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EMPLOYMENT POLICIES IN BRAZIL: HISTORY, SCOPE AND LIMITATIONS

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This paper is one of a series of papers that was presented at the session on *Social Development Strategies for Inclusive Growth* at the *India-Brazil-South Africa (IBSA) Academic Forum: A Policy Dialogue* which was held on 12-13 April 2010 in Brasilia. The forum was hosted by the International Policy Centre for Inclusive Growth (IPC-IG) in collaboration with the Strategic Affairs Secretariat of the Office of the President and the Ministry of External Relations, Government of Brazil. The objective of the session was to facilitate an exchange between researchers and policy makers in the three countries on their social development strategies.

The Institute for Applied Economic Research (IPEA) is a key partner in this regard. This paper which has been produced by IPEA is brought out jointly with the IPC-IG as part of an ongoing collaboration with a view to stimulating discussion on Brazil's experience and innovation in the area of social development strategies. The IBSA countries have not only demonstrated the potential for adopting and implementing large social assistance programmes effectively but they are also able to point to significant positive impacts of such policies on inequality and poverty as well as contributions to macroeconomic resilience—all of which may also be of interest to other developing countries.

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EMPLOYMENT POLICIES IN BRAZIL: HISTORY, SCOPE AND LIMITATIONS

Roberto Henrique Gonzalez *

The objective of this paper is to present the main characteristics of the public employment system in Brazil, focusing on its history, scope and current coverage. It seeks to contribute to the debate on social and employment policies, especially as regards creating job opportunities that help people escape from poverty.

A conceptual caveat: throughout the paper, the expression “employment policies” is used in a *narrow* sense to encompass policies “whose specific objectives promote direct and explicit actions within the labour market” (Barbosa and Moretto, 1998: 20). The paper therefore omits other policies that act on macroeconomic factors, labour relations, access to social security and healthcare. While these greatly influence the level and quality of employment in the economy, their actions are beyond the scope of the paper. On the other hand, regulation of certain aspects of working conditions and wages has been regarded as falling within the scope of “employment policy” whenever the goal of such regulation was to affect labour market outcomes directly. This includes setting a minimum wage, for example, but it excludes workplace health and safety standards. The term “public employment system” is reserved for the set of employment policies that are seen as acting together to ensure individuals’ entry or reintegration into the labour market.

The paper is divided into three parts. The first outlines the history of employment-related government policies, from the compensation scheme for newly terminated employees and supplemental pay to the design of what is known as the *employment system*. The second section maps out the scope of existing employment policies and points to the limitations of the public employment system as currently understood by the Brazilian government; it also presents selected indicators concerning the public system’s coverage relative to the Brazilian labour market. The final section highlights a number of issues faced by the public employment system today as regards its ability to reintegrate workers into the labour market.

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1 PUBLIC EMPLOYMENT POLICIES IN BRAZIL: FROM UNEMPLOYMENT COMPENSATION TO THE CONCEPTION OF A PUBLIC EMPLOYMENT SYSTEM

Strictly speaking, the initial institutional apparatus for regulating labour relations and conditions in Brazil was put in place during the First Republic of 1889–1930 and was consolidated during the *Estado Novo* (New State) period of 1937–1945 through the promulgation of the Consolidated Labour Laws in 1943. Public policies specifically geared to the labour market, however, only began to be established in the 1960s, when population growth, rural-urban migration and the growth of large urban centres led to a significant expansion of the manpower available in the cities. The high economic growth rates of that period allowed significant portions of the population to be included in the labour market through “formal” jobs, especially in the industrial sector and the government. This was a time when the world economy was experiencing unprecedented economic growth, and when it was believed in Brazil that an improvement in the population’s living conditions would be a direct consequence of that economic growth. The unemployment levels of the time were thought to be an imperfection arising from the country’s low level of economic development.

Programmes that focused on compensation for dismissed workers or on financial-asset development (*Fundo de Garantia por Tempo de Serviço*, FGTS; *Programa de Integração Social*, PIS; *Programa de Formação do Patrimônio do Servidor Público*, PASEP) in this period cannot be seen as a part of a public employment system, because they were not geared to reinstating workers into the labour market. It was only when the *Sistema Nacional de Emprego* (SINE) was created in the mid 1970s that a set of employment policies—including job placement services and unemployment protection—began to take shape. We will see, however, that this approach only become truly effective when a financing scheme for these policies was established. Hence we believe that it was only in the 1990s that an effective public employment, labour and income system took shape in the country, though several of its component policies were already in place.

In parallel, since the 1940s Brazil has been instituting vocational training services, managed by employer-related entities and funded by payroll contributions. The first such service was the National Industrial Vocational Training Service (*Serviço Nacional de Aprendizagem Industrial*, SENAI) in 1942. This was followed by the National Commercial Vocational Training Service (*Serviço Nacional de Aprendizagem Comercial*, SENAC) in 1946, the National Rural Vocational Training Service (*Serviço Nacional de Aprendizagem Rural*, SENAR) in 1976, the National Transportation Vocational Training Service (*Serviço Nacional de Aprendizagem do Transporte*, SENAT) in 1993, and the National Cooperative Vocational Training Service in 1999.

