, has played a predominantly formal role. It had a rather limited effect on the labour market itself, considering that it was persistently confronted with a fragmented formal sector which, at most, accounted for only two thirds of the total number of employed persons.

In order to understand the challenges faced by employment policies in Brazil in the last two decades, it is necessary to consider some key aspects of the labour market and the evolution of its public regulation.

Following Brazil's independence in 1822, there was an increase in social tensions as a result of the campaign to abolish slave labour in the country, which formally ended in 1888. In 1850, Brazil began establishing a labour market based on a free labour force. The development of this market was fostered until 1930 by the immigration of foreign workers.

Between 1850 and 1930, the first regulations on employment contracts and labour relations were established, as required by foreign immigration procedures. These regulations were followed by some experiments in social security regimes, still limited to certain categories of worker. The national economy was based on coffee exports, complemented by cotton, cocoa, rubber and sugar cane. That gave the labour market a predominantly agricultural slant, while non-agricultural activities played a somewhat secondary role. The latter included, notably, finance, transportation and manufacturing, which were a response to the needs deriving from the expansion of agricultural activity. The growing complexity of the rural and urban productive structure, in association with the agriculture exports complex, required the State to establish the first regulations on employment contracts and labour relations, in part driven by requests from the European countries that exported their workers to Brazil.

With the 1930 crisis, the country moved away from the existing economic model based on primary product exports and began to foster industrial development, a highly intensive process that lasted until the 1970s. The expansion of industrial activities speeded up the country's urbanization, and was followed by the consolidation of a labour market increasingly dominated by non-agricultural activities. Whereas in 1930 three out of four Brazilian workers were engaged in agriculture, that had fallen to only one out of four by 1980. The urbanization of the labour market increasingly called for State intervention. As a result, during the early 1940s, comprehensive legislation on the minimum wage (1940) and regulation of employment contracts and labour relations (1942) was introduced, together with greater public control over the social security regimes for different categories of workers.

The public regulation of employment contracts and labour relations in the 1940s basically addressed the non-agricultural sectors, both public and private, leaving out the agricultural sector, domestic employment and self-employed work. Only in the 1970s were these sectors gradually brought within the scope of state regulation. Even for the private non-agricultural sector, regulation only gradually began to play a formal role, as it only partially covered wage employment contracts. Thus, between 1940 and 1980, the development of regulation of employment relations in Brazil entrenched the existing segmentation of the labour market, marked by a wide informal sector, both agricultural and non-agricultural.

Employment placement (1972) and unemployment insurance (1986) policies were adopted by a labour market characterized by a social protection system offering only partial coverage. In addition to these, other policies followed, which allowed for the unification of the public social security system (1965), protection against unemployment deriving from a breach of labour contract without just cause (1966), and individual savings by all workers (1970). The latter would be payable on retirement, in case of disability or, in case of death, to their descendants.

All employment policies were established for formally hired employees and were of a passive nature, i.e. they did not aim to address the inadequate training and the high degree of informality that prevailed in the national labour market. These initiatives aimed strictly at providing support to the unemployed coming from the formal labour market, with regard to both access to income as well as seeking new employment.

Table 1 Public Policies on unemployment insurance, income, vocational training and employment placement, Brazil, 1965-2011

| | |
|---|---|
| 1965 | Decree-Law 4923, mentions employment placement and unemployment insurance |
| 1966 | Establishment of the Length-of-Service Guarantee Fund (FGTS) |
| 1970 | Establishment of the Social Integration Programme (PIS) and of the Public Servant Asset Development Programme (PIS/PASEP) |
| 1975 | National Employment System – SINE (employment placement) |
| 1976 | Merger of the Social Integration Programme and of the Civil Service Assets Development Programme (PIS/PASEP) |
| 1986 | Unemployment Insurance |
| 1988 | Establishment and regulation of the Workers' Support Fund (FAT), with tripartite management |
| 1988 | Establishment of wage supplement |
| 1990 | Establishment of the Workers' Support Fund Council (CODEFAT |
| 1995 | Establishment of employment and incomes and vocational training policies by FAT |
| 1996 | Implementation of employment placement, employment generation and vocational training programme |
| 2003 | Redesign of the employment placement, employment generation and social and vocational training programmes, aiming at their integration into a unified public employment system |
| 2007 | Decree establishing the Minimum Wage Policy |
| 2012 | Minimum Wage Act |

The 1988 Federal Constitution, which established the Workers’ Support Fund, finally established a worker protection approach based on both passive and active employment policies. With the exception of unemployment insurance, these policies, albeit still tentatively, then started to cover the agricultural labour market, as well as the informal segment of the national labour market[3].

The new state regulation of employment policies finally acknowledged the heterogeneity of the national labour market, allowing for initiatives focusing on lower-skilled workers, both in the formal and informal sectors. To highlight the importance of the new approach taken by employment policies from 1988 onwards, some basic information on the Brazilian occupational structure at the turn of the century, as shown in Table 2 below.

In 2010 Brazil had 3.5 million people in non-remunerated occupations and 29.2 million people in occupations without social protection, in a labour market encompassing 85 million working people and 7 million unemployed. That same year, the country had an economically active population of 92 million out of 161 million people of working age. Occupations with low skills and incomes below the minimum wage were predominant in the Brazilian occupational structure, while informal employment was more prevalent among the lower-paid and those engaged in agricultural activities.

Table 2 Employed population by remuneration and social protection (*), Brazil and geographical regions, 2000-2010

| | North | North-east | South-east | South | Middle/ West | Total |
|---|---|---|---|---|---|---|
| | | | 2000 | | | |
| Total (A) | 4,321,989 | 16,158,338 | 28,977,898 | 10,907,694 | 4,763,454 | 65,129,373 |
| Remunerated (B) | 3,818,852 | 13,848,936 | 28,287,135 | 10,107,971 | 4,615,318 | 60,678,212 |
| Occupation with social protection (C) | 1,499,170 | 5,614,057 | 17,888,192 | 6,406,971 | 2,412,288 | 33,820,677 |
| Occupation without social protection (D) | 2,319,682 | 8,234,879 | 10,398,943 | 3,701,000 | 2,203,030 | 26,857,435 |
| Non-remunerated (E) | 503,137 | 2,309,402 | 690,764 | 799,723 | 148,136 | 4,451,162 |
| | | | 2010 | | | |
| Total (A) | 6,092,721 | 20,266,137 | 37,763,441 | 14,032,614 | 6,795,271 | 84,950,185 |
| Remunerated (B) | 5,598,318 | 18,391,918 | 37,210,422 | 13,575,150 | 6,632,901 | 81,408,709 |
| Occupation with social protection (C) | 2,729,591 | 9,139,990 | 26,462,165 | 9,707,446 | 4,215,374 | 52,254,566 |
| Occupation without social protection (D) | 2,868,727 | 9,251,928 | 10,748,257 | 3,867,704 | 2,417,526 | 29,154,143 |
| Non-remunerated (E) | 494,403 | 1,874,219 | 553,019 | 457,465 | 162,371 | 3,541,476 |
| | | | 2000-2010 | | | |
| Total (A) | 3.5 | 2.3 | 2.7 | 2.6 | 3.6 | 2.7 |
| Remunerated (B) | 3.9 | 2.9 | 2.8 | 3.0 | 3.7 | 3.0 |
| Occupation with social protection (C) | 6.2 | 5.0 | 4.0 | 4.2 | 5.7 | 4.4 |
| Occupation without social protection (D) | 2.1 | 1.2 | 0.3 | 0.4 | 0.9 | 0.8 |
| Non-remunerated (E) | -0.2 | -2.1 | -2.2 | -5.4 | 0.9 | -2.3 |
| | | | 2000 | | | |
| (B)/(A) | 88.4 | 85.7 | 97.6 | 92.7 | 96.9 | 93.2 |
| (D)/(B) | 60.7 | 59.5 | 36.8 | 36.6 | 47.7 | 44.3 |
| (D)/(A) | 53.7 | 51.0 | 35.9 | 33.9 | 46.2 | 41.2 |
| | | | 2010 | | | |
| (B)/(A) | 91.9 | 90.8 | 98.5 | 96.7 | 97.6 | 95.8 |
| (D)/(B) | 51.2 | 50.3 | 28.9 | 28.5 | 36.4 | 35.8 |
| (D)/(A) | 47.1 | 45.7 | 28.5 | 27.6 | 35.6 | 34.3 |

Source: Demographic Census, 2010, IBGE. Microdata. Own elaboration.

1. From 1988, access to public health services was no longer restricted to a worker being employed in the formal labour market. Since then, public health services have been universal and without any restrictions on access, either for Brazilians or foreign nationals.

The issues addressed in this first section, concerning the structure of Brazilian employment, highlight the familiar challenges faced by employment policies in terms of labour and employment-related social protection, which are of a structural nature and determined by the country’s development pattern. Economic crisis conditions tend to amplify such challenges, even though they do not explain them and are not their main determinants either.

# 3 Public employment policies, as determined by the 1988 Federal Constitution

In Article 7, the 1988 Federal Constitution establishes that it is the obligation of the State to guarantee employment and social protection to the whole of the Brazilian active population. Provisions include unemployment insurance and a minimum wage, a provision first adopted by the country in 1940. The provisions of this article are complemented by Article 239, which determines that the funds of the Social Integration Programme (PIS) and of the Public Servant Asset Creation Programme (PASEP) would constitute a financial fund for the payment of unemployment insure and the wage supplement In 1990, they were combined into the Workers' Support Fund (FAT).

The provisions of the 1988 Federal Constitution regarding unemployment insurance and the wage supplement were initially regulated by Act 7998/90, which established the basic rules for access to protection. The Act also determined that the unemployment insurance programme should cover the coordination of employment placement and vocational training. Under article 2 of the Act, as amended by subsequent regulations (Table 3), the unemployment insurance programme must: (a) provide temporary financial assistance to a worker who is unemployed as a consequence of dismissal without just cause, including indirect dismissal, and to a worker who has been rescued from a forced labour regime or from slave-like conditions; and (b) help workers in searching for or preserving employment, by promoting integrated actions for career guidance, employment placement and professional qualification.

Table 3 Regulation of articles 7 and 239 of the 1988 Federal Constitution, establishing temporary protection against unemployment and wage supplement

| | Objective | Regulations |
|---|---|---|
| Act No. 7998/90 | Establishes regulations for the unemployment insurance programme, wage supplement, creates the Workers' Support Fund (FAT), and sets out other provisions | Establishment of the Workers' Support Fund Council (CODEFAT)<br>Regulation of unemployment insurance<br>Definition of employment placement and vocational training functions under the unemployment insurance policy<br>Wage supplement regulations |
| | Sets out unemployment insurance provisions for artisanal fishermen | Establishment of unemployment insurance for artisanal fishermen during fishing closed season |
| Act No. 8900/94 | Establishes unemployment insurance provisions, amends the provisions of Act No. 7998/90 of 11 January 1990, and sets out other provisions | Amendment of unemployment insurance policy<br>Restructuring of the employment placement and vocational training roles of the unemployment insurance policy |
| Provisional Measure No. 2164-41/01 | Amends the Consolidated Labour Act (CLT), setting out provisions on part-time employment, suspension of employment contracts and a vocational training programme; amends Acts No. 4923 of 23 December 1965, No. 5889 of 8 June 1973, No. 6321 of 14 April 1976, No. 6494 of 7 December 1977, .No. 7998 of 11 January 1990, No. 8036 of 11 May 1990 and No. 9601 of 21 January 1998, and sets out other provisions. | Restructuring of employment placement and vocational training roles of the unemployment insurance policy |
| Act No. 10218/01 | Adds provisions to Act No. 5859 of 11 December 1972, regulating domestic workers, guaranteeing access to the Length-of-Service Guarantee Fund (FGTS) and unemployment insurance. | Extends unemployment insurance to domestic workers |
| Act No. 10608/01 | Amends Act No. 7998 of 11 January 1990, and guarantees unemployment insurance payments to workers removed from conditions similar to slavery | Extends the unemployment insurance policy to workers removed from conditions similar to slavery |

Act 7998/90 also regulated the establishment of the Workers' Support Fund Council (CODEFAT) and established:

i. The roles of the unemployment insurance programmes and of the wage supplement, as well as employment mediation and vocational training.
ii. The establishment of CODEFAT as a tripartite authority, with representatives of the Federal Government, workers and employers. With a 3-year term, one third of its members must be renewed annually. The Council is chaired by the members in rotation.
iii. CODEFAT members are nominated by the central employers' and workers' organizations, but responsibility for their final appointment lies with the Ministry of Labour and Employment.
iv. The Department of Employment and Wages in the Ministry of Labour is responsible for its administration and for implementing the provisions of the Act as well as CODEFAT decisions.

As provided by Act 7998/90, the wage supplement is subject to additional regulation. The social integration programmes for the public and private sectors (PIS/PASEP) were established in 1970, funded by a contribution paid by companies, calculated as a percentage of their payroll. This generated individual savings for workers, payable on their retirement or disability, or to their dependants, in case of death.

The 1988 Federal Constitution restructured the PIS/PASEP, maintaining the funding format, but creating the Workers' Support Fund (FAT) and determining that its funds be destined to the unemployment insurance and wage supplement programmes. It was established that the latter should pay the minimum annual wage to wage workers receiving up to twice the minimum wage per month, employed under an employment contract for the last five years who have paid contributions to the FAT (Table 4).

The Constitution also established that at least 40 per cent of the Fund's monthly revenues must be allocated to the Bank for National Economic and Social Development (BNDES), one of the main national funding institutions for agricultural, industrial and infrastructure policies. Funds received by the Bank must be capitalized so as to allow for additional FAT funding during periods of increased demand for unemployment insurance, as the consequence of economic crisis.

The institutional arrangements of the employment policies established by provisions of the 1988 Federal Constitution deserve comment.

Firstly, after decades of inaction, the Federal Constitution expanded its instruments of labour market regulation in the country. Since 1936, public intervention had only governed the regulation of employment contracts and labour relations. Starting in 1988, in addition to these functions, the Constitution also established public institutes for employment and unemployment protection, as well as employment placement and vocational training. Not only did it establish passive policy instruments for employment, but it also incorporated active instruments (Box 1), following practices in place in developed countries and in tune with the guidelines established by international institutions for bilateral cooperation.

