

Protecting people through the “Employment Mission” in Colombia

- José David Palencia Osorio¹

EXECUTIVE SUMMARY

The creation of the *Misión de Empleo* (Employment Mission) in June 2020 by the Colombian Government is intended to provide options to build back better in the midst of the current economic and social crisis. The essentials in terms of social protection identified by “Employment Mission” regarding the labour reform options in the context of the current economic crisis should mainly include:

- 1) Protection through a human-centred formalization of the economy, while providing on schemes that go beyond traditional proposals, including political and technical solutions to benefit all the people,
- 2) A flexible approach for adaptation to market and protection of workers, including the regulation of work at home and guaranteeing social security for people who are working through digital platforms,
- 3) Broaden the social protection system, ensure financial sustainability and increase accountability.

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KEYWORDS

Employment mission, social protection, formalization, Colombia

Introduction

The objective of this brief is to raise awareness among the policy makers and experts on what needs to be included in the revised Employment Mission in Colombia, in order to better protect workers and their families during times of crisis such as COVID-19.

In the past, there have already been other missions carried out in Colombia to analyse the behaviour of the labor market and make proposals: the Mission of the International Labor Organization (ILO) in 1970, the Chenery Mission in 1986 and the Mission to reduce poverty in 2004 (Vélez 2020). They were all useful, but some structural problems persisted up until today. The main reasons for having a new Employment Mission are: 1) Recent deterioration in the main labor indicators that will be accentuated by the COVID-19 shock, 2) Changes in the structure of employment and the emergence of new forms of hiring and 3) Lack of a general balance of public interventions in labor issues and of the new institutions (Misión de Empleo, 2020).

The challenges are especially significant in the area of social protection. For this reason, this policy brief proposes options for the Mission to take into account, that are potentially conducive to an improved social protection system in the country. One should bear in mind that coverage and quality of the system are core to the discussion, especially in connection with the labour market and reforms to overcome the current economic crisis.

The Mission would also benefit from assessing the conditions that are essential for a successful implementation of the recommendations, including economic and political realities, specifically related to fiscal constraints.

Limitations of the Social Protection System in Colombia

- The main constraint, both politically and financially, is to provide more funds to the protection system as it requires

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taxes and other government measures to make it a reality². An important constraint faced by decision makers is that National Government Spending is highly fixed due to Constitutional, legal and structural conditions. The Economic Commission for Latin America and the Caribbean shows that only 20% of the Colombian National Government Spending is flexible (Melo and Ramos, 2017).

- The traditional limitations to social protection expansion in Colombia relate to limited coverage, high administrative costs, reduced intra-government coordination, insufficient resources, lack of efficiency on targeting and procyclical budgeting, limited evaluation and monitoring and follow-up with beneficiaries.
- As Melo and Ramos (2017) show, social spending in Colombia grew from 5,7% of GDP in 1990 to 10,2% in 2000 and reached 13,4% of GDP in 2016. Nevertheless, 88% of resources are allocated to health and pensions. Only 12% is allocated to labour protection and assistance.
- This demonstrates that on the fiscal dimension, there are still decisions to be made, socially and politically, regarding how much fiscal support can be given to spur a strong social protection system, especially in the context of an economic crisis.

Background

In June 2020, the Colombian Government launched this Mission (supported by the ILO among other International Organizations) tasked with providing options to build back better in the midst of the current economic crisis. It consists of a group of experts that will provide guidelines on how to reduce the high rates of unemployment and informality, among other factors that have hit the labor market before, during and surely after the pandemic. The initiative seeks to carry out an analysis of the Colombian labor system and make recommendations for public policy and instruments to be implemented in the short, medium and long term (Cifuentes 2020).

The specific objectives of the Mission revolve around preparing a diagnosis and analysis of the regulations and programs that have affected the labor system in the country since the 1990s, as well as proposing strategies and instruments that can be implemented in public policy.

The mission is constructed around four thematic working areas, with their respective panel of experts: 1) Social protection for workers, 2) Labour regulation, 3) Training for work and 4) Table of relevant actors (Misión de Empleo, 2020).

Policy process

i. State of the art on formal jobs

Poverty in Colombia decreased by more than a half in just a decade and middle class increasing two-fold, but population living in vulnerability increased to over one third.³ During the pre-pandemic social context, Colombia experienced a decrease in poverty. However, with 5.3 million jobs being lost due to the COVID pandemic, the progress on hardly gained advancements has been reversed.

² In the context of Covid-19 Pandemic, there are substantial fiscal tensions that will complex further the social and political agreements in the face of growing fiscal deficit. The Medium-term Fiscal Framework, that is tool to measure the trajectory of fiscal deficit, shows that it will reach 8,2% of GDP in 2020 and 5,1% of GDP in 2021. https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-135563%2F%2FidcPrimaryFile&revision=latestreleased

³ Poverty decreased from 44,3% in 2008 to 19,5% in 2017 and an increase in middle class (21,2% in 2008 to 40,1%) and vulnerable population grew from 32,7% to 36,2%, as referenced by Puche and Villa (2018).