Despite their names, these institutions are not devoted solely to training apprentices. They also offer a wide range of educational and professional training and certification courses, including introductory training and continuous learning, high school-level technical professional education, and technological higher education (including postgraduate) courses. Until recently, however, the provision of this education and training had evolved without any institutional link to the employment policies established by the federal government, or any affiliation with publically funded and administered vocational public schools.¹

1.1 THE BEGINNING: UNEMPLOYMENT COMPENSATION POLICIES AND SALARY SUPPLEMENTATION (1965–1975)

Although the 1946 constitution states that unemployment assistance is a right of workers, the first attempt to create an insurance plan for unemployed workers was made only in 1965 with the enactment of Law 4.923/65. This created a Permanent Registry of Employee Admissions and Layoffs, and instituted an assistance plan for the unemployed (unemployment benefits). The benefit was to be funded by the Unemployed Assistance Fund (*Fundo de Assistência ao Desempregado*, FAD), whose proceeds came from the collection of 1 per cent of firms' payrolls and a portion of union dues. To receive the benefit, a worker had to have been fired without just cause or because the company was shutting down completely or partially.

1.1.1 The Advent of FGTS

The above-mentioned benefit scheme did not last long. In the following year, 1966, Law 5.107/66 created the Severance Pay Indemnity Fund (*Fundo de Garantia por Tempo de Serviço*, FGTS) and FAD resources were redirected to this new fund. Fewer financial resources forced the government to restrict unemployment benefits, which at the time covered only those workers dismissed in collective layoffs—that is, workers dismissed in firms that had fired at least 50 employees over a period of 60 days.

FGTS sought to make the process of dismissing workers more flexible, because the prevailing legislation required heavy compensation payments for dismissals without just cause (Ferrante, 1978). The longer the employee's length of service, the greater the compensation that employers had to pay. Workers who had more than 10 years of service with the same firm secured tenured status.

With the advent of FGTS, employers had to make monthly deposits corresponding to 8 per cent of a worker's salary into an account linked to the employment contract, and workers were expected to have access to these funds upon their dismissal. The restrictions imposed by the rules on granting unemployment benefits turned FGTS into virtually the only source of effective financial protection for unemployed workers.

FGTS created a huge incentive for labour turnover, since employers were no longer obliged to pay heavy compensation on the dismissal of a worker. Hence financial protection for unemployed workers declined. This is because the FGTS criteria were conceived to ensure employees' compensation amounting to about "one salary" for each year worked in the event of dismissal. Given the instability of the Brazilian labour market, however, most workers stayed in the same job for less than a year, a circumstance that forced them constantly to withdraw resources from the fund. As a result, financial protection at the time of unemployment, which was offered as a substitute for stability, ceased to exist.

1.1.2 The Advent of PIS/PASEP

In 1970 the government created the Social Integration Programme (*Programa de Integração Social*, PIS) and the Public Servant Fund (*Programa de Formação do Patrimônio do Servidor Público*, PASEP). They aimed to build up assets for workers and encourage domestic savings. PIS was geared to private-sector employees and PASEP to civil servants at all three levels of government. Resources from these funds were to be invested in development projects by

the National Bank for Economic Development (*Banco Nacional de Desenvolvimento Econômico*, BNDE), while the *Caixa Econômica Federal* (CEF) and the *Banco do Brasil* (BB) were to manage individual PIS and PASEP accounts, respectively.

The resources in these funds were to be made available when an account-holder married or retired, or in the event of permanent disability or death. Together with the creation of these funds, an additional payment of one minimum wage per year for registered workers was instituted for workers earning up to five times the minimum wage, in what became known as the Salary Bonus (*Abonos Salarial*). In 1975, the PIS and PASEP funds were merged. For workers, however, the merger brought few benefits. Their financial resources did not lead to the accumulation of significant financial assets. In fact, the only important benefit they received was the Salary Bonus, which remained completely isolated from any other programme or public service.

The 1988 constitution changed the Salary Bonus, doing away with deposits in individual accounts. Instead, the PIS/PASEP contribution went directly to finance the payment of Unemployment Insurance and Salary Bonuses. The benefit received amounted to an annual instalment of one minimum wage for workers whose average monthly income had been up to “two minimum wages”, who had engaged in formal employment for at least 30 days in the previous year, and who had been registered with PIS/PASEP for at least five years. In practice, the Salary Bonus became a supplemental income for employees engaged in low-paying registered (formal) employment.

1.2 THE FIRST ELEMENTS OF A PUBLIC EMPLOYMENT SYSTEM (1975–1988)

Following the creation of the National Employment System (*Sistema Nacional de Emprego*, SINE) and the subsequent creation of Unemployment Insurance, employment policies began to include a focus on the insertion (or reinsertion) of job-seekers into the labour market, leaving behind the purely compensation-related matters. Through SINE, measures were put in place to incorporate (albeit slowly) the self-employed into employment policies. At that time, however, the coverage of employment policies was limited by funding problems and by a lack of inter-policy coordination.