Table 4 Functions of the public employment system in Brazil

| Functions | Objectives |
|---|---|
| Wage supplement | To be paid to those who have received, in average, up to 02 (two) minimum wages during the previous year have been registered in the Social Integration Programme (PIS) or the Civil Service Assets Development Programme (PASEP) for at least 5 years and have been formally employed for at least 30 days in the preceding year. |
| Labour and Social Security Card (CTPS) | Established by Decree No. 21175 of 21 March 1932, and later regulated by Decree No. 22035 of 29 October 1932, the Labour and Social Security Card has become a mandatory document for any persons providing any kind of service to another person, in industry, commerce, agriculture or domestic work. The Labour and Social Security Card, through its annotations, is currently one of the few documents capable of providing timely records of a worker's professional life. Thus, it provides access to some of the main workers' entitlements, namely unemployment insurance, social security benefits and FGTS. |
| Employment placement - IMO (SINE) | Aims to (re)position workers in the labour market, through the National Employment System (SINE). The institution keeps information about the requirements notified by employers regarding vacancies reported to employment service centres. |
| Youth policies | Endowed with the task of inserting young people aged 14 to 24 from low income families and with low education, in the formal labour market. Starting in 2008, actions and policies are organized and unified under the *Pro-Jovem* youth programme, led by the Federal Government and carried out by the ministries, with the aim of breaking the vicious, selective and exclusive cycle of low schooling associated with lack of social and vocational skills of young people in this age bracket |
| Employment and Income Generation Programme (PROGER) | The General Employment and Income Generation Programme has the aim of expanding access to information about employment, labour and income programmes, by creating a channel for the dissemination of information and transparent action. Through the programme, interested people can access information on existing actions and credit lines for small business. |
| National Programme for Oriented Microcredit (PNMPO) | The programme is aimed at encouraging employment and income generation among micro-entrepreneurs by providing funds and technical support to microcredit institutions, with the aim of building institutional capacity and support through services to grass-roots entrepreneurs. |
| Vocational training | The vocational training policy developed by the Ministry of Labour and Employment (MTE) aims to progressively promote universal access for workers to skills, so as to increase their chances for employment and decent work and to engage in a process of employment and income generation, social inclusion, poverty reduction, anti-discrimination and reducing the vulnerability of the overall population. |
| Minimum wage | Established by law, starting in 1940, the minimum wage is the basic and unified remuneration of the formal labour market. The minimum wage should meet the basic living needs of workers' and their families, such as housing, food, education, health, entertainment, clothing, personal care, transportation and social security, regularly adjusted in order to preserve its purchasing power, under Act No. 12382/11. |
| Unemployment insurance | Aims to provide temporary financial assistance to workers dismissed without just cause, and help them to maintain an income and seek employment, to that end promoting integrated guidance, placement and vocational training. The benefit is paid in five instalments. Workers have to meet certain requirements regarding their period of employment in the formal labour market. |
| Solidarity economy | This programme fosters and supports solidarity economy initiatives through direct actions or cooperation agreements with other government bodies at federal, state and municipal level, as well as civil society organizations. |
| MTE portal – *Mais Emprego* (more employment) | IT system that integrates access to labour, employment and income-generating polies (unemployment insurance, employment placement and vocational training. |

The second comment refers to an important aspect of the funding model adopted, which has incorporated the National Bank for Economic and Social Development (BNDES) as (a) the entity responsible for the capitalization of the consolidated FAT assets, and (b) a strategic institution for fostering investment and employment. By adopting this institutional arrangement between the FAT and the BNDES, the Federal Constitution highlighted the importance of a development strategy that associated development of the productive base and infrastructure with employment and income generation, i.e. the need to coordinate sectoral and infrastructure policies with employment policies. Only in the years since 2000, however, has the association between investment and employment generation been linked to the BNDES. In the 1990s, despite the fact that the FAT provided a significant share of its funds, the BNDES funded several projects without considering their impact on employment generation, a fact that led to recurring tensions between the Bank and CODEFAT.

Box 1 Classification of national employment policies

With the emergence of the international economic crisis in the 1970s, national employment policies once again became a relevant topic in discussions about strategies for fighting unemployment in developed countries.

Throughout the post-war growth cycle, the consolidation of a full employment scenario in these countries had allowed for the return of involuntary unemployment, characterized as conjunctural or frictional unemployment. In such a context, national unemployment insurance systems experienced reduced demand and usually presented conditions of financial surplus. In other words, revenues were systematically higher than unemployment expenditure.

The crisis of the 1970s brought back the perspective of structural and long-term unemployment, caused by both the absence of growth, as well as expectations of intensive technological transformation. The possibility of recurring high levels of structural unemployment induced national governments and bilateral institutions to try to design and adopt employment policies capable of broadening their scope, preferably in association with employment protection and guarantees. A new approach was adopted to the analysis and design of employment policies, which were now classified as active and passive policies, the first addressing employment generation and reinsertion in the labour market, and the second focusing on the protection of employment and income.

**Classification of National Employment Policies**

| | | |
|---|---|---|
| A- Active | 1 | Placement |
| | 2 | Training |
| | 3 | Youth |
| | 4 | Employment incentives |
| | 5 | Rehabilitation/supported employment |
| | 6 | Direct job creation |
| | 7 | Incentives for creating start-ups |
| B -Passive | 8 | Unemployment insurance |
| | 9 | Early retirement |

Source: OECD. Employment Outlook. Several years.

The third observation refers to the centrality of employment protection and employment policies in the formal labour market, i.e. employment contracts established in accordance with state regulations. Funded from the payroll or wages paid by companies, the Brazilian system of employment protection and employment policies is restricted to the formal labour market, while access to benefits and services usually requires workers to have previously had a protected or formal employment contract.

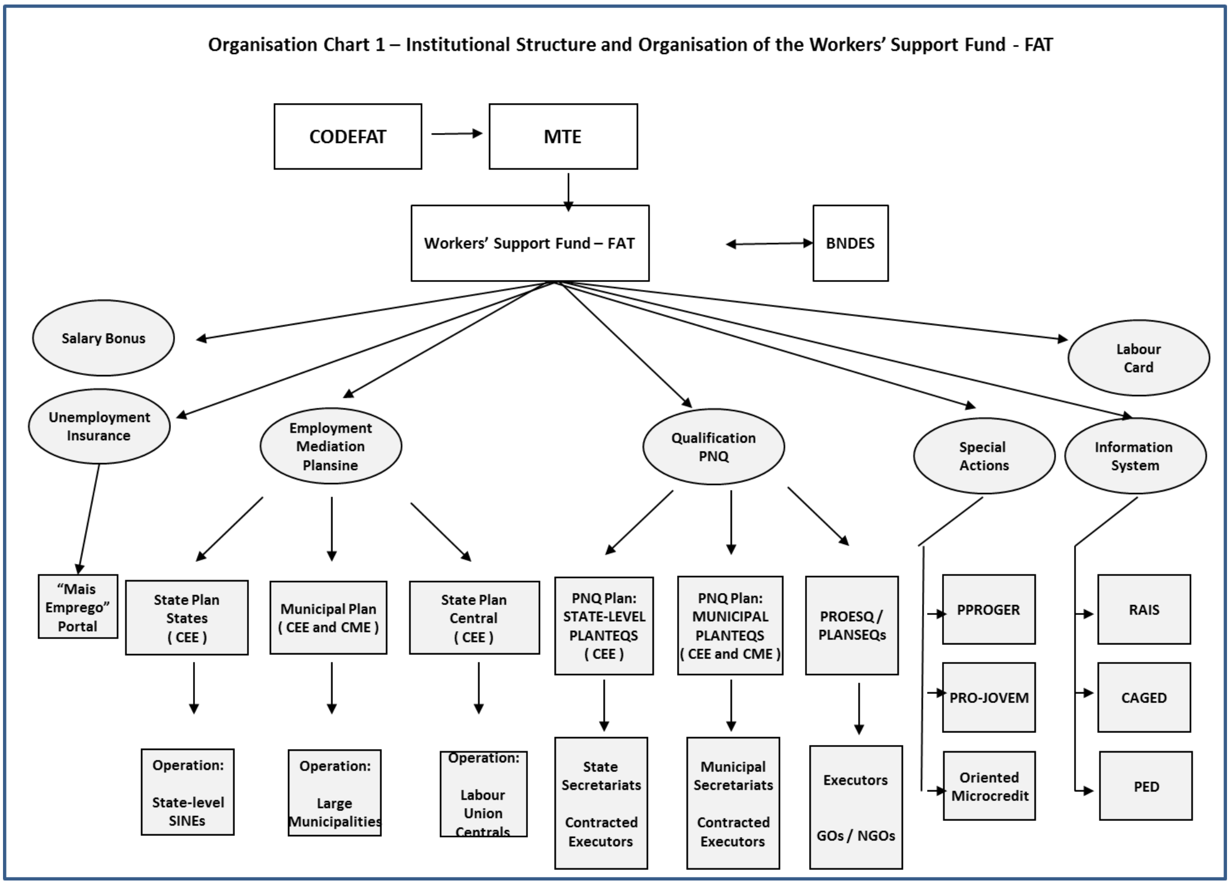
In the last 20 years, this restriction has been partially removed through new measures regarding placement, skills training and employment and income generation for the informal sector. With regard to unemployment insurance and the wage supplement, the main policy programmes in place, access remains almost totally restricted to the formal employment sector. An exception is the unemployment insurance paid to artisanal fishermen during fishing closed periods, that is, during the spawning season.

# 4 The employment policy structure[4]

Figure 1 presents the overall structure of the Workers' Support Fund and the functions it performs with regard to employment policies. As highlighted above, the many actions are predominantly funded by the Fund, but receive supplementary funding from the Federal Union, and are managed by the Ministry of Labour and Employment, according to the work plan established by CODEFAT.

Among the employment policies considered by the Brazilian State, only the minimum wage and some of those aimed at vocational training and insertion of young people in the labour market are not coordinated by CODEFAT or funded by the Workers' Support Fund. The main characteristics of the various employment policies are shown in Figure 1 below.

Figure 1 Institutional structure and organization of the Workers' Support Fund (FAT)




## 4.1 The Workers' Support Fund Council

First established in 1990, under the provisions of the 1988 Federal Constitution, the Workers' Support Fund Council (CODEFAT) is responsible for establishing a work/action plan with regard to employment policies and oversight of the use of FAT funds and assets. It has a tripartite composition, with members representing the Government, workers and employers appointed for a term of three years, who take turns in chairing the Council. The Council currently has 18 members, six of whom represent the Government, 6 represent workers and 6 represent employers/companies.

[4] For detailed information on employment policies and social policies in Brazil, see Dedecca et al., (2006a; 2006b).

Under the FAT and CODEFAT regulations, the Council is responsible for evaluating the management of Fund resources, establishing an annual action plan and a plan for the use of the resources available, as well as requesting evaluation of the results. This evaluation is commissioned from an institution that will perform the evaluation independently and in compliance with the Fund's by-laws.

The annual work plan approved by CODEFAT defines a list of actions and targets funded by the FAT funding, concerning employment placement and worker skills development. It takes into account that the number of unemployment insurance beneficiaries is determined by the evolution of the labour market and is not subject to restrictions by the Fund management[5].

The administrative management of resources and the implementation of actions established by CODEFAT are carried out by the Department of Employment Policies (SPPE) in the Ministry of Labour and Employment. Every year, the SPPE establishes agreements with the states, large municipalities, unions and non-governmental organizations for the execution of actions planned. Agreements are established based on the work plans submitted by governmental and non-governmental public institutions in the previous year. Unemployment insurance payments are made by the *Caixa Econômica Federal*, the national savings bank, a public bank controlled by the Federal Government.

Table 5 presents the Fund's financial report for the period 2008-2011, identifying revenues, expenses and transfers to the National Bank for Economic and Social Development (BNDES). The Fund had a 12.2% increase in revenues between 2010 and 2011, featuring a positive nominal result in that period. The increase in revenues is a trend observed throughout the last decade, except in 2009, when the global crisis also affected the national labour market.

Table 5 Consolidated statement of the Workers' Support Fund

| Item | Amounts in BRL (1) | | | | in % 2011 | Var. % 2011/2010 |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | | |
| | BRL million | | | | | |
| **Revenues** | | | | | | |
| Revenues from PIS/PASEP Contributions | 30,225.2 | 27,951.2 | 31,428.7 | 37,519.6 | 74.7 | 19.38 |
| Revenues from remuneration | 11,347.1 | 11,612.2 | 11.223.2 | 11,754.9 | 23.4 | 4.74 |
| National Treasury Funds | 31.8 | 28.5 | 1,182.8 | 90.6 | 0.2 | -92.34 |
| Other revenues | 648.7 | 634.1 | 936.7 | 863.7 | 1.7 | -7.79 |
| ***Revenues – Total (A)*** | ***42.252.8*** | ***40,226.5*** | ***44,771.4*** | ***50,228.9*** | 100 | 12.19 |
| **Expenses** | | | | | | |
| Unemployment insurance benefit(*) | 17,712.3 | 22,464.9 | 22,342.9 | 24,390.0 | 68.7 | 9.16 |
| Wage supplement benefit (*) | 7,117.4 | 8,630.2 | 9,531.9 | 10,568.1 | 29.7 | 10.87 |
| Other current expenses | 854.3 | 685.8 | 585.5 | 566.0 | 1.6 | -3.33 |
| ***Expenses – Total (B)*** | ***25,683.9*** | ***31,781.0*** | ***32,460.4*** | ***35,524.2*** | 100.0 | 9.44 |
| **Economic Result (C = A – B)** | **16,568.9** | **8,445.4** | **12,311.0** | **14,704.7** | | 19.44 |
| Loan to BNDES – Art.239/CF (D) | 11,458.5 | 11,039.9 | 12,656.7 | 13,924.6 | | 10.02 |
| **Total liabilities (E = B + D)** | 37,142.4 | 42,820.9 | 45,117.1 | 49,448.7 | | 9.60 |
| **Nominal Result (A – E)** | 5,110.4 | (2,594.5) | (345.7) | 780.2 | | 125.67 |
| **FAT Financial Assets** | **182,056.1** | **181,071.5** | **182,016.6** | **185,456.7** | | 1.89 |

Source: Ministry of Labour and Employment, Workers' Support Fund – Management Report 2011

The positive evolution of FAT revenues derived, basically, from two critical factors: on one hand, the evolution of the labour market, marked by a strong capacity to generate formal employment, and the minimum wage setting policy, which have promoted consistent payroll rises, resulting in a positive trend in revenues originated by PIS/PASEP

[5] Employment actions led by FAT encompass funds made available by the Federal Union budget, as well as other Federal Government institutions.

contributions. On the other hand, the maintenance of high actual interest rates for government public debt bonds has allowed rather high remuneration of the resources made available every year, and 23.5% of FAT revenues came from that source in 2011.