This crisis is made even worse by the fact that the challenges in creating formal jobs are massive. Five in every 10 workers in Colombia are in the informal activity⁴. The labor market structure in Colombia is divided among wage-earning workers and independent workers. Over a third of informal jobs are in the formal sector and 9 out of 10 independent workers are considered as informal workers⁵.

ii. *The goals of Social Protection Systems*

The Social Protection System in Colombia includes the Comprehensive Social Security System (health, pensions, occupational hazards and unemployment protection, funded with workers and employers’ contributions and government subsidies), the Social Promotion System (including the network to overcome extreme poverty, and Family Welfare National System) and the National Training System.

Besides this threefold system, contributed coverage remains a challenge as nearly half of the population depends on government subsidies. For example, in 2020, on health coverage, 46% of the population belongs to the contribution scheme, 47% to the subsidised scheme and 4% to the exceptional scheme, covering 97% of the population in total⁶.

A comprehensive Social Protection System should consist in different financing schemes ensuring its financial sustainability, progressive subsidies and minimizing market distortions, especially on the labor market⁷. In addition, productivity should be increased, the labour market should be progressively formalized and working population should contribute to pensions.

For the case of Colombia, Acosta et al. (2015, p. 16) identify that transition to a comprehensive system from one that includes a portion of formal workers to one that includes a large part of the population formalized, is one of the biggest challenges especially with regards to heterogeneity of the country and the differences between urban and rural areas, to which the system must be responsive.

iii. *The need to expedite and decisive action to counter negative effects through human-centred formalization and universalisation*

The progressive human-centred formalization of the labor market constitutes an important pillar in improving the social protection system through budget balance and further assuring universal social protection for all.

As explained by OECD (2020), labour market connections, once lost, take time to repair. Labour market matching is costly and slow, so that the decline of unemployment can be expected to be slower than its increase.

Within this context and during this crisis, the Employment Mission needs to be well focused on the areas that will make labour reform effective and provide protection to a larger number of people whilst fostering the formalization of the market. The conditions must also address the need to focus on those that are excluded from basic services, through progressive universalisation of social protection, on the other hand.

In this regard, focusing on vulnerable population is key to provide what Martínez and Sánchez Ancochea (2013) called “*double incorporation*” consisting in providing ways out of poverty and vulnerability not only through government assistance, but access to jobs that will bring long term

⁴ Fernandez (2020).

⁵ Fernandez (2020).

⁶ Colombian Ministry of Health. *Dinámica de Aseguramiento en Salud del SGSSS*. 2020.

⁷ Robalino et al. (2012).

income sustainability, facilitating transitioning out⁸. A significant part of this “*double incorporation*” response is to address the hindrance of informality of vulnerable households.

iv. *The Institutional Reform*

Among the measures to make labour reform effective and provide protection to a large number of people, the failures of the labour market are important to consider. The wealth creation apparatus cannot resolve the pending issue of social policy by itself. It is important that measures help alleviate the burden on human-centred formalization and lower barriers to formalize economic activity.

Recommendations proposed

Based on the above discussion and challenges arising from the COVID-19 crisis, this policy brief proposes four policy recommendations to be taken into consideration by the Employment Mission:

a. Protection through human-centred formalization

- The Final Report of the Employment Mission should provide schemes that go beyond traditional proposals, including political and technical solutions to benefit informal workers and help them transition to formality.
- It involves structural measures to be implemented in order to increase the sustainability of labour force through formalization, for which public support is key both to a broader coverage and for financial sustainability, as greater contributions from fiscal policy require social and political consensus.
- A particularly important dimension of this new consensus is to avoid human capital losses, for which decisive action must be proposed by the Employment Mission to minimize effects and avoid intergenerational impacts⁹.

b. Protection through facilitation to formalize

- As nearly half of the population belongs to the subsidised system, measures must address issues of cost that could be managed, or government compensated. In order to progressively achieve the universal social protection idea, the rights-based approach should be developed with respect to human-centred formalization.
- The Employment Mission must address the failures of the labour market, especially in terms of human-centred formalization. Measures must be taken to alleviate the burden on this step-by-step process and lower barriers to formalize economic activity.
- A “*double incorporation*” approach is also proposed to the Employment Mission in order to help vulnerable households in informality transitioning out with government support and sustainable income through formal employment.

⁸ Referenced by Puche and Villa (2018).

⁹ The Employment Mission needs to assure that social protection is oriented to keep from risk, such as losing job or expensive illness treatment.

c. Protection through flexibilization

- The Employment Mission must consider a flexible approach for adaptation to market and protection of workers, including the regulation of work at home and guaranteeing social security for people who are working through digital platforms.
- Other important area is job portability, or workers adaptability to changing working dynamics and industrial changes and facilitate employability.
- Institutional reform must consider that protection does not only come from Government, but that community can and should play a role, as it could be done via cooperatives in observance of the ILO Recommendation 193.

d. Protection through accountability

- It is necessary that follow-up and accountability mechanisms for operators of the system, public or private, to be put in place, as they must guarantee the quality of the service. Accountability must be reinforced to keep the system working with quality standards.
- This is especially relevant as greater fiscal effort needs to be effective and efficient, creating positive externalities for the overall economy.

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