This situation persisted as long as high rates of economic growth made the expansion of the formal sector possible and kept the unemployment rate low. With the crisis of the early 1980s, however, conditions in the labour market changed completely. Unemployment rose, formal employment levels stagnated and informal employment expanded. The debt crisis and the collapse of public finances undermined the state’s investment capabilities and thus its ability to promote growth. These transformations took place at a time when the country still lacked consolidated instruments to protect the unemployed.

1.2.1 The Advent of SINE

In 1975, Decree 76.403/75 created SINE, in line with the principles of Convention 88 of the International Labour Organisation (ILO).² The system was meant to provide such services as job placement, vocational guidance, vocational training and a database of labour-market indicators. Its funding was to come from FAD and it was to be structured on the basis of service centres in a partnership between the Ministry of Labour and state governments.

Because of the fragility of SINE's funding sources and the decentralised nature of its implementation, the initial results were somewhat limited and they varied by state. Of the services provided, only job placement became consolidated. After an initial expansion period (1975–1982), the system underwent a phase of political uncertainty and discontinuities (1983–1993). This led to the derailment of SINE's activities, a sharp drop in the number of workers finding employment through SINE, the disintegration of SINE's technical teams, and the loss of much of the acquired knowledge and experience at both the federal and state levels (Borges, 2003).

1.2.2 The Advent of Unemployment Insurance

In 1986, after the worst of the crisis of the early 1980s had passed and in a context of favourable political momentum brought about by the country's redemocratisation, the federal government established Unemployment Insurance (Decree Law 2.284/86) as part of the Cruzado Plan (a macroeconomic stabilisation plan that temporarily froze wages and prices). The purpose was to provide temporary financial assistance to workers made unemployed by means of dismissal without just cause or because of a total or partial business shutdown. According to the Unemployment Insurance Law, SINE was entrusted with reinserting workers into the labour market and retraining unemployed individuals receiving benefits.

According to the Decree Law, FAD was to finance Unemployment Insurance; exceptionally, in the 1986 financial year, the scheme was to be funded with resources from the federal budget. The law also foresaw the creation of a tripartite commission (comprising representatives of the government, workers and entrepreneurs) to be managed by the Ministry of Labour and entrusted with devising a financing proposal for the insurance programme, drawing on contributions from the government, employers and employees, as in developed countries. The proposal was expected to take effect as early as 1987. This commission never met, however, and some of the costs were then covered by resources from the national treasury, in addition to revenue from union dues and the issuing of government bonds.

Perhaps because Unemployment Insurance lacked a specific funding source, the criteria for payment and access to this benefit remained quite restrictive: for example, workers had to prove they had been wage-earners in the formal market for the previous six months, and had to have contributed to social security for at least 36 months in the previous four years. The benefit could not be paid for more than four months, and an 18-month grace period would be required before a new insurance could be received. These rules translated into low coverage levels in the early years of programme implementation. This is because less skilled workers, generally those more likely to be dismissed in a labour market marked by high turnover, could not meet the requirements to obtain the benefit. Those who had small amounts to withdraw from FGTS and who had fewer options to support themselves during periods of unemployment were, in fact, the same workers who had the greatest difficulties in meeting the requirements to gain access to Unemployment Insurance. Moreover, the programme rules set down by the Ministry of Labour established that workers would have to be unemployed for at least 60 days to request the benefit. This stipulation, in addition to the long time it took to process the application and disburse the first payment, forced workers to go for a lengthy period without protection, a circumstance that ran directly counter to the goals of the programme.

1.3 CONSOLIDATION AND DEVELOPMENT OF THE PUBLIC EMPLOYMENT SYSTEM AS OF 1988

When the Constituent National Assembly was convoked in 1988, the public employment system had not yet been consolidated in Brazil. On the one hand there were benefits such as FGTS, which were based on a clear funding scheme but which were generally limited to compensation for dismissal or other events that resulted in the worker being unfit to work. On the other hand, a network of SINE centres, as well as Unemployment Insurance, were in place. In theory, both sought to support the reintegration of unemployed workers and are regarded as having been the first steps in building the Public System of Employment, Work and Income (known by the Portuguese abbreviation SPETR), though in practice they worked in parallel and were unconnected to each other.

Moreover, the lack of a stable source of financing for employment policies greatly limited their scope until the early 1990s. The definition of funding sources for Unemployment Insurance and other employment policies was only consolidated in the 1988 constitution: article 239 in the General Constitutional Provisions gave a more well-rounded format to existing initiatives, established PIS and PASEP as the basis for such policies, and created a foundation for organising SPETR as it exists today. According to article 239 of the federal constitution, PIS/PASEP revenues, rather than being saved and invested to contribute to workers' financial assets, would be used to finance the Unemployment Insurance programme and Salary Bonus—the latter being restricted to workers who had earned up to two minimum wages in the previous year. Additionally, at least 40 per cent of these contributions would be earmarked to finance economic development programmes through the Brazilian Development Bank (BNDES).

It was expected that companies with labour turnover rates higher than the average rates in their sector would make an additional contribution to Unemployment Insurance; this obligation, however, has never been regulated. The changes to PIS/PASEP were meant to ensure worker protection in the event of involuntary unemployment, but without creating a new tax for that purpose.