Throughout 2012, the Federal Government significantly reduced the interest rate on public debt, while the country also maintained a relatively low growth rate during the same period. That translated into a reduced increase in formal jobs. Nevertheless, the minimum wage setting policy allowed a nominal increase of 14% in the legal wage floor, which has led to a sizable increase in total payroll of the formal employment segment. It is likely that FAT revenues will have continued to grow throughout 2012, despite the reduced contribution made by employment generation and lower actual interest rates.

The possibility of a significantly lower actual interest rate in coming years indicates that the item 'Revenues from Remuneration' is likely to decrease its contribution to FAT funding. Thus, the positive evolution of revenues will increasingly depend on employment generation and on a growing payroll mass, as well as reduced pressure from expenditure on unemployment insurance.

CODEFAT plays a lead role in setting employment policies. The Council's activities are usually established by an annual work plan, which determines a list of actions and the funds budgeted for their execution, except for the unemployment insurance programme. The planned measures are not supported by external evaluations of their effectiveness or by forecast studies of labour market demand. Actions are usually based on demand from state and municipal governments and other institutions that engage in employment placement and job skills training. CODEFAT may commission an external evaluation for issues it considers sensitive to some aspect of employment policy.

The lack of a legal framework or institutional practice regarding the conduct of periodic evaluations of the three basic modalities of employment policies (unemployment insurance, employment placement and vocational skills training) is a major weakness in the consolidation of the Workers' Support Fund. As this study will show, this weakness prevents programmes and actions conducted by FAT from being guided by a strategy for raising the skills profile of the labour market, necessary for sustained growth and increased in productivity and use of technology.

## 4.2 Department of Employment Policies

The Department of Employment Policies (SPPE) in the Ministry of Labour fulfils two roles: on one hand, it acts as the secretariat of CODEFAT and supports its activities and, on the other hand, implements decisions of the Council on employment policies. All the Ministry of Labour and Employment functions shown in Figure 1**Error! Reference source ot found.** (Organisation Chart 1) are managed by the SPPE, either directly or indirectly.

Once the annual work plan has been approved by CODEFAT, the SPPE drafts and implements the necessary agreements and contracts with governmental and non-governmental public institutions responsible for employment placement and job skills training, but not unemployment insurance payments.

The SPPE is also responsible for all procedures related to the wage supplement, benefits paid by public banks, studies on the minimum wage, issuing labour cards, the execution of special measures and the production, management and publication of reports and data via the national labour market information system.

In addition, the SPPE acts as the interface between the FAT and the National Bank for Social and Economic Development (BNDES), which is responsible for the management and conservation of the Fund's assets.

Thus, the implementation of a major part of all Federal Government employment policies is concentrated in the SPPE.

## 4.3 Unemployment Insurance

Despite being contemplated since the mid-1960s, the unemployment insurance policy was only adopted in 1986, as one of the instruments of the economic stabilization plan implemented by the Government.

The legislation originally adopted in the 1960s, established by Decree-Law 4923/65 and Decree 58155/66, determined that unemployment insurance would be destined for dismissed employees who had held an employment contract in the last 120 days and the benefit would be paid over a maximum period of 180 days. An unemployment assistance fund was created by legislation, temporarily funded by the Ministry of Labour and Social Security[6].

Despite this, the effective implementation of unemployment insurance was introduced only by Decree 92608 of 1986, which provided that the insurance would be paid to all employees whose employment contract had been terminated in the last 30 to 60 days, who had contributed to social security in the last 36 months and been formally employed in the last 6 months.

This unemployment insurance policy structure remained in force until 1990, when the new regulation (Act 7998/90) created the Workers' Support Fund (FAT). The FAT was funded by the PIS/PASEP Social Integration Programmes. As mentioned above, this new arrangement meant that the unemployment insurance programme would be linked to employment placement and job skills training policies.

Under Act 7988/90, the unemployment insurance programme would protect the income of unemployed persons dismissed without just cause and workers rescued from forced labour or from conditions similar to slave labour. According to the Act, the following workers would be entitled to unemployment insurance: (i) those who had received wages from a corporate entity or natural person with a similar status for a continuous period of six months prior to the date of dismissal; (ii) those who had been employed by a corporate entity or by a natural person with a similar status, or who had been self-employed and engaged in a legally recognized activity over at least 15 months in the last 24 months; (iii) those who do not enjoy any ongoing social security benefit under the social security legislation, other than employment injury benefit and supplementary support benefit; (iv) those who do not receive unemployment support; and (v) those who do not have an income of any kind sufficient for their own subsistence and that of their families.

Also according to the Act, the benefit would be paid for a maximum of four months, either continuously or intermittently within a maximum of 18 months. The amount of the benefit may not be less than 70% of the minimum wage and must not be less than 50% of the remuneration received by a worker earning less than three times the minimum wage in the last three months. For workers with wages equivalent to or higher than three times the minimum wage, the benefit would be equivalent to 1.5 times the minimum wage.

[6] Starting in 1974, these two roles have been separated into two different ministries: Labour and Social Security.

The unemployment insurance programme has been modified over the last 22 years. Currently, the programme's main features are:

1. Three instalments, if the worker provides evidence of an employment contract established with a corporate entity or a natural person with a similar status, of at least six months and a maximum of 11 months during the 36 months preceding the date of dismissal that gave rise to the claim for unemployment insurance;
2. Four instalments, if the worker provides evidence of a labour contract established with a corporate entity or a natural person with a similar status, of at least twelve months and a maximum of twenty-three months during the 36 months preceding the date of the dismissal that gave rise to the claim for Unemployment Insurance;
3. Five instalments, if the worker provides evidence of a labour contract established with a corporate entity or a natural person with a similar status, of at least twenty-four months during the 36 months preceding the date of the dismissal that has originated the claim for Unemployment Insurance;
4. Specific unemployment insurance modalities for (a) artisanal fishermen during the fishing closed season, (b) domestic workers, and (c) workers rescued from forced labour or working conditions similar to slave labour.
5. Except in the case of artisanal fishermen and workers rescued from forced labour, all others require a formal employment contract, with contributions paid to social employment protection, in order to qualify for the monetary benefits provided by the programme.
6. Recipients may also receive a skills training grant if they participate in ongoing training programmes carried out under the public policy.

The operation of the unemployment insurance programme is quite simple:

1. On dismissal, the worker receives from the company a form giving details of the terminated employment contract.
2. The worker hands in the form at a service centre of the Ministry of Labour and Employment or a branch of the *Caixa Econômica Federal*, a federal public bank.
3. The Ministry of Labour checks whether the worker meets the minimum requirements established by the unemployment insurance programme, based on information provided by the RAIS/CAGED System.
4. Once it is confirmed that the worker qualifies for the programme benefits, the Ministry of Labour and Employment authorizes the *Caixa Econômica Federal* to pay the corresponding instalments to the worker.

According to the 2011 Workers' Support Fund Management Report, the unemployment insurance programme served 8.3 million beneficiaries during the year, with expenditures equivalent to R$ 23.8 billion. The programme was responsible for 48% of all FAT revenues in 2011 and for almost 70% of the Fund's expenditures under employment policies. Beneficiaries represented 16.9% of the total number of persons formally employed in the Brazilian labour market. In other words, one in six formally employed workers benefited from unemployment insurance in 2011, which indicates a high turnover rate, even at a time when the labour market was experiencing a significant rise in formal employment.

These unemployment programme results demonstrate, on one hand, that the policies in place reach out to a significant share of the national labour market and, on the other, that the policy relies on mechanisms that allow for appropriate and quick access by formal workers. The FAT has been able to fully fund the programme, without affecting its consolidated assets, but, as shown, unemployment insurance consumes a sizable volume of the resources available, thus restricting the availability of funds for employment placement and job skills training.

In order to address the high level of expenditures on unemployment insurance in relation to the current availability of FAT funds, the current structural turnover rates prevalent in the Brazilian labour market must be reduced.

## 4.4 Employment placement

The first initiative aimed at the adoption of an employment placement policy occurred in the 1970s and led to the establishment of the National Employment System (SINE). The policy was initially designed to be carried out by the Ministry of Labour by means of agreements with the states of the Union. However, the scope was limited to a few states, and employment placement was largely confined to the state capitals.

Only in the 1990s did the employment placement policy gain momentum. This can be explained partly by the entry into force of the 1988 constitutional provisions and the establishment of CODEFAT and partly by the economic recession at the beginning of the period. The crisis led to an explosion in unemployment in large urban centres, calling for public action in order to minimize its disastrous social effects.

Government employment placement was perceived as an active policy instrument for the reinsertion of the unemployed into the labour market. It was a channel for the transition from a condition of wage employment to that of a self-employed worker or micro-entrepreneur. In some cases, the employment placement initiative operated in coordination with the microcredit policy.

In the last 20 years, a broad employment placement network has been set up. Even though geographically restricted, it was implemented by state and municipal governments and labour unions, mobilizing non-governmental organizations as well. To a large extent, this network remains concentrated in large cities, with limited capillarity throughout the rest of the national territory.

This restriction cannot be dissociated from the country's regional complexity, marked by highly urbanized areas with a highly concentrated population, as well as by areas dominated by geographically scattered small urban centres which depend on rural activities. The states of São Paulo and Rio de Janeiro are examples of the former, whereas the states of Amazonas, Acre, Roraima, Rondônia and Pará represent the latter. This regional complexity creates obstacles for employment placement and job skills training policies, especially in areas with low urbanization and a sparse population.

Results show that the coverage of the employment placement policy is still limited. In 2011, 8.3 million people received unemployment insurance, whereas employment mediation reached only 943,000 workers. As will be analysed below, employment placement and job skills training are not coordinated with unemployment insurance. The beneficiaries of this programme are not eligible for employment placement and jobs skills training and vice versa.

The limitations of the employment placement policy are even greater if it is considered that, in 2011, at least 7 million people were openly unemployed. In other words, only one in seven unemployed persons could potentially be reached by employment placement actions[7]. In terms of the per capita cost, each placement costs R$ 100,00 (about US$ 50).

Table 6 Employment placement indicators, Brazil, 2011

| Target | Estimated | Executed | Realized (%) |
|---|---|---|---|
| Physical (persons) | 1,113.960 | 943,019 | 84.66% |
| Financial (R$) | 105,950,000 | 95,376,154 | 90.02% |

Source: Ministry of Labour and Employment, Workers' Support Fund – Management Report 2011

Additionally, the results of the employment placement policy reveal the lack of engagement of companies with the public employment placement system, a situation that is also seen in other countries, even developed ones. In 2011, in a favourable labour market context, vacancies captured represented 53% of the total number of enrolled persons, while placed workers represented 38% of the captured vacancies. The picture was even worse in 2009, when unemployment rates and demand for employment placement was even greater.

The limitations of the employment placement policy become even more evident considering that it operates in a labour market with 90 million people where one third of all wage workers are employed in informal labour. In the light of these labour market characteristics, employment placement needs to have a greater presence in the labour market, either in order to protect the unemployed or to foster the formalization of labour contracts.

Table 7 Employment placement effectiveness, Brazil, 2011

| | 2009 | 2010(a) | 2011(b) | Variation (b)/(a) |
|---|---|---|---|---|
| Workers enrolled | 6,274,405 | 5,497,650 | 4,708,101 | -14.36% |
| Vacancies registered | 2,737,546 | 3,660,711 | 2,569,720 | -29.80% |
| Workers placed | 1,076,248 | 1,246.201 | 943,019 | -24.33% |

Source: Ministry of Labour and Employment, Workers' Support Fund – Management Report 2011

## 4.5 Vocational/Job skills training

Only after the enactment of the 1988 Federal Constitution did the job skills training policy become an integral part of labour protection and employment policy and one of the measures under the unemployment insurance programme. However, Brazil has had a publicly-funded vocational training system since the early 1940s, provided by private non-profit institutions.

In order to better understand the overall structure of the country's skills training policy, it is important first to highlight the institutional perspective adopted internationally, based on guidelines agreed by multilateral development and cooperation organizations, especially UNESCO and the ILO.

According to Table 8, three basic modalities of vocational capacity building can be considered, each performing a different role in terms of job skills training and each with a separate relationship to the labour market.

[7] The employment placement and job skills training data presented in this study refer to actions carried out with FAT funds. Therefore, they do not take into account mediation activities carried out independently by private companies and non-governmental organizations.

Initial vocational education is part of the national education system, at secondary and higher education level. It serves youngsters aged 15 to 30, the majority of whom are not yet active in the labour market. This vocational training modality prepares youth for the labour market, providing technical, technological and university-level education.

Insertion training aims to reduce the disadvantages faced by the unemployed and/or youngsters actively seeking employment. Even though this modality has been found in some European countries since the end of the 19th century, it achieved greater expression in developed and developing countries after the economic crisis of the 1970s, when the emergence of structural unemployment in an environment of rapid technological change set the need for re-training of major contingents of the country's labour force.

Table 8 Classification of types of vocational training

**Initial vocational training** - Organized into long duration programmes, it is usually part of the national education system, and represents a path for secondary education. It can be developed independently or, more frequently, in coordination with regular secondary education.

**Insertion-Oriented Professional Training** -- structured around specific programmes, this category aims to serve youth or unemployed workers facing difficulties in entering the labour market.

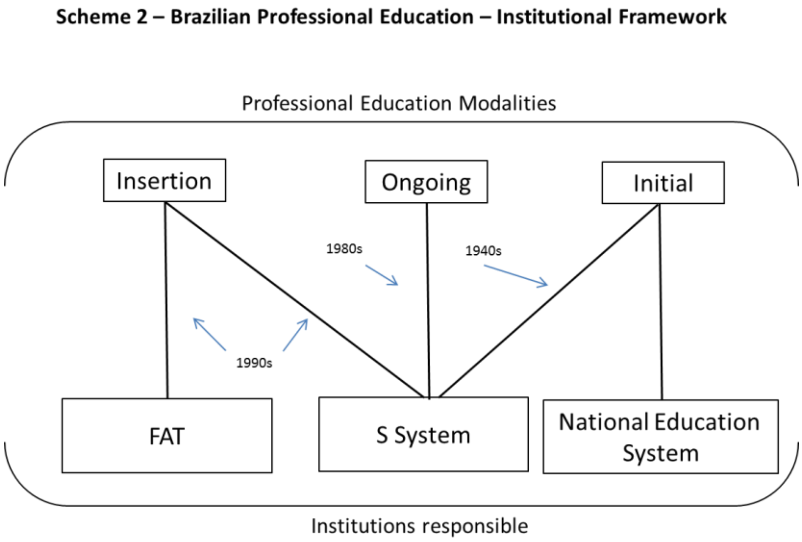
**Professional training** - associated with specific programmes, this category aims to serve already occupied workers; it may take place inside or outside companies; is intended to provide additional qualification to the present productive activity

Source: European Commission, Eurostat, Cedefop (1997), Key figures on education and training in the European Union; and Martin, P. (ed.) Vocational training system, (draft work plan, mimeo), ILO, Geneva.