1.3.1 The Advent of FAT

Regulation of the new institutional structure for funding Unemployment Insurance occurred only in 1990, through Law 7.998/90, which created the Fund for Workers' Assistance (*Fundo de Amparo ao Trabalhador*, FAT) and its board (*Conselho Deliberativo do FAT*, CODEFAT). Within this new funding scheme, company revenues were the resource base for PIS/PASEP and therefore for the fund, as shown in detail in the annex to this paper. Law 7.998/90 also extended the scope of the Unemployment Insurance programme, whose purpose was to provide temporary financial assistance to the unemployed and help them find new employment, using vocational retraining if necessary. That is, the concept of Unemployment Insurance went beyond financial aid to include job placement and vocational training services, and the approach was modelled on systems adopted in developed countries.

In addition to creating a specific funding source, Law 7.998/90 also created a social participation mechanism through CODEFAT. The board issues normative resolutions on the use of all FAT resources: payment of benefits, provision of services and use of available funds in credit lines. There is a tripartite and egalitarian representation in this forum. It currently

has 18 members, of whom six are government representatives, six are workers' representatives (nominated by trade unions) and six are entrepreneurs (nominated by employers' confederations). In addition, between 1994 and 1995, CODEFAT resolutions created state and municipal employment committees to guide and monitor the implementation of employment policies at a subnational level—although, in practice, the role of the committees has been very limited.

It can thus be said that the 1988 constitution laid the groundwork for an effective support programme for unemployed workers. More than that, the resulting Unemployment Insurance programme and its funding scheme came to represent the underlying organising principle for a set of benefits and services in employment policies, paving the way for a public employment system.

This system, however, was still designed for employees in "typical" wage-earning formal jobs—that is, those who were formally registered and held open-ended employment. As shown below, FAT also enabled credit programmes to be created for microenterprises, small businesses and self-employed workers.

TABLE 1

FAT Primary Revenue and Expenses (1996–2007), in R\$ Million

	Primary revenue	Expenses (***)							Balance
	PIS/PASEP collections—FAT (*)	BNDES loan—40%	Unemployment insurance (benef.)	Salary bonus (benef.)	Vocational training	Job placement	PROGER operational support	Total expenses	
	A	B	C	E	G	H	I	K	L = A - K
1996	12,817.30	5,647.00	8,741.30	1,357.10	673.10	69.60	4.70	16,961.00	(4,143.70)
1997	12,921.20	5,241.80	8,464.30	1,253.40	856.20	81.90	4.10	16,458.90	(3,537.70)
1998	13,875.50	4,914.60	9,565.80	1,291.90	928.40	130.40	16.40	17,550.90	(3,675.40)
1999	12,981.10	5,161.80	8,426.60	1,216.70	748.30	108.50	18.90	16,342.40	(3,361.30)
2000	14,693.30	5,857.00	7,661.70	1,253.30	802.90	150.00	15.90	16,352.40	(1,659.10)
2001	15,100.30	5,996.40	8,517.10	1,500.20	835.70	178.60	24.80	17,718.10	(2,617.80)
2002	15,603.30	6,325.50	8,887.80	1,922.40	234.00	140.10	30.20	18,186.00	(2,582.60)
2003	15,792.10	6,632.30	8,050.20	2,182.50	54.20	113.30	-	17,406.00	(1,614.00)
2004	16,891.00	6,941.10	7,991.90	2,489.40	78.20	85.20	-	17,934.80	(1,043.80)
2005	17,713.60	7,112.20	8,950.70	2,859.70	87.90	87.60	-	19,485.50	(1,771.90)
2006	20,046.30	7,789.00	11,183.40	4,020.30	82.80	90.80	-	23,677.50	(3,631.20)
2007	19,348.60	7,647.60	12,733.70	5,096.30	61.40	90.10	-	26,115.50	(6,766.90)

Source: CGFAT/SPOA/SE/MTE.

* Revenue from the collection of PIS/PASEP contributions allocated to FAT. Does not include amounts deducted by reallocations.

** Amounts expressed in currency with purchasing power set at 31 Dec. 2006 levels (IGP-DI—General Price Index).

*** Data relative to expenses were obtained from Integrated System of Federal Government Financial Administration (SIAFI).

It is also worth mentioning, however, that since 1994 various deductions have been made from primary FAT revenues on account of a number of revenue reallocation mechanisms.³ Currently, these account for the retention of 20 per cent of PIS/PASEP gross revenues. Combined with the mandatory fund transfer to BNDES, this means that only 48 per cent of funds raised from this source are available for use in employment programmes. In parallel, increased spending from benefit payments (such payments are compulsory) results in a deficit that is covered by the dividends from financial investments. In 2007, this amount totalled R\$9 billion (US\$4.6 billion). But this revenue cannot be fully used for current expenditures because a portion must be set aside to meet minimum liquidity reserves required by FAT (see section 2.4). The remaining financial resources must be divided among different programmes, thus restricting the resources that can be used in employment services and employment and income-generation programmes.

Still, actual spending on typical SPETR programmes, such as unemployment insurance, salary bonus, vocational training (including youth training) and job placement amounted to about R\$21.2 billion (about US\$11.5 billion)⁴ in 2008. This represented 0.73 per cent of Brazil's GDP in that year and 5.61 per cent of all federal social spending.⁵ The maintenance of SPETR, therefore, has been increasingly dependent on external FAT resources raised from general taxation.

1.3.2 The Expansion of Unemployment Insurance Coverage

According to the criteria in Law 7.998/90, workers have to show proof of being engaged in registered (formal) employment for at least 15 months in the previous two years. The grace period was reduced from eighteen months to sixteen. The amount of the benefit was also increased, so as to more fully substitute the worker's previous income.

Later, Law 8.352/91 made the programme's eligibility criteria more flexible. It eliminated the need to show proof of registered employment for 15 months in the previous two years. To receive the benefit, one only needed to prove registered employment in the previous six months. Thus, a criterion was adopted that allowed for expansion of coverage, especially for workers subject to greater employment instability and with lower levels of protection against unemployment.

Law 8.900/94 made this eligibility criterion permanent; it also led to an increase in the number of insurance instalments for those workers with more years of employment. It can be said that, thereafter, the programme was extended almost to its "limit", allowing those who had been in registered employment for six months to gain access. The new law also opened up the possibility, at CODEFAT's discretion, of exceptionally extending the benefit to those who had worked for only two months, subject to the availability of funds from the FAT, the evolution of geographical and sectoral unemployment rates, and the average length of unemployment.

The coverage of unemployment insurance was also extended by including new target groups. In 1992, Unemployment Insurance for Artisanal Fishermen was instituted to help those who were prevented from working during the period when fishing is forbidden.⁶

In 2001, domestic workers gained the right to receive the benefit, as long as the employer also collects the FGTS. And in 2003, unemployment insurance for workers released from conditions analogous to slavery was created. In all these cases, it was agreed that the

goal of the programme was to provide temporary financial assistance to workers made unemployed as a result of dismissal without just cause, and to help workers find employment—in both cases by promoting integrated guidance, “re-insertion” and vocational training initiatives.

Thus, while the previous law restricted job placement and training services to applicants for unemployment insurance (that is, only formal workers), the new law opened up the possibility that workers in general could gain access to these initiatives, regardless of their status as parties insured by the programme.

1.3.3 Youth Employment and Vocational Training Programmes

FAT resources, therefore, could now be allocated to vocational training programmes geared to workers in general, not just to those requesting Unemployment Insurance. In this context, the National Vocational Training Plan (*Plano Nacional de Formação Profissional*, PLANFOR) was created in 1995. Devised by the Ministry of Labour through the Secretariat for Education and Professional Development, its goal was to increase the provision of vocational training in order to reach at least 20 per cent of the economically active population annually.

The target groups were to include, among others, the unemployed, formal and informal workers, small- and micro-scale rural and urban farmers, youths seeking employment, youths in risky social situations, female-headed households and the disabled. On the basis of investments in vocational training, employment policies began to cater to individuals who used to be marginalised and discriminated against in the labour market. This emphasis was not confined to including these vulnerable groups; tailored training methodologies were also developed.

PLANFOR was implemented in a decentralised manner through state training plans that were coordinated by state-level labour secretariats. PLANFOR established partnerships through agreements, technical cooperation, and letters of intent exchanged between the Ministry of Labour, state governments and the country’s vocational education network. The latter includes federal, state and municipal technical education systems, public and private universities, national vocational training systems, labour unions, business schools and foundations, and non-governmental organisations (NGOs).

Ideally, subnational governments, in accordance with the state and municipal employment commissions, were to set up state training plans (*Planos Estaduais de Qualificação*, PEQ). Based on local labour market trends, the plans would outline priority areas for investments in vocational training, which would then receive resources from the Ministry of Labour. This approach allowed for the rapid expansion of the programme, as can be seen in Table 2, although the total number of trainees has never exceeded 5 per cent of the economically active urban population.

Nonetheless, because of a lack of information about the labour market, lack of planning skills, and even political pressures, the PEQs often ended up dispersing funds for myriad short courses and/or courses unconnected to a broader and more holistic employment policy. Moreover, accountability mechanisms were quite poor and there were cases of embezzlement. Hence the programme began to lose political support, evident in the declining number of trainees in 2002 and in a reduction in workload, which fell to 62.4h in that same year.

With a change in command at the Ministry of Labour in 2003, PLANFOR was replaced by the National Training Plan (*Plano Nacional de Qualificação*, PNQ). It had better monitoring and accountability mechanisms, an established minimum workload, and educational content specific to the various training courses, but it also had substantially fewer resources. This eventually led to the abandonment of the notion of a massive training programme and to the adoption of a strategy focused more closely on specific segments of the population. This matter is discussed in Section 2.3.

TABLE 2

PLANFOR Trainees (1996–2002)

Year	Trainees
1996	1,467,100
1997	2,001,384
1998	2,321,334
1999	2,662,800
2000	3,049,967
2001	3,588,222
2002	1,162,166

Source: MTE/Training Management System.

Data for 1996–1999 were extracted on 31 Mar. 2002. Data for 2000–2002 were extracted in April 2006.