Continuing vocational training, on the other hand, also exists in developed countries, especially starting in the 1950s and taking off in the 1970s. The expectations of recurring technological change, associated with new methods of organization of production and the use of automated equipment with electronic or IT-based commands, have turned re-training of the labour force into a strategic need for the development of many companies. The skills acquired by employees during their initial training or vocational training were no longer sufficient. They needed to upgrade their skills regularly.

In Brazil, initial vocational training was consolidated in the 1940s, based on a disparate set of initiatives that were consolidated during the early decades of the 20th century. Continuing vocational capacity building, on the other hand, began in the 1980s and was taken over by private non-profit institutions that already provided initial vocational training. Work-oriented vocational training, for its part, had its origin in the 1988 Federal Constitution, but programmes only started in the mid-1990s. The relationship between vocational further training modalities and their relationship with the three main public institutions in charge of their coordination or implementation is shown in Figure 2 below.

Figure 2 Brazilian vocational education – Institutional Framework




Employment policies in Brazil only incorporate job-oriented training and the FAT is the main funding source. The Fund establishes annual physical and financial targets for job skills training. It also establishes agreements with public and private non-profit institutions for carrying out programmes of courses/training established by the National Qualification Plan (PNQ).

The PNQ links three large plans:

***Territorial Qualification Plans – Planteq:*** training actions targeting graduates of the educational system and the unemployed. These actions are structured according to the demands of municipalities or states, based on the planning established by tripartite committees;

***Special Qualification Plan – Proesq:*** training actions defined in accordance with specific needs, such as the development of activities aimed at promoting a cooperative economy, microenterprises, artisanal fishing and rural communities (territories of citizenship). They are structured based on other federal public policies and aim to promote the development of activities with potential for employment generation and with social impact.

***Sectoral Qualification Plan – Planseq:*** training actions targeting specific economic sectors, aimed at promoting the development of local productive structures; these actions are the result of social dialogue among municipalities/states, labour unions and businesses.

All the plans offer the possibility of inclusive actions aimed at promoting improved schooling, especially basic education. This broadened scope of action results from the recognition that the acquisition of additional skills often requires a minimum level of formal education.

In considering the basic characteristics of Brazil's job skills training policy, it is important to highlight that it aims to promote the reinsertion or insertion of workers in the labour market, as well as to enhance the socioeconomic status of the country's population. The policy is an integral part of the social policy pursued by the Federal Government. Two examples of initiatives with this aim deserve special mention.

Based on a survey carried out in all ministries, the Federal Government reorganized its social actions targeted at youth aged 16 to 29 and created the *Programa Pro-Jovem* (Pro-Youth Programme) in 2007. This initiative sought to consolidate and coordinate the several actions targeted at this segment of the Brazilian population involving all aspects of government social policy. The actions include vocational training and education to equip youngsters with enhanced educational and job skills and facilitate their entry in the labour market.

Another initiative is the Territory of Citizenship, an action aimed at small rural landowners. It involves land reform, technological support for agricultural production, vocational training and education programmes, among others. Again, the skills development policy is supported by other public policies to promote social development in regions with a greater prevalence of rural and poor populations.

Table 9 features the results of the National Qualification Plan for 2011. Among the modalities of unemployment policy actions, it shows that job skills training received reduced funding and more coverage in terms of people who benefit from its actions: against the target of 257,000 people 2011, only 101,000 people received training. Considering that 8.3 million workers received unemployment insurance that same year, this means that only about 1.2% of all beneficiaries had the possibility of joining a training programme.

Table 9 Vocational training indicators, Brazil, 2011

| Target | Estimated | Executed | Implemented (%) | Panteq/total |
|---|---|---|---|---|
| Physical (persons) | 257,639 | 101,480 | 39.4% | 53.7% |
| Financial (R$) | 264,568,125 | 75,493,604 | 28.5% | 68.5% |

Source: Ministry of Labour and Employment, Workers' Protection Fund – Management Report 2011

The results show that, even though Brazil has a skills development, its scope is very limited and funding is insufficient in relation to the size of the national labour market. The difficulties faced with regard to funding are partially explained by the high appropriation of funds required by unemployment insurance payments, the level of which has remained constant, despite falling unemployment, due to the high turnover rates in the national labour market.

## 4.6 Vocational training grant

The Vocational Training Grant is regulated by Article 2 of Constitutional Amendment No. 32 of 11 September 2001. It is part of the unemployment insurance programme and is aimed at laid-off employees. A requirement is that a worker must be registered in a vocational training course or programme offered by the employer, according to the terms of the collective convention or agreement. This initiative, therefore, targets only workers employed by the formal sector.

Coverage tends to be limited for two reasons: firstly, because it is restricted to workers in the formal labour market who have been laid-off and whose contractual layoff terms are established in a collective convention or agreement. Secondly, it is due to the growth of the Brazilian economy, starting in 2004, characterized by a significant capacity for generating new formal employment and for reducing mass redundancies by companies.

Established during a period of great difficulty for the Brazilian economy, with high unemployment rates, the vocational training grant sought to postpone dismissals by companies with a high degree of spare capacity and to provide for the possibility of relocating the labour force through enhanced skills. This modality of employment policy was adopted chiefly by large companies in industries with strong trade unions. Another aim was to avoid any labour conflicts deriving from mass redundancies. The automotive industry resorted to the policy, but it always had a limited coverage. It became even less meaningful with the return of economic growth, when it had less impact on employment generation and on reducing unemployment.

Table 10 Qualification grant indicators, Brazil, 2011

| Target | Estimated | Executed | Implemented (%) | Panteq/total |
|---|---|---|---|---|
| Physical (persons) | 257,639 | 101,480 | 39.4% | 53.7% |
| Financial (R$) | 264,568,125 | 75,493,604 | 28.5% | 68.5% |

Source: Ministry of Labour and Employment, Workers' Protection Fund – Management Report 2011

## 4.7 Employment and income generation programme (PROGER)

In 1990, Act 8019 allowed the Workers' Support Fund (FAT) to invest the funds that exceeded the minimum net reserves in bonds. These resources could be transferred by the Federal Government to public banks, which would then finance credit for small and micro-entrepreneurs at lower interest rates than the ones offered by the private credit market.

In 1994, it was decided that funds transferred to public banks should target employment and income generation by fostering small and micro-businesses. That led to the development of the employment and income generation programme (PROGER), launched in 1995. PROGER gradually diversified its activities and in 2011 and 2012 the programme implemented budgets of R$ 2.4 and R$ 2.7 billion respectively, as detailed in Table 8. PROGER focuses more on the informal sector, both in terms of economic activity and labour market. With regard to special credit lines, PROGER has funded the renewal of vehicle fleets and in 2012 a major part of its funds were destined to investments associated with the 2014 World Cup.

The resources allocated to PROGER will tend to shrink in the next years, especially due to the drop in interest rates for bonds, which is expected to reduce the additional funding obtained by the FAT from special deposits.

Table 11 FAT indicators – Special Credit (PROGER), Brazil, 2011

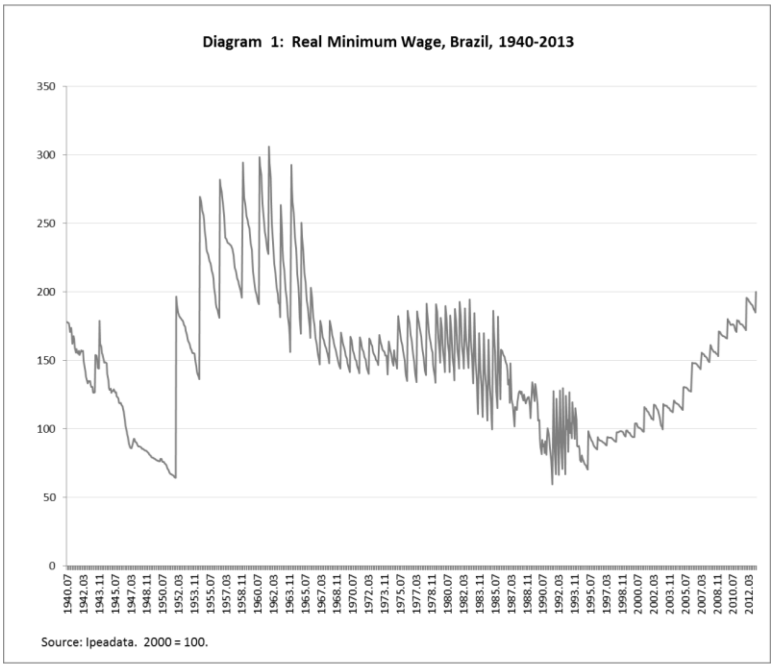
| | **2011** R$ millions | **2012** |
|---|---|---|
| ***Programmes*** | ***2405*** | ***2750*** |
| Support | 1055 | 900 |
| Microcredit | 150 | 100 |
| Innovation | 220 | 150 |
| Urban Proger | 310 | 1100 |
| Infrastructure | 20 | |
| Pronaf | 650 | 500 |
| ***Special credit lines*** | ***195*** | ***750*** |
| Sectoral turnover | 45 | |
| Motorcycle transport services | 20 | |
| Taxi driver | 100 | 100 |
| Grass-roots entrepreneur | 10 | |
| Supplementary public transport | 10 | |
| Other | 10 | |
| Tourism – 2014 World Cup | | 650 |

Source: General Report of the Employment and Income Generation Programme, FAT-TEM, 2011

## 4.8 Minimum wage

Established in 1940, the Brazilian minimum wage has an erratic track record with regard to its real value, as, until 2007, it was constantly prey to the political whims of federal administrations, (Figure 3).

Figure 3 Real minimum wage, Brazil, 1940-2013




With the democratization process initiated in 1985, after 20 years of authoritarian government, the setting of the minimum wage has routinely been on the national political agenda, having gradually won the support of several segments of organized civil society. Economic instability, in addition to very high inflation, had hampered the attempts to raise the real minimum wage. Only since 1994, with the stabilization of the Brazilian economy, has the Federal Government been able to raise the real minimum wage. Its purchasing power has been growing systematically throughout the last 18 years.

Nevertheless, a minimum wage policy was only adopted in 2007 and became law in 2011. Based on broad-based discussions between the Federal Government and the social partners, concerted social action has resulted in annual readjustments to the minimum wage, based on price variations in the previous year, together with the rise in gross domestic product over the previous two years.

The purpose of this rule is to guarantee a progressive rise in the minimum wage, irrespective of the extent to which the government of the day adheres to the policy. In that sense, since 2007, the setting of the minimum wage has been changed from a government policy into a public policy. The adoption of the minimum wage setting strategy was the result of concerted social action, based on the following economic and social factors: the rise in the minimum wage should strengthen growth as it increases purchasing power and, therefore, the consumption of lower income groups, which tend to consume more; as a distributive measure, it creates the possibility of promoting a more rapid increase in the legal minimum wage compared with trends at higher income levels; and as an income and consumption policy, it tends to encourage production, investment and employment.

Evaluations of the policy to date do not agree with regard to its capacity to promote growth of production, employment and incomes with distributive effects. Furthermore, it has been recognized that the existence of a stable rule and the adoption of a strategy for the systematic raising of the minimum wage allows both the public and the private sectors to evaluate ex ante the cost increases promoted by the policy, as well as the positive impacts, with regard to increases in demand in the sectors that benefit from it.

Once the minimum wage began to be approached as an instrument for sustained growth combined with income distribution, its setting has been considered a modality of employment policy. This approach is supported by both the Government and the social partners, especially when considering the role played by the minimum wage in protecting the incomes and purchasing power of wage workers in 2009, which played a major role in sustaining demand during the most acute stage of the crisis.

## 4.9 Labour and Social Security Card

Created in 1932, the Labour and Social Security Card (CTPS) is the instrument used for registering the employment contract and for acknowledging its formal nature for the purposes of the social security system. Even though there has been a broad discussion about its restructuring, the CTPS continues to play the role established for it in 1932, and also retains its original overall format.

Despite the social relevance of the CTPS, as the document that allows workers to prove their status as a formally employed worker, other administrative instruments were created by the Federal Government for the registration of employment contracts. Two of them are part of the national employment policy: the annual social information records – RAIS; and the General Registry of Employed and Unemployed Persons – CAGED.

From the employment policy perspective, the CTPS only contributes to the structuring of the labour market, since the registration or otherwise of an employment contract in the CTPS can act as the basis for a labour law claim for lack of compliance or partial non-compliance with labour protection laws. Nevertheless, it plays a secondary role in supporting employment policy and should not be perceived as an employment and income generation tool.

However, since it is a document filled in by hand and includes information not incorporated into a database, the CTPS has failed to fulfil one of its original roles: providing evidence of employment contracts to the social security authority. Such evidence has been increasingly provided by the records of contributions paid by companies and employees, which use the identification codes provided by the National Corporate Taxpayers Register – CNPJ and the Social Integration Programme – PIS/PASEP.

## 4.10 Solidarity economy

In Brazil, the idea of building a solidarity economy, especially from the 1990s onwards, began to take hold as a growing number of associative experiments were organized by workers, both in urban and rural environments, in distinct economic and social contexts: companies facing bankruptcy or in crisis rescued by their workers; community-based groups and associations, both formal and informal; associations and cooperatives established by family farmers and land reform settlements; urban cooperatives (worker, consumer and service cooperatives); and solidarity finance groups, among others. In this context, the solidarity economy movement in Brazil was organized alongside popular movements, during the country's return to democracy, and gained visibility during the 1990s (SNAES, 2010).

The development of associative experiments in organizing small enterprises proved to be an answer to the employment crisis experienced by the country in the 1980s and the 1990s. The deconstruction of the wage worker base translated into growing unemployment and self-employment, especially in the urban context. Associative labour initiatives began to be carried out by civil institutions. Despite their limited coverage, these experiments won growing social legitimacy and were integrated into public policies. In 2003, acknowledging the political relevance of these initiatives, the Federal Government established the National Secretariat for the Solidarity Economy (SENAES) in the Ministry of Labour and Employment, thus transforming the solidarity economy into an employment policy.