Another important change was the introduction of policies geared to young people, starting with the National First Job Programme for Youth (*Programa Nacional de Primeiro Emprego para Juventude*, PNPE) in 2003. The PNPE sought to integrate the various employment services (subsidies for hiring, training, credit intermediation and production-oriented credit) into an initiative specifically aimed at young people between the ages of 16 and 24. But the only component that really moved forward was training, which reached 136,000 young people in 2006; only 2,700 benefited from subsidised employment. In reality, this meant that a second qualification/training programme had to be created, targeting a specific segment—youth. This trend continued even after the programme was absorbed by the National Youth Inclusion Programme (*Programa Nacional de Inclusão de Jovens*, PROJOVEM) in 2008. The programme integrated the various federal youth programmes aimed at raising the level of schooling, and providing vocational training, community services and access to land. Its target group included young people aged 16 to 29 from households with a per capita income of up to half the minimum wage. In summary, it can be said that in recent years the federal funds invested in professional training have increasingly focused on preparing low-income youths for the labour market.

1.3.4 Employment, Labour and Income-Generation Programmes

The Employment and Income Generation Programme (*Programa de Geração de Emprego e Renda*, PROGER) operates by providing lines of credit with resources from the FAT. Such programmes are implemented by granting special credit lines to sectors with little or no access to the mainstream financial system, such as small businesses and microenterprises, cooperatives and associative forms of production, as well as production initiatives in the informal economy. The programmes began to be introduced in 1995 using federal banks as

funding agents.⁷ Programmes were created to finance projects for urban areas, in what became known as *PROGER Urbano*, as well as rural areas, through *PROGER Rural*.

The resources made available from the FAT to fund these credit lines were to be invested in special paid deposits in official federal financial institutions, once approved by CODEFAT, and were limited to an amount over and above the Minimum Liquidity Reserve (*Reserva Mínima de Liquidez*, RML). The RML is intended to secure, in a timely fashion, the resources needed to pay the costs of unemployment insurance and salary bonuses (Law No. 8.352/1991).⁸

Created by CODEFAT through Resolution 59/94, these special deposits gave rise to the federal government's PROGER, whose objective was to offer employment and income-generation alternatives, as well as insertion into the production process through incentives for the development of entrepreneurship skills and the pursuit of self-sustaining enterprise. Moreover, CODEFAT's authority was expanded; it was now responsible for managing new FAT applications and the choice of other financing agents capable of making the loans from the fund operational.

In the early years, the volume of credit operations was well below the expected level. It was thought that one of the main reasons for this was that financial institutions placed many obstacles in granting loans, which ultimately harmed small-scale borrowers—precisely those who should have been benefitting from the programme. In response, the Guaranteed Fund for Employment and Income Generation (*Fundo de Aval para a Geração de Emprego e Renda*, FUNPROGER) was created in 1999 to assume part of the risk related to loans granted by financial institutions in this context.

This had a positive impact, evidenced by the large expansion of credit operations between 1999 and 2005; but the programme still faces problems, as indicated by the fact that the business survival rate is not satisfactory. Small borrowers still face difficulties in securing credit, and enterprises still collapse prematurely, although there is evidence of improvement in the programme's overall performance.

Despite FUNPROGER, which in practice reduces the credit risk incurred by financial institutions managing the FAT's special paid deposits, the final decision on the allocation of loans is still exclusively in the hands of financial institutions. This amounts to a limitation on the more effective use of this source of funding as an actual income-generation and job-creation policy.

FAT resources were also allocated to the Programme to Strengthen Family Agriculture (*Programa de Fortalecimento da Agricultura Familiar*, PRONAF), run mainly by the Banco do Brasil and now also by the Banco do Nordeste (BNB) and BNDES. Its aim is to provide financial support to small-scale rural businesses and family farming. PRONAF has met the goal of democratising credit much more effectively than *PROGER Rural*, which has been offering a dwindling number of loans year after year (though it should be noted that credit from the former entails lower interest rates and is subsidised with taxpayer funds).

As regards microcredit, in 1996 FAT released resources to BNDES in the People's Productive Credit Programme (*Programa de Crédito Produtivo Popular*, PCPP), which sought to form a network of private institutions capable of financing small enterprises. This programme, however, had funded only 300,000 small businesses as of 2001. As a result, in 2002 a new microcredit programme (*FAT Empreendedor Popular*) was launched with funds from the FAT. This aimed to expand the financial capacities of small enterprises.

A new aspect of the programme is the financing of working capital operations, since a Ministry of Labour assessment indicated that financing only fixed capital investments excluded many first-time entrepreneurs from the beneficiary pool, and that these are entrepreneurs who need more of this type of financing to start with. It can be said, nonetheless, that the results of such microcredit programmes are still very modest as regards the creation of a microcredit network that can truly reach the poorest individuals.

The PCPP was terminated by BNDES and was replaced in 2004 by the National Programme for Oriented Productive Microcredit (*Programa Nacional de Microcrédito Produtivo Orientado*, PNMPO). This differed from previous schemes in allowing financial institutions to use part of the compulsory reserves deposited at the central bank, in addition to the FAT funds. Since no interest is due on these reserves, they are a much cheaper funding option than the FAT resources, allowing PNMPO to function separately from PROGER.