According an evaluation by the SENAES of actions carried out in 2003 and 2010, the activities undertaken were aimed at encouraging and supporting associative developments with regard to funding, financial education, marketing and technological development. Actions were coordinated by the SENAES, but carried out and funded by several federal government institutions. These actions had the following goals:

- supporting the development of business incubators for associative small enterprises;
- fostering local development and the solidarity economy to promote the work of women and traditional populations (quilombola, indigenous, riparian, etc.);
- corporate recoveries, adopting a regime based on self-management by workers;
- technical support and capacity building programmes for local communities engaged in recycling;
- supporting and funding experiments with community banks.

Between 2003 and 2010, the SENAES supported 435 solidarity economy development projects, for the total amount of R$ 206 million.

Despite its limited experience and coverage, the national solidarity economy policy shows the importance of providing financial, technical and organizational support to associative businesses. In the context of recovery in employment levels, such as the period that started in 2004, the goals of solidarity economy actions and programmes have focussed on the structuring of informal businesses and reducing pressures on them, leaving them free to focus on the productive inclusion of unemployed workers.

The consolidation of the policy of structuring informal businesses is crucial bearing in mind their coverage of the Brazilian labour market, especially in the rural sector. The solidarity economy faces three main challenges: (i) the expansion of the organizational structure; (ii) further coordination of federal government institutions in accordance with jointly agreed objectives; and (iii) funding.

## 4.11 The *"Mais Emprego"* portal

In 2012, the Ministry of Labour and Employment implemented the *Mais Emprego* (more employment) portal, an initiative designed to implement a strategy for the establishment of a public employment system, framed by social dialogue coordinated by the Ministry itself, in 2005. The first version of the portal can be visited at http://maisemprego.mte.gov.br/portal/pages/home.xhtml. Its aim is to provide workers with access to the basic functions of the employment, labour and income policy, namely, unemployment insurance, employment placement and job skills training.

The existence of an entry point such as the *Mais Emprego* portal is recognized as being essential for the development and coordination of the basic functions of the employment, labour and income policy. The rationale for the initiative is twofold: to expand opportunities for workers to become familiar with and access the policy's programmes and actions and, secondly, the importance of establishing a registry of beneficiaries of the public policy, making it a key tool for the coordination of the different programmes. As the *Mais Emprego* portal still is in its construction phase, there is no information available on its results so far.

## 4.12 The employment contract information systems

The Federal Government relies on two information systems concerning employment contracts for employees in the formal sector.

The first, created in 1965 and restructured in the 1980s, is CAGED, the General Registry of Employed and Unemployed Persons, which compiles the monthly dismissals and new employment contracts by companies. Companies that have had changes in their workforce during a given month must, by law, submit a statement with detailed information on personal data and employment contracts for each dismissed or hired worker. When it was first created, CAGED was expected to become a database of information on whether a worker qualified for unemployment insurance or not. However, the delay in implementing the policy caused CAGED to be used as an instrument for governmental evaluation of the monthly dismissals and recruitment in the formal labour market, leading to the construction of an employment level index in the late 1980s.

In the mid-1970s, the Annual Social Information List (RAIS) was created, with the aim of consolidating information for PIS/PASEP and for social security.

Every year, in March, all companies must report personnel and employment contract data for all its employees during the previous year. The digitalization of the RAIS system has gradually improved the quality of its data, transforming it into an annual census of formal wage labour in the country. A vast set of information is available through RAIS, organized by company, by corporate taxpayer number (CNPJ), and by employee, by PIS/PASEP number. Information available includes each employee’s sex, colour, age, education, occupation, monthly wages, recruitment date, date of dismissal; and details of the company’s address, industry and number of employees.

RAIS provides detailed information on the formal labour market, and acts as the database for the enrolment of unemployed workers in unemployment insurance. It also provides information on the labour market’s overall occupational and productive structure. CAGED fulfils a complementary role vis-à-vis RAIS: it provides monthly information on employment contracts while they are not yet available from the original source.

These information systems provide significant input to employment policy, as they provide precise knowledge about the country’s occupational and productive structure and its evolution over time. They make it possible to identify the productive sectors with the highest employment generation capacity, the turnover rate per sector and occupation categories, and the wage and payroll trends and as well as other information relevant to employment policy. The RAIS is also the tool that establishes the payment of the wage supplement.

The policy decision-making process has been increasingly based on information provided by IT systems and reaches far beyond actions related to employment policy. The RAIS has been playing a growing role in overall social security management.

# 5 The implementation mechanism - coordination, monitoring and evaluation

As indicated above, national employment policies in Brazil are established in accordance with the institutional provisions of the 1988 Federal Constitution and the specific 1990 Organic Act of the Workers' Support Fund (*Fundo de Amparo ao Trabalhador*). The conduct of employment policies is a federal government responsibility . Each year, the Ministry of Labour and Employment prepares an action plan that is submitted to the Council of the Workers' Support Fund (CODEFAT) for approval. The action plan sets out details of vocational training and employment placement activities. Since they are constitutional rights, both the unemployment insurance scheme and the wage supplement must be funded from the current budget or funds accumulated by the Workers' Support Fund (FAT).

The action plan establishes the goals for each of the planned activities, within the overall budget approved by CODEFAT. The action plan is drawn up in the second half of the previous year: the groups and structure of planned activities are defined in consultation with state governments, large municipalities and social agents by the Ministry of Labour and Employment. When the action plan is approved, usually in December of the preceding year, the various action modalities and distribution across states are also established.

In terms of accountability, the activities set out in the action plan are established according to the availability of funds determined jointly by CODEFAT and the Federal Government (see Table 5 above). Thus, there is no possibility of public employment policies causing a budgetary deficit in the FAT .

Furthermore, by mid-2013 the FAT had accumulated 213 billion R$ in funds, which serves as a budget reserve to cover unemployment insurance and wage supplement expenditure if they exceed current income, due to a deterioration in employment levels caused by economic recession.

Having established the action plan, the Ministry of Labour and Employment starts implementation in the January. Since the approval of the action plan also defines the composition of activities and the distribution across states, the Ministry only has to agree the arrangements for implementation with state governments, large municipalities and the competent social institutions. The relationship between the Federal Government and the executing agencies is based on agreements that allow the transfer of funds for employment placement and skills training actions. The unemployment insurance and wage supplement programmes are implemented directly by the Federal Government.

Executing agencies are required to implement the actions planned and approved by CODEFAT within the framework of the budgets set for the action plan. At the end of each year, agencies must make a financial and physical report on implementation of the planned actions, application of the approved budget, and achievement of the original goals.

Coordination of the public policies action plan is a responsibility of the Federal Government (see Figure 3 below), through the Ministry of Labour and Employment and CODEFAT, while implementation of actions is the exclusive responsibility of state governments, large municipalities and social institutions. Thus, the executing agencies are not autonomous with regard to the use of FAT funds either in terms of actions or volume.

Based on the financial reports submitted by state governments, large municipalities and social institutions, federal government departments audit the utilization of the allocated funds. Additionally, CODEFAT engages, without a predetermined time limit, an independent institution to evaluate the results obtained.

As discussed in the conclusion to this study, the employment policies targeting the job skills training and employment placement are insufficiently integrated with each other or the unemployment insurance programme. Moreover, the management of the FAT by the Federal Government through the Ministry of Labour and Employment jointly with CODEFAT is not accompanied by independent and systematic evaluation studies of the quality of the programmes and actions, or their impact on the labour market, whether in terms of reducing unemployment or quality of the workforce.

The low level of interaction of employment policy modalities and the absence of an independent system of quality control and evaluation of the results of these programmes and actions and their impact on the labour market constitute the greatest challenge facing the Federal Government, the Ministry of Labour and Employment and CODEFAT.

# 6 The restructuring of employment policies and the 2005 public employment system

The picture of the Brazilian experience drawn above shows that the country possesses a rather complex and broad institutional framework of employment policy modalities, supported by a stable funding source and tripartite management with joint representation. Thus, the present institutional status of employment policies in Brazil meets International Labour Organization guidelines .

From the point of view of the development of social and labour protection policies, the institutional status of employment policies is supported by the major social partners. It has never been a controversial issue for Brazilian society. Indeed, quite to the contrary, in the last ten years, the country has experienced an increase in regulatory action by the State with regard to employment contracts and labour relations, with a strong decent work agenda. The support of society to employment policies and to increased regulatory action has been favoured by a track record of economic growth, followed by an increase in the generation of formal employment. This process has been characterized by a rise in workers' income, which has strengthened economic growth even further.

The main weakness of employment policies, acknowledged by both the Government and the social partners, with regard to the management of the Workers' Support Fund, is the result of the fragmentation and lack of coordination of the modalities that make up the programmes and actions concerned. More objectively, one of the problems is the lack of coordination among the different modalities for their implementation: unemployment insurance, employment placement and job skills training. This situation has been reinforced throughout the history of the consolidation of policies and their institutional regulation under the provisions of the 1988 Federal Constitution.

With the aim of promoting greater coordination between unemployment insurance, employment placement and job skills training, the Federal Government, jointly with state governments and the social partners, embarked on discussions in 2005 on transforming the existing institutional state of employment policies into an integrated system. The aim was to build a system that integrated the three basic modalities of employment policies, allowing unified access to all programmes, irrespective of the modality initially contacted by the worker.

The proposed objective can best be understood by summarizing an argument widely used by the Federal Government in 2005 as the rationale for the reorganization of employment policies. The Government argued that, to access the three basic modalities of employment policies, a worker was obliged to apply to each separately, as there was no common access point. That explained why the majority of workers benefiting from unemployment insurance were not enrolled in the employment placement or in vocational training programmes, even if they were in need of such support The Federal Government argued that employment policies were not harmonized, thus they did not contribute to a worker's insertion or re-insertion in the labour market and, at the same time, jeopardized the efficient use of employment policy funds.

Based on this diagnosis, a proposal by the Federal Government, represented by the Ministry of Labour and Employment, to establish tripartite social dialogue to overcome the fragmented management of employment policies received the approval of the Workers' Support Fund Council (CODEFAT). It would allow the construction of a public employment system capable of coordinating the actions to implement the various policies and promote a more rational integration of authorities and agencies with regard to the management of programmes and actions. The initiative basically proposed the establishment of a one-stop shop for workers to access the different employment services.

During 2005, the Ministry of Labour and Employment held five regional congresses and one national congress, gathering the representatives of federal, state and municipal governments, companies and workers.

During the regional congresses[8], the structure of regional labour markets and the employment policies in place were assessed,. The main difficulties faced in the management of these policies at state and municipal level were also analysed. At the end of each regional congress, an evaluation report and proposals for the establishment of a public employment system were drafted.

The national congress was held in December 2005. Representatives from all regions and all social partners participated. The results and contributions made by the regional congresses were discussed and a social agreement was reached on a proposed structure for the Public Employment, Labour and Income System (SPETR), later approved by the Workers' Support Fund Council (CODEFAT).

The main characteristics of the new order of public employment policies can be summarized as follows:

i. integration of unemployment insurance, employment placement and vocational training into a single public employment, labour and income system;
ii. universal access for everyone;
iii. employment placement and job skills training to be carried out in coordination with the unemployment insurance programme;
iv. establishment of a one-stop shop for public employment services;
v. employment placement and job skills training to be based on a unified state-level action plan, established jointly by state and municipal government and social partners; each state would have only one action plan.
vi. coordination between social and development policies, especially those aimed at raising education levels and overcoming poverty;
vii. coordinated actions with the Ministry of Education with regard to general and vocational education;
viii. funding of employment placement and job skills training programmes by means of exclusive agreements with each state of the federation, encompassing actions carried out by both state and municipal governments, as well as employers' and workers' organizations;
ix. institutional arrangements adapted to the local and regional conditions and specificities;
x. development of an information system aimed at creating a unified register of workers receiving unemployment insurance and/or in need of employment placement or job skills training, with the aim of providing direct access to all employment services;
xi. setting up an integrated multi-platform service, job centre, call centre, internet or mail, for workers in need of unemployment insurance, employment placement and job skills training.

The proposed framework for the public employment system is shown in Figure 3 below. It consists of two main pillars: ongoing programmes and special programmes. With regard to ongoing programmes, it proposed to integrate the different actions based on the state action plan, which would be submitted by the state departments of labour (SEET) and

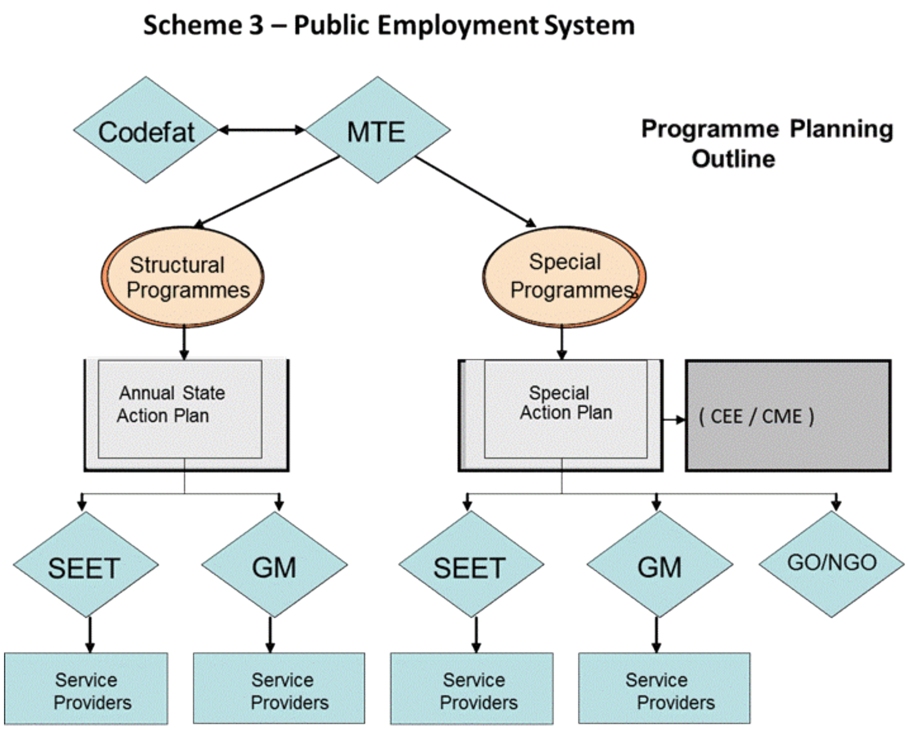
[8] Brazil is organized into five regions: North, Northeast, Southeast, South and Middle-West.

labour departments of large municipalities. A similar structure would be provided for special actions, but the social partners would have a greater role in defining priorities for these.