Besides these programmes, special FAT deposits were used to provide a wide variety of credit lines targeted at specific sectors, from infrastructure improvement to housing credit and tourism. While these lines account for a small proportion of loans, this practice eventually moved FAT resources away from their original purpose of generating employment and income.

1.3.5 Solidarity Economy Programme

The aim of this programme is to work with individuals who are outside a wage-employment relationship while essentially remaining unlinked to credit. It seeks to strengthen the Solidarity Economy, a sector composed of self-managed enterprises—that is, those administered by the workers themselves. Its activities include mapping existing businesses, establishing an incubator network, supporting the recovery of bankrupt companies by former employees, and backing solidarity economy network forums and trade fairs.

2 THE CURRENT SETTING OF POLICIES AND THE PUBLIC EMPLOYMENT SYSTEM

As of 1990, a system was designed linking assistance for the unemployed with labour-market reinsertion policies, and this approach was consolidated over the decade. At the same time, the various employment policies clearly remained non-integrated. In 2004, the Ministry of Labour presented a proposal on the institutional design of the public employment system. This is described below.

Assuming that the macroeconomic environment and economic development policies were conducive to job creation, it was believed that the role of the public employment system would be to *manage the employment level in the economy*. It was hoped that the coordination of different policies as system functions and services would provide the tools to do that.

It should be noted, however, that from the very beginning this approach excluded support to the solidarity economy, to the vocational training offered by the public vocational school network and by the vocational training system, and to youth employment programmes other than First Employment. The proposal was limited to programmes led by the Ministry of Labour.

To provide an overview of current employment policies in Brazil, this section focuses on the system's four main "functions" and its scope and coverage; the section also presents some performance indicators. As shown below, the protection of dismissed workers remained predominant in terms of resource-allocation and the number of workers covered, supported by supplemental income (the Salary Bonus).

The consequences were not just the difficulties involved in linking benefits and services, but also the programme's continuing design, which still catered to formally registered wage-earners much more than to employees in unstable employment and to self-employed persons. From its very inception, therefore, the public employment system faced two challenges: integration/coordination and coverage.

2.1 UNEMPLOYMENT INSURANCE

Unemployment insurance is currently the most developed function in the public employment system in terms of the number of workers covered and the volume of resources used. In 2009, nearly 7.4 million individuals were covered by the "formal modality"⁹ (workers who requested and gained the right to the benefit), and the cost of benefits totalled R\$18.9 billion (figures updated to February 2010). In the 2005–2009 period, the insured accounted for between 77 and 82 per cent of all workers fired without cause (involuntarily) during the year. According the latest available data,¹⁰ the benefit represented a compensation that amounted, on average, to 65 per cent of the insured person's last salary.

TABLE 3

Unemployment Insurance. Formal Modality

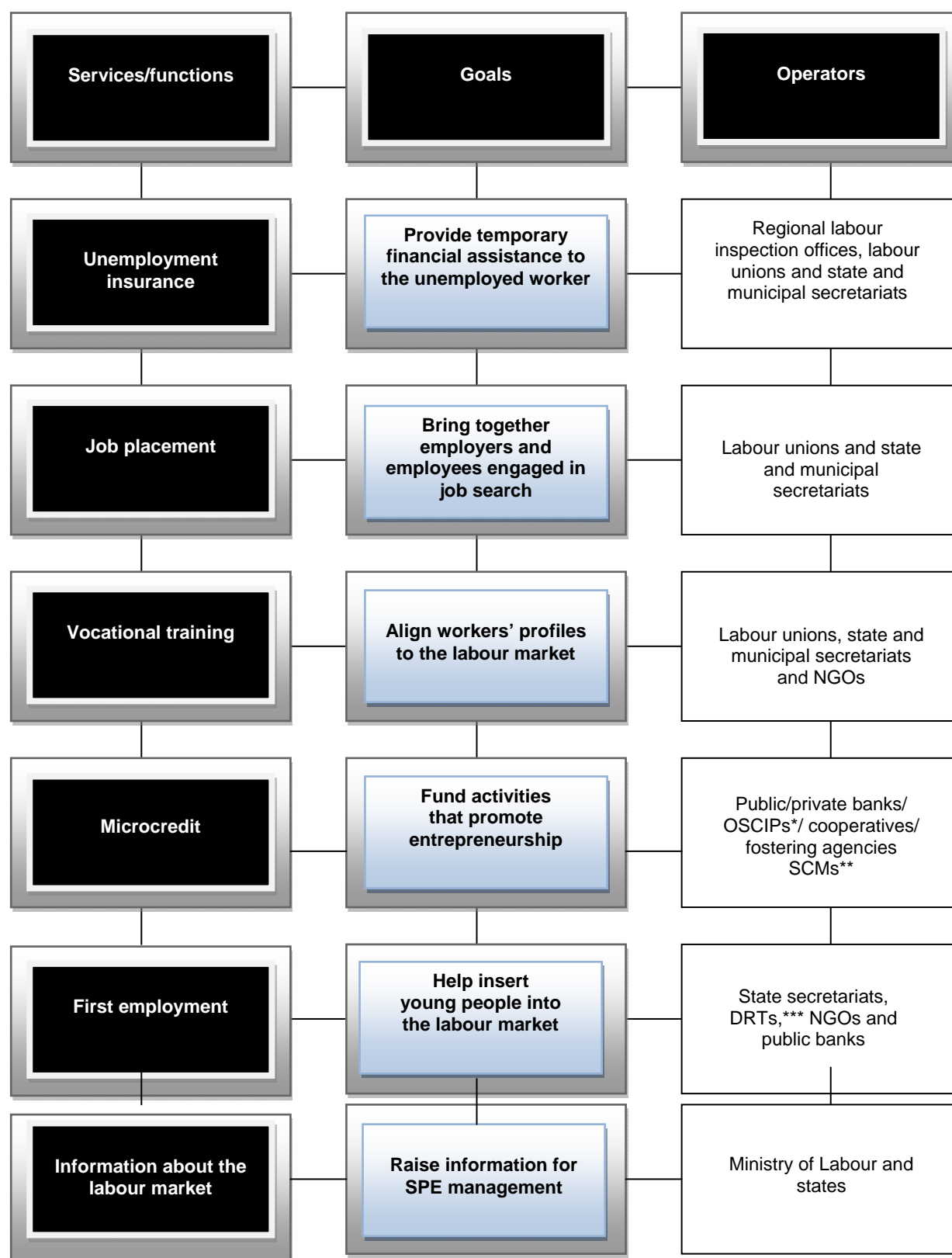
Year	Insured	Benefit expenditures (constant R\$)
2000	4,181,855	R\$7,244,176,295.35
2001	4,691,850	R\$8,062,945,529.90
2002	4,807,634	R\$8,880,517,443.98
2003	4,987,592	R\$9,055,799,094.85
2004	4,817,209	R\$9,071,836,548.39
2005	5,404,784	R\$10,627,316,374.14
2006	5,752,801	R\$11,992,970,791.87
2007	6,182,997	R\$14,020,023,098.13
2008	6,822,730	R\$15,011,499,390.67
2009	7,390,562	R\$18,878,709,946.03

Source: SAEG/Ministry of Labour and Employment.

Two factors limit the coverage of unemployment insurance. The first is that unemployed individuals who have spent little or no time in formal employment cannot meet the minimum requirements to access the benefit, and these tend to be precisely those workers with the lowest wages. The second factor is the short duration of the benefit. Since insured individuals receive at most five payments, unemployed workers facing difficulties of reinsertion tend to lose coverage. Data from the Employment and Unemployment Survey of the National Statistics Office in 2007 show that 36 to 60 per cent of the unemployed (depending on the metropolitan area) had been seeking employment for six months or longer.

In short, unemployment insurance provides a very reasonable protection for formally-registered wage-earning employees. But its coverage is limited among the most vulnerable segments of the labour market.

FIGURE 1

The Public Employment System in Brazil

Source: Ministry of Labour and Employment (2004).

* OSCIPs = public interest civil societies; ** SCMs = microfinance credit societies; *** DRTs = regional labour offices.

2.2 JOB PLACEMENT

The labour intermediation (expected to lead to an actual job placement) service is the main activity carried out by SINE agencies, although the government has repeatedly stated that this should indeed be the “entryway” for the whole public employment system. In this sense, the only concrete integration measure was to expand the role of SINE agencies in receiving and processing workers’ applications for unemployment insurance; these agencies currently account for a third of all applications.

Conversely, although the federal government itself has sometimes funded the opening of labour intermediation agencies run by unions and NGOs, the service has always remained anchored in public agencies, maintained by state governments, by the Federal District government and, from 2005 onwards, by certain municipal governments in major metropolitan areas. SINE currently has 1,268 agencies across the country, ensuring a reasonable reach given that the agencies are located in the major cities.¹¹

TABLE 4

Evolution of Labour Intermediation (2000–2008)

Year	Enrolled		Job vacancies		Placed		Effectiveness rate ¹	Adhesion rate ²	Admission rate ³
	No.	Var.	No.	Var.	No.	Var.			
2000	4,805,433	27.70%	1,281,220	22.70%	581,618	37.70%	12.10%	45.40%	6.00%
2001	4,687,001	-2.50%	1,435,173	12.00%	742,880	27.70%	15.80%	51.80%	7.20%
2002	5,118,563	9.20%	1,648,542	14.90%	869,585	17.10%	17.00%	52.70%	8.90%
2003	5,444,219	6.40%	1,560,767	-5.30%	844,693	-2.90%	15.50%	54.10%	8.60%
2004	4,872,769	-10.50%	1,670,751	7.00%	886,483	4.90%	18.20%	53.10%	7.80%
2005	4,977,550	2.20%	1,718,736	2.90%	893,728	0.80%	18.00%	52.00%	7.30%
2006	5,148,720	3.40%	1,772,282	3.10%	878,394	-1.70%	17.10%	49.60%	6.80%
2007	5,428,622	5.44%	2,060,917	16.40%	980,997	11.70%	18.07%	47.60%	6.84%
2008	5,987,808	10.30%	2,526,628	22.60%	1,068,140	8.88%	17.84%	42.28%	6.41%

Source: Ministry of Labour and Employment.

Notes: 1. Ratio between the number of placed workers and the number of enrolled workers.