The approval of the public labour, employment and income system by CODEFAT led to the drafting of a new bill in 2006, aimed at establishing a new legal order. That same year, the first initiatives allowed by the existing legal framework in place were implemented. In 2007, the implementation of the exclusive agreement for carrying out public employment policy actions in the states commenced.

Due to changes in the management of the Ministry of Labour and Employment, the implementation of the public labour, employment and income system was not consolidated and remains pending.

Figure 4 The public employment system




The failure to implement the public labour, employment and income system ultimately reinforced the fragmented dynamics of Brazil's employment policy, and its lack of leadership vis-à-vis the national labour market. One of the consequences of this has been the lack of a policy to overcome the relationship between the growth in the number of unemployment insurance beneficiaries, and the significant increase in formal employment that delivered by the economic recovery.

In general terms, economic recovery is usually expected to translate into a reduction in unemployment insurance claims, but this has not been true for the Brazilian labour market. This can be explained, at least partially, by the failure of public policies to reducing turnover or promote employment placement and job skills training for the unemployed.

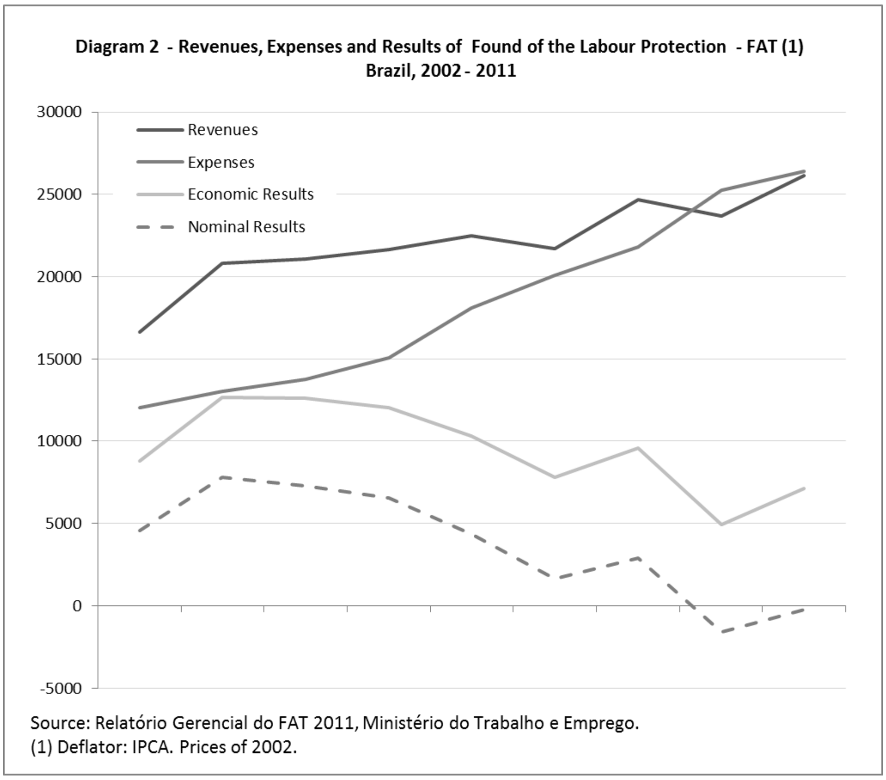
Furthermore, the failure to implement the public labour, employment and income system has hampered the development of job skills training capable of shaping raising the bar for skills profiles in the national labour market, which, in association with economic growth, could become an important tool for enhancing productive performance and increasing productivity.

# 7 Current management structure and funding conditions for employment policies and the public employment system

Brazil possesses a significant set of public policies, built on constitutional provisions. But these policies are marked by a fragmented dynamic that does not allow for the coordination and integration of actions and programmes. This, in turn, leads to issues with regard to the quality and efficiency of employment placement and job skills training and the funds available for these activities.

The Workers' Support Fund primarily funds employment policies, but is also partially responsible for the funding of industrial and infrastructure policy. FAT funds are generated by contributions paid by companies to the Social Integration Programme – PIS/PASEP, normally equivalent to 0.65% of the company's total revenues. These funds are used to pay unemployment insurance and the wage supplement. Net revenues are partially transferred to the BNDES for the capitalization of the fund. The Bank uses these resources to finance industrial and infrastructure investment.

Figure 5 Revenues, Expenditures and Results of the Workers' Support Fund (FAT) (see also Table 5 above)




Source: General Report of the FAT, 2011, Ministry of Labour and Employment

In 2011, the payment of unemployment insurance benefit and the wage supplement accounted for 65% and 28% respectively of the revenues provided by PIS/PASEP contributions (see Table 5 above). If total FAT revenues are considered, unemployment insurance consumed 48% and the wage supplement 21%. Programme expenditures reached 93% of revenues, based on the first criterion, and 69% according to the second. The persistent difference between the funds received from PIS/PASEP and total revenues is closely linked to the public debt interest rate, which remunerates the FAT's surplus funds. Until 2011, high interest rates contributed to strengthening the Fund's total revenues, a picture that changed in 2012, when interest rates set by the Central Bank were reduced.

As mentioned above, the high level of commitment of the Fund vis-à-vis unemployment insurance benefit and wage supplement obligations represents a serious budgetary constraint for the FAT and employment policies, although that situation used to be minimized by the Federal Government's high interest rate policy. That changed in 2012. Thus, despite a significant increase in total revenues throughout the last decade, total FAT obligations have remained at a level close to that of total revenue, since 2009, generating a nominal result equal to zero or even a deficit.

These financial results certainly represent a challenge for the medium and long-term viability of the FAT and the employment policies funded by it. This is especially the case given that current restrictions affecting the Fund are set against a background of economic growth which has strengthened PIS/PASEP contributions. This problem needs extremely careful analysis in order to devise a solution capable of preserving the Fund's solvency in the long term.

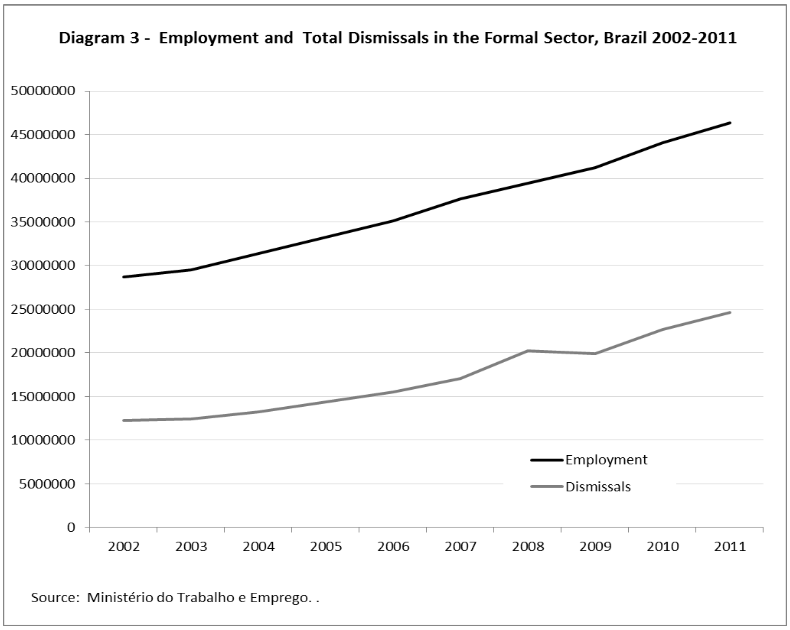
The experience of developed nations shows that, in general terms, their governments have tried to balance the funding of unemployment insurance by implementing measures that reduce rights of access to labour protection. That approach had somewhat unconvincing outcomes, as it did not address the employment issues affecting those economies. Even after the reform of their unemployment insurance systems, they continued to see a deterioration of their funds.

The recent progressive worsening of the FAT's financial situation has been found to be not the consequence of increased unemployment. On the contrary, it happened in a context of economic growth, with strong employment generation, a process that allowed a significant increase in rates of formal wage employment, from around 50% to 66% in the last decade. The growing demand for resources for the unemployment insurance programme took place in parallel with a drop in unemployment rates, thus signalling that the FAT's financial situation must be the result of some problem related to the overall functioning of the Brazilian labour market.

The answer to this question is linked to the historically high workforce turnover rates in the Brazilian labour market, which tend to rise during periods of economic growth. The turnover problem is closely linked to a common practice among companies and workers, dismissal without just cause, a process that allows for immediate access by the unemployed formal worker to several social protection and unemployment benefits.

Figure 6 below shows the evolution of employment and the total number of dismissals for the period 2002-2011. A concurrent evolution in both aggregates can be observed. That is, improved labour market conditions are followed by a significant rise in breaches of contract, which explains the systematic upward trend in unemployment insurance expenditure and the growing budgetary constraints faced by the FAT.

Figure 6 Employment and total dismissals in the formal sector, Brazil, 2002-2011




Even though turnover rates vary among economic sectors, high levels can be observed across all industries. As shown in Table 12, even in a sector with more favourable indicators, such as public administration, one out of every six jobs terminated with a breach of employment contract during the year. In civil construction, dismissals exceeded recruitment levels in 2011.

Table 12 Total employment at 31 December and total dismissals in the year, Brazil, 2011

| | Employment at 31 December (A) | Dismissals (B) | (B)/(A) % |
|---|---|---|---|
| Agriculture, forestry and fishing | 1,522,633 | 1,395,929 | 91.7 |
| Mining and quarrying | 231,289 | 68,900 | 29.8 |
| Manufacturing | 7,726,509 | 4,014,619 | 52.0 |
| Electricity, gas, steam and air conditioning supply | 126,527 | 19,046 | 15.1 |
| Water supply; sewerage, waste management and treatment | 318,741 | 114,828 | 36.0 |
| Construction | 2,909,131 | 3,174,892 | 109.1 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 8,756,328 | 5,538,524 | 63.3 |
| Transportation and storage | 2,261,428 | 1,127,743 | 49.9 |
| Accommodation and catering services | 1,643,228 | 1,235,253 | 75.2 |
| Information and communications | 811,059 | 396,254 | 48.9 |
| Financial and insurance activities | 840,242 | 239,117 | 28.5 |
| Real Estate | 114,424 | 62,572 | 54.7 |
| Professional, scientific and technical activities | 1,008,176 | 569,626 | 56.5 |
| Administrative and support services | 4,029,823 | 3,554,024 | 88.2 |
| Public administration and defence; compulsory social security | 9,152,902 | 1,462,205 | 16.0 |
| Education | 1,644,599 | 505,819 | 30.8 |
| Healthcare and social services | 1,774,241 | 564,660 | 31.8 |
| Arts, entertainment and recreation | 212,742 | 103,177 | 48.5 |
| Other services | 1,210,196 | 506,924 | 41.9 |
| Domestic servants | 11,392 | 4,770 | 41.9 |
| Activities of extraterritorial organizations and agencies | 4,921 | 1,512 | 30.7 |
| Total | 46,310,631 | 24,660,494 | 53.3 |

Source: Ministry of Labour and Employment

High turnover, as a structural characteristic of the formal labour market, has consequences that reach beyond the budgetary pressure repeatedly experienced by the with regard to unemployment insurance expenditure. By accepting such a high volume of breaches of contract every year, the labour market ends up by endorsing an employment dynamic that acts as a disincentive to job skills training, as high turnover rates lead to short periods of employment, discourages companies and workers alike from acquiring new or enhanced skills.

By maintaining a high level of expenditure on unemployment insurance benefits, this high turnover reduces the availability of FAT funding for employment placement and job skills training programmes, and also jeopardizes the quality of those programmes.

Thus, despite the fact that Brazil has employment policies in place that can draw on a stable and significant funding source, these same policies face financial constraints caused by the dynamics of the labour market itself.

# 8 Employment policies and the national labour market

According to the 2000 and 2010 demographic censuses, Brazil's economically active population grew from 76 million to 92 million people during that period. As to the pace of growth, the total population expanded 1.2% per year, the working-age population by 2.0% per year and the economically active population (EAP) by 1.9% per year. During this decade, the working population grew by 2.8% per year, whereas unemployment fell by 4.9% per year.

An overall evaluation of these indicators shows quite positive results when compared to those observed in the two previous decades, when the increase in formal employment was lower than that of the EAP, a movement that had twofold consequences: an increase in unemployment and corrosion of the formal segment of the labour market.

Another aspect that distinguishes the behaviour of the Brazilian labour market of the last decade from the two preceding decades relates to the capacity of economic growth to disseminate its benefits to the different regions of the country. The North and Northeast, the country's least developed regions, have witnessed growth in their working population that was greater than or similar to the one observed in the Southeast, the country's most developed region.

Some important features of the evolution of the employed population need to be highlighted, as they are relevant to employment policy.

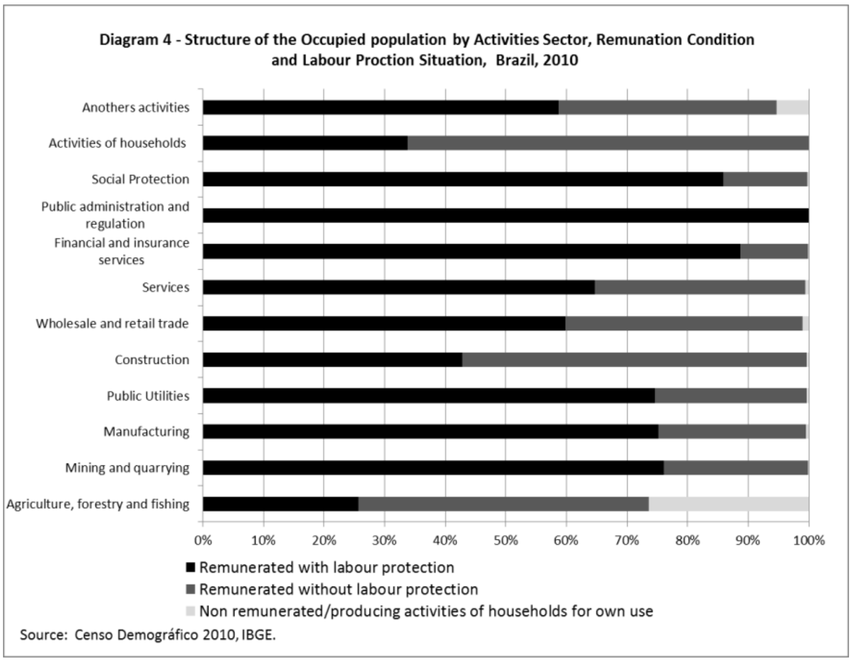
A considerable segment of Brazil's working population is still employed in non-remunerated work. In 2010, this contingent represented 3.5 million people, equivalent to 4.7% of the total working population. Even though it is less significant within the overall occupational structure, with a reduction in absolute numbers, non-remunerated work represents one of the main problems faced by employment policy, particularly because it is associated with small businesses and is concentrated in agricultural labour. Furthermore, it is found in high concentrations in Brazil's least developed region, the Northeast.

An analysis of remunerated occupations, which are the object of the social protection and employment system, shows that, in 2010, one out of two working persons were not covered by the system. In the North and Northeast, about 60% of all working people were not covered by the current social and labour protection system.

When focusing on the working population by activity sectors, an even more disparate situation emerges with regard to occupations that enjoy social and labour protection. Whereas the public and finance sectors have high coverage rates, the coverage rate for agriculture, civil construction and domestic employment is less than 50 per cent. These results indicate that the efficacy of employment policies tends to differ in terms of the share of formal employment, which depends on the industry.

Therefore, considering the characteristics of employment policies established under the 1988 Federal Constitution and under the lead of the Workers' Support Fund, it is clear that they are still closely linked with the formal segment of the labour market. This particular characteristic of employment policies prevents them from reaching the overall labour market. That limits their ability to provide for the harmonized and universal functioning of unemployment insurance, employment placement and job skills training.

Figure 7 Structure of the employed population by sector of activity, remuneration and labour protection status, Brazil, 2010




The institutional characteristics of national employment policies prevent them from properly addressing the informal labour market. At the same time, this segment, given the widely unfavourable working conditions, skill levels and the lack of job security, call for a more active role and broader coverage.

This role could be played by the employment placement and job skills training components of the policy, rather than unemployment insurance system, which focuses mostly on the formal segment, apart from artisanal fishing.

Furthermore, as indicated, above, the recurrent high turnover rate in the Brazilian labour market means that a major part of available resources are earmarked for the unemployment insurance function. This imposes strong budgetary constraints on employment placement and job skills training activities, functions that could have a greater effect on the informal sector.

# 9 The 2008 international crisis and employment policy

The strong negative impact of the 2008 economic crisis on economic activity and on employment in developed nations once again drew public attention to the need to develop active employment policies, capable of minimizing the rise in unemployment and contributing to the process of reorganizing the productive base, so as to recover both economic activity and levels of employment.

Even though employment issues have had a strong impact on several developing nations since the 1980s, employment policies did not make it to the top of the agendas of international institutions, except the International Labour Organization. In general, the guidelines of international institutions for developing countries were geared towards labour reforms aimed at creating greater flexibility in employment contracts and labour relations. Since 2009, the agendas and final documents of all general conferences of international institutions have incorporated employment as a central issue. That is why these institutions have worked towards a common agenda to consolidate measures to stimulate production and employment. At national level, comparable policies have returned to the political agenda.

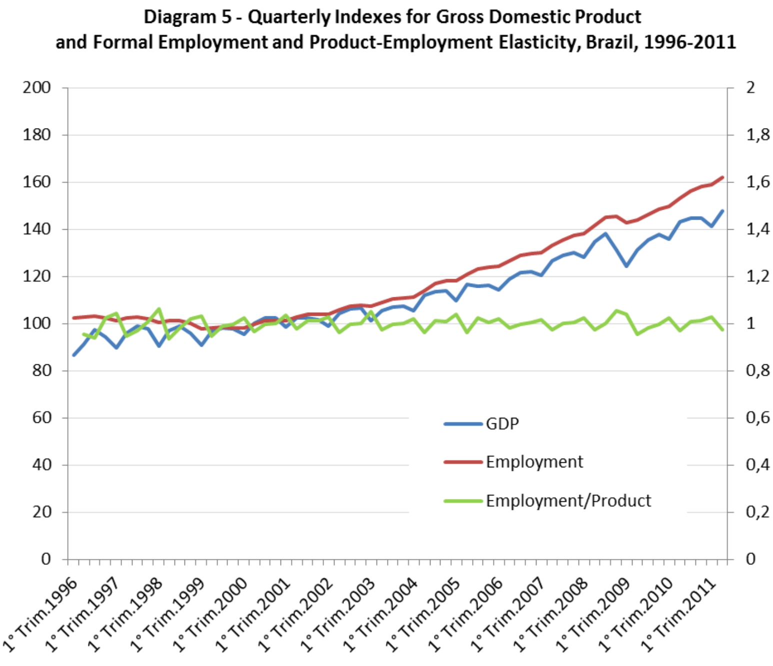
As mentioned above, in the last two decades Brazil has consolidated a framework of employment policies that has been supported by a stable funding source and structured into programmes and actions that should be coordinated with other infrastructure and social policies. Established in the late 1980s, this framework was created rather late, when the country already faced economic crisis, following a long period of growth and of significant development of its industrial base.

Table 13 Basic information on Brazilian economic dynamics

| | |
|---|---|
| 1994 | Economic stabilization anchored in dollar exchange rates and controlled public accounts. |
| 1994-1997 | Growth based on income increases provided by the entry of external capital. |
| 1998-2003 | Economic instability with foreign debt crisis. |
| 2004-2005 | Economic recovery stimulated by exports by the reactivation of domestic production with generation of formal employment, fostered by the increase in the minimum wage. |
| 2006-2008 | Strengthening of national production for the domestic market, through the expansion of consumer credit and investment. Activation of sectoral and infrastructure policies to foster investments in the domestic productive base, and an income policy based on the minimum wage and expansion of cash transfers. |
| 2009- | Growth through an income support policy, with credit expansion. Expansion based on consumption without investment recovery. Productive base shows an outsourcing trend, with low productivity dynamics. |

Policy development took place in the 1990s, in an adverse economic environment. Lack of GDP growth and stagnant employment rates led to a disruption of formal employment (see Table 13 and Figure 4 above). In the face of growing unemployment and a steep increase in informal labour, unemployment insurance, employment placement and jobs skills training policies were activated, but were insufficient to address the mounting problems. Unemployment insurance, as a worker's right, consumed a major share of the FAT budget, a condition that has persisted ever since. With limited funds, the FAT tried to expand the employment placement service and implement the first job skills training programme.

Figure 8 Quarterly indexes for Gross Domestic Product and formal employment and GDP-employment elasticity, Brazil, 1996-2011



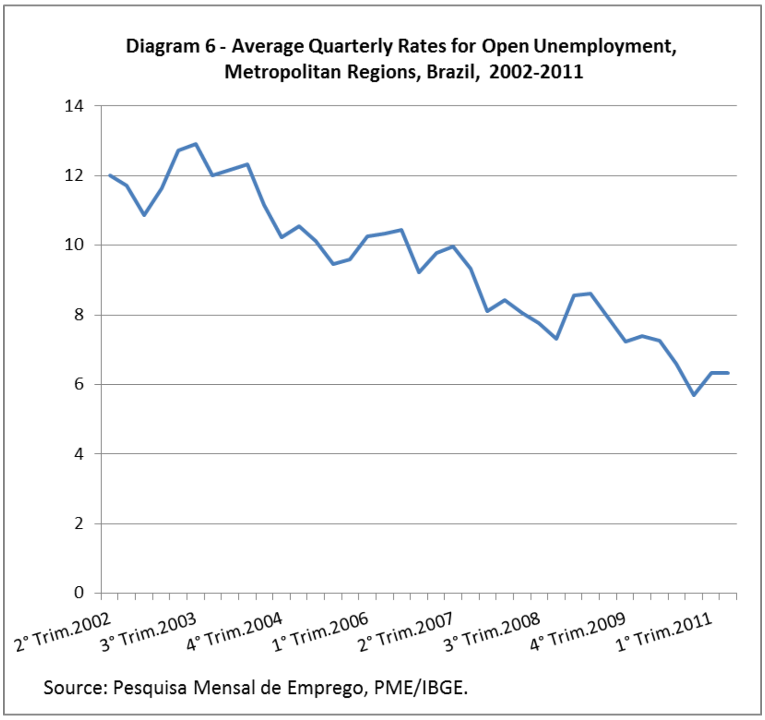

Source: Banco Central do Brasil. Compilation by the author.
Baseline: Year 2000 average = 100.

The difficulties faced by employment placement and vocational training policies were huge: an unfavourable labour market environment and limited funds to address structural problems associated with the low skills of the existing workforce. This picture grew even worse with the onset of the economic crisis. These difficulties persisted until 2003, when an open unemployment rate close to 13% was recorded in metropolitan labour markets.

The difficulties continued to be felt between 2004 and 2008, even though the country returned to growth, with employment generation and a growing formalization of employment contracts. There also was a recovery in wages, especially among lower income levels.

As shown in Figure 8, Brazil's GDP resumed its upward trend, followed by a similar trend in formal employment. In 2010, the level of formal employment was 60 per cent higher than ten years earlier. During the first decade of the 21st century, the level of formal employment rose at a faster pace than GDP, demonstrating a high elasticity in the growth of economic activity with regard to the generation of new jobs. This growth pattern had an immediate impact on unemployment, which, from 2003 onwards, recorded a consistent downward trend. At the end of the decade, unemployment rates for metropolitan labour markets had been halved, compared to the beginning of the period (Figure 9).

Figure 9 Average quarterly rates for open unemployment, metropolitan regions, Brazil, 2002-2011




Contrary to the pessimistic prognoses common in the late 1990s, recent Brazilian experience has shown that reactivating employment generation and strengthening labour market formalization can go hand in hand with a growing economy.

The improvement in working conditions since 2004, was the result of the activation of the productive base, fostered by growing exports revenues thanks to rising international commodity prices, as well as income-promoting measures such as the minimum wage and cash transfer schemes. The conjunction of labour market dynamics and income policy, the latter enhanced by increased credit availability, raised the income of many households, especially those in the lower income distribution ranges (see Table 14).

In face of the rapid deterioration of the global economy in 2008, the Brazilian Government provided an equally fast response, adopting a strategy of activating income and credit policies with the aim of maintaining domestic demand. Exports fell slightly, it is true, but the entry of foreign capital and international reserves remained at reasonable levels, in addition to reduced levels of foreign debt. Hence, the strategy of sustaining internal income yielded extremely fast and positive results. Despite the global crisis, the fall in GDP in Brazil was limited to two quarters and formal employment levels declined in only four months.

Brazil navigated the worst period of the international crisis without a reversal in its employment and income indicators, a situation hitherto unprecedented in the country's history. In the post-2008 period, both labour market and household income indicators saw positive trends. Furthermore, the limited impact of the crisis on exports and the continuous growth, even in the face of an adverse external environment, all mean that the upward trend in tax collection by all levels of government has been unaffected. That has allowed government to maintain its social and public investment policies, without additional stress on employment policies.

Table 14    Main employment performance indicators, Brazil

| | 2001 | 2003 | 2005 | 2007 | 2009 |
|---|---|---|---|---|---|
| | | | Actual average yield | | |
| 1st decile | 26 | 26 | 33 | 41 | 41 |
| 2nd decile | 160 | 157 | 186 | 211 | 230 |
| 3rd decile | 290 | 265 | 300 | 398 | 392 |
| 4th decile | 341 | 330 | 361 | 443 | 467 |
| 5th decile | 434 | 409 | 453 | 523 | 553 |
| 6th decile | 550 | 511 | 566 | 641 | 681 |
| 7th decile | 703 | 647 | 697 | 778 | 824 |
| 8th decile | 942 | 857 | 892 | 995 | 1065 |
| 9th decile | 1462 | 1316 | 1388 | 1522 | 1642 |
| 10th decile | 4258 | 3873 | 4152 | 4245 | 4563 |
| Average | 916 | 842 | 880 | 971 | 1016 |
| | | | Relative indicators | | |
| 10/2 | 26.7 | 24.7 | 22.4 | 20.2 | 19.8 |
| 5/total | 2.1 | 2.1 | 1.9 | 1.9 | 0.56 |
| | | | Concentration indexes | | |
| Gini | 0.56 | 0.55 | 0.54 | 0.53 | 0.52 |
| T de Theil | 0.65 | 0.62 | 0.62 | 0.59 | 0.56 |
| | | | Average income in minimum wages | | |
| 1st decile | 0.08 | 0.06 | 0.09 | 0.10 | 0.09 |
| 2nd decile | 0.52 | 0.49 | 0.52 | 0.50 | 0.49 |
| 3rd decile | 0.95 | 0.83 | 0.83 | 0.95 | 0.84 |
| 4th decile | 1.12 | 1.03 | 1.00 | 1.05 | 1.00 |
| 5th decile | 1.43 | 1.28 | 1.26 | 1.24 | 1.19 |
| 6th decile | 1.81 | 1.59 | 1.57 | 1.52 | 1.47 |
| 7th decile | 2.31 | 2.02 | 1.94 | 1.85 | 1.77 |
| 8th decile | 3.09 | 2.67 | 2.48 | 2.36 | 2.29 |
| 9th decile | 4,80 | 4.10 | 3.86 | 3.61 | 3.53 |
| 10th decile | 13.98 | 12.08 | 11.55 | 10.08 | 9.81 |
| Average | 3.01 | 2.62 | 2.45 | 2.31 | 2.18 |

Source: National Household Sample Survey, PNAD/IBGE.

The main instruments used by the Brazilian Government to address the crisis and its likely negative impacts on employment were income policy, increased credit availability and the maintenance of public investment levels. This strategy has ensured sustained internal demand which, in the face of a limited reduction in exports, has maintained GDP and employment growth levels since mid-2009. Between 2008 and 2011, average household income rose by 9%, the minimum wage by 13%, formal employment by 12% and GDP by 13%, in accumulated and real values.

The favourable evolution of GDP, income and employment indicators has meant that the demands on existing employment policies did not change. There has been no additional pressure on the Federal Government to expand or modify employment programmes and actions as the result of the international crisis. Quite to the contrary, the Government's response to the crisis did not make use of employment policies, other than to maintain the minimum wage, which played a decisive role in sustaining current household income levels. This strategy had been adopted since 2003.

That year, the election of a Labour Party President moved the Government's agenda away from topics such as the reform of employment contracts and labour relations as a tool for addressing unemployment.

For the last three years, the Government has been concerned to revive the job skills training policy, with the aim of improving worker profiles in an environment with a lower unemployment rate. This concern has led to the expansion of the National Programme for Access to Technical Education and Employment (PRONATEC), headed by the Ministry of

Education. Instead of expanding investment in job skills training under the responsibility of the Ministry of Labour, the Federal Government decided to expand the vocational education programme, by incorporating skills measures targeted at the productive inclusion of the workforce. The Programme's objectives are to:

- expand, interiorize and democratize the supply of technical vocational training courses (secondary education) and initial and ongoing training or job skills courses, including distance learning;
- build, reform and expand schools offering vocational and technological training courses through the state education network;
- increase educational opportunities for workers by means of initial and ongoing capacity building or job skills courses;
- increase the supply of teaching resources in order to support the supply of professional and technological education;
- improve the quality of secondary education.

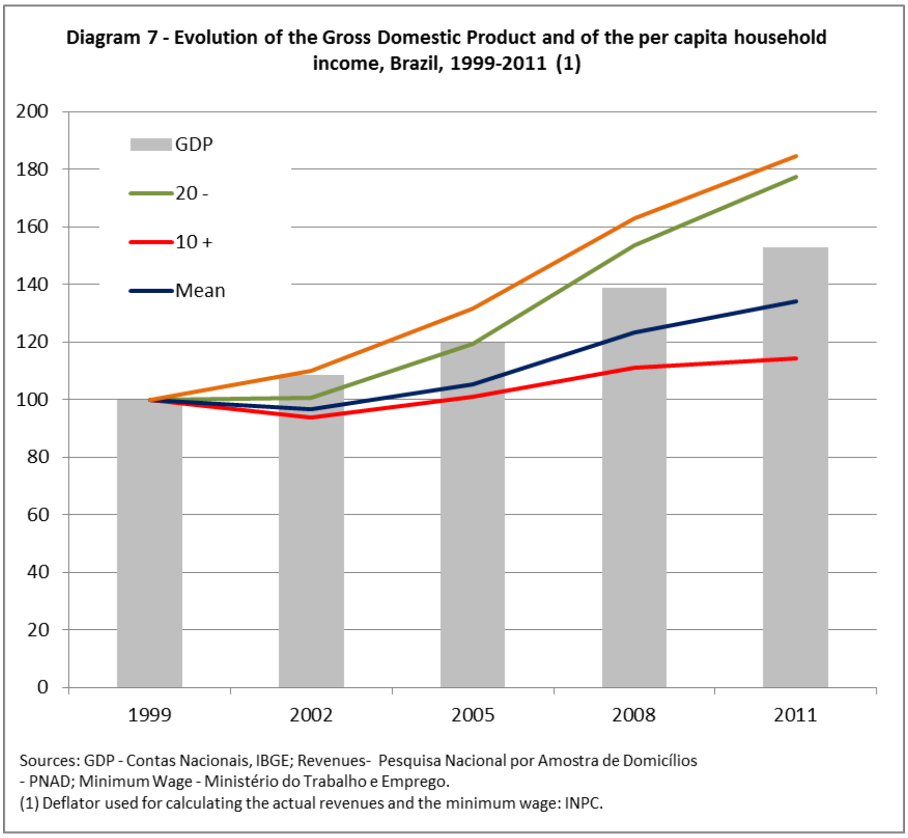
The PRONATEC's goal is to clear existing bottlenecks in the provision of jobs skills training that have been identified in some productive sectors and specific occupational segments. However, the initiative does not represent an instrument of employment policy, but of education policy, targeting the skills needs of the country's productive sectors.

In short, the results of income maintenance initiatives as privileged tools for addressing the impacts of the international crisis on the Brazilian economy did not, in the end, cause any concern to the Federal Government with regard to employment policies. The dominant government concept is that employment issues must be addressed by the macroeconomic income and investment policy. Only one employment policy tool should be used: the minimum wage.

Figure 10 provides a summary of the Federal Government's strategy. First, it shows that average household income has followed the evolution of GDP, and the labour market acts as the main source of income. When analysing the evolution of income of the 20% lowest income households, it can be seen that it has evolved in parallel with the minimum wage, a trend that has been maintained during the years that followed the 2008 economic crisis.

Understanding that public and private investment have the capacity to activate the economy and that this process has the potential to raise formal income generation, of the several employment policies in place, the Federal Government ultimately only implemented the minimum wage setting policy.

Figure 10 Evolution of Gross Domestic Product and per capita household income, Brazil, 1999-2011




Source: GDP – national accounts, IBGE; incomes – National Household Sample Survey, PNAD; minimum wage, Ministry of Labour and Employment

# 10 Progress and challenges for the public employment system

- The analysis of the employment public policies in Brazil is not complete without considering two issues: firstly, the existing constitutional provisions on employment and social policies. The current Federal Constitution defines the obligation of the State regarding employment policies, and establishes a public fund for their development. Employment policies are, therefore, institutionally enshrined in the organization of the State, and are do not result from the action of governments or from demands created by the social and economic situation.

- Secondly, the spot effect of the international crisis on the Brazilian growth, restricted to the first half of 2009, did not create demand for the Federal Government to adopt specific measures targeting employment and income creation. The Brazilian labour market only saw four months of retraction of employment levels in 2008-2009, a situation that did not compromise the product and employment growth trajectory established since the year 2000. Thus, the Federal Government left the economic, social and labour policy objectives defined in the first half of the decade untouched.

In short, the Brazilian experience of confronting the crisis was not accompanied by any innovation in employment policies., The continuity of the existing institutional programmes and actions, part of the employment protection defined in the 1988 Constitution, was maintained.

Since 1988, Brazil has enjoyed an important institutional framework for national employment policies. The Federal Constitution determined that the State was responsible for protecting against unemployment and introduced responsibility for employment placement and job skills training. It also ensured a stable funding base, with social control, by establishing a tripartite entity, the Workers' Support Fund Council (CODEFAT). From 1995 onwards, the country also consolidated a permanent minimum wage setting strategy, which was ultimately converted into a state policy in 2011.

Additionally, the regulations of the Workers' Support Fund (FAT) provide that 60% of revenues must be transferred to the National Bank for Economic and Social Development (BNDES) to capitalize the accumulated assets. This gave the State the possibility of incorporating employment generation objectives into its financing agreements, in accordance with its sectoral and infrastructure policy strategies.

In general terms, the **institutional framework of employment policies follows international guidelines**, both with regard to their labour market roles, as well as to the funding and social control of its management. Furthermore, it is enshrined in the Federal Constitution and governed by supplementary laws, which prevent it from being dependent on the whims or political will of successive governments. In short, employment policies in Brazil are State policies.

It is also worth pointing out that **national employment policies are part of a set of policies that organize social and labour protection in the country**, the result of the democratic consolidation process experienced by Brazil over the last 30 years. The democratic progress has systematically called for effective employment policies, as well as the establishment of stronger links between these and other social policies. Thus, the analysis of employment policies is not limited to their field of action alone.

This faces the institutional framework of national employment policies with two types of challenge: one geared towards its own dynamics and the other derived from the development of more functional relationships with other social, sectoral and infrastructure policies.

With regard to the challenges specific to employment policies, the two key issues stand out when aiming for improved effectiveness in the use of financial and institutional resources in the Brazilian labour market.

The first, referred to above, is the fact that a **major share of FAT funds are used for unemployment insurance expenditures**, even in an environment with a high level of formal employment and a declining unemployment rate. The main reason for this perverse situation is the high and recurring turnover rate, even in an environment of economic growth, with improved labour market conditions. The high turnover is the result of a widespread practice among companies, dismissal without just cause, which results in lack of commitment to the job, both by the company itself and by workers. The resistance often demonstrated by companies towards the country's adhesion to ILO Convention No. 158 is a reflection of the turnover issue and the fact that it is a common practice among companies. It would be pointless to introduce restrictions on workers' access to unemployment insurance if no restrictions on unjustified dismissal are formally adopted in the country.

An important political dispute is currently taking place in Brazil with regard to the ratification of ILO Convention No. 158. Its ratification, which is being submitted to the National Congress, has not met support from the majority of parliamentarians, despite the pressure exerted by trade unions and the discreet support of the Federal Government. The companies' resistance to ratification prevents the modification of one of the most negative aspects of the national labour market, namely unjustified dismissal, which perpetuates a process of continued high turnover. As a consequence, this consumes a predominant share of public funds destined for employment policies, even when economic growth provides for a high job generation capacity, as was the case between 2004 and 2011.

If the turnover problem is not addressed by the formal labour market, the FAT will continue to destine a major share of its funds for the unemployment insurance function, even under favourable labour market conditions. This subjects the Fund to recurrent constraints with regard to investment in employment placement and job skills training.

A second issue that is relevant for the development of employment policies concerns the **design of a labour force qualification strategy backed by the investment pattern planned for the country**. The recent period of economic growth has clearly demonstrated that an increase in economic activity, especially in the transformation industry and in civil construction, will quickly face a shortage of workers with the minimum skills required. The Brazilian labour market is characterized by a high concentration of unskilled workers, a condition that was aggravated by a long period during the 1980s and 1990s without sustained economic growth. This eroded part of the human capital available for these two productive sectors, and also led to a lack of coordinated action by vocational training institutions.

Throughout the 1990's, vocational training policy was mostly guided by actions to minimize the widespread unemployment current at the time, and an attempt to facilitate the insertion of workers in micro businesses. The return of growth and employment generation brought a new perspective to vocational training, providing workers with the skills they needed for formal employment in medium-sized and large companies. The difficulties faced by vocational training policy in addressing this need is evident, both because of the weaknesses of the institutions tasked with organizing it, and the resource constraints experienced by the Workers' Support Fund (FAT) for this particular role. The Federal Government needs to make a special effort needs to promote a much broader coordination between the federal institutions in diverse areas by increasing the availability of financial resources to overcome the pattern of low skills that still prevails in the national labour market.

Another aspect of the difficulties with regard to the dynamics of national employment policies is the lack of coordination, a challenge that the Federal Government began to address in 2004. This approach was interrupted in 2007. **It is essential for employment policies to be transformed into a harmonious system for the protection and development of labour and employment, with internal coordination between programmes and actions**. What is needed is a one-stop shop approach for the several modalities of employment policies, which should not depend on whether the executing agency is a federal, state or municipal government entity.

**The qualification process for unemployment insurance recipients must put workers in contact with employment placement and/or job skills training.** Workers requesting the latter type of support should be assessed as to their entitlement to unemployment insurance benefit.

Taking into account the education problems faced by a significant proportion of the national workforce, **employment service centres should also verify whether a worker should be referred to adult education programmes.**

Clearly, **structuring employment policies into a coherent public employment system** is essential to improve the service to workers overcome the current functional fragmentation n, and avoid duplication. There must be a move towards rationalizing the functioning of policies in order to improve the guidance and support for the programmes and actions conducted by the Workers' Support Fund.

It is also **essential to establish a practice of permanent external evaluations** of the processes and results of the actions implemented. Outcomes must be matched to the demands of a strategic agenda for employment generation and job skills, in accordance with the social and economic requirements for sustained growth.

Greater coordination **between employment policies and other infrastructure, sectoral and social policies** is clearly needed.

The National Bank for Economic and Social Development (BNDES) plays a key role in the funding of productive and infrastructure investment. Thus it has the possibility of promoting both employment generation and job skills training in the projects financed by it. Even though the BNDES has already adopted this practice, it has done so in a formal, rather than strategic manner. To strengthen employment generation or job skills, and thus the productive process and improve productivity, **it is essential for the BNDES to clearly address employment policy issues in its financing strategy**. This perspective should have been incorporated in the financing of both, productive and infrastructure investments. With regard to the latter, the adoption of such a perspective could, in the medium or long term, provide for a better skilled occupational structure in the civil construction industry.

**Coordination between sectoral, infrastructure and employment policies is also important for addressing activities and occupational issues in the informal sector.** A majority of workers working in this sector are subject to work relationships and productive arrangements that are insufficiently structured in financial and administrative terms, with limited knowledge and without any social protection. These workers are employed in both urban and agricultural activities, some 10 million people in the latter. Informal activities are marked by a high level of heterogeneity and productive weakness. Even though growth has led to an increase in the formal wage work sector, the informal sector will continue to represent a sizable part of the overall labour market. Addressing the labour and productive issues involved requires labour policies to be coordinated with other sectoral and infrastructure policies. Policy coordination is also necessary because the financial, administrative and technological resources required by small and micro-enterprises are allocated to sectoral and infrastructure policy rather than employment policy institutions. Therefore, the frailty of the informal sector cannot be addressed by employment policy alone: it requires the coordinated commitment of all other policies.

Also with regard to policy coordination, there is a **need to develop genuine coordination of employment and social policies**. The country currently has at least five major access points to these policies: labour, health, education, social security and social assistance/poverty. This means that a Brazilian citizen must request services under each policy separately,. This gives rise to two problem areas: firstly, from the public's point of view, the existence of several different access points to public services tends to reduce their effectiveness; secondly, it indicates an irrational use of the scarce public funds available due to the duplication of institutions with complementary roles.

Bearing in mind that all the policies mentioned are to the subject of constitutional provisions, the result is that **limited coordination between them tends to jeopardize the quality of their programmes and actions in the long run**.

Undoubtedly, the Federal Government's strategy for solving employment generation through a growth-promoting macroeconomic policy, i.e. stimulation of production and consumption based on an income and investment policy, was effective. Nevertheless, this strategy could be strengthened by greater investment in employment policies focusing on job skills training and employment placement, as well as on the development and strengthening of small and micro-businesses, in order to accelerate the contraction of the informal sector of economic activity and the informal labour market. The Federal Government`s decision to give these employment policies a secondary position on its agenda, a position that became evident in its response to the 2008 crisis, tends to generate constraints on economic growth and employment generation, since it fails to raise the predominant skills profile of the national labour market.

Thus, there is a contradiction between growth-promoting policies and employment policies, in spite of the existence of specific funds to support the latter and constitutional provisions that to guarantee them. Currently employment policies have been reduced to a secondary role, predominantly involving actions and programmes of a passive nature. This dominant characteristic of employment policies needs to be changed, making them more active in order to improve the movement of workers between jobs and to raise their skills profiles, to enhance the productive performance of the skills they possess or to enhance the productivity of both medium-sized and large companies, and also small and micro-enterprises, especially those engaged in the informal sector of the economy.

Even though the strategy of responding to the risk of a deteriorating labour market by introducing the income policy was correct at the peak of the crisis, as it allowed to provide timely support to economic activity, it has proved itself to be insufficient at this point in time, when the continuity of growth requires the expansion of productivity, of technological incorporation and of job skills training. These challenges require a more active employment policy, capable of consolidating better structured and functioning national labour market.

The Federal Government has the necessary public policy instruments in place and institutions to further develop its employment policies. The question to be addressed is to put these policies at the centre of the Federal Government's overall strategy for growth,. It simply needs to give them greater priority within its growth strategy.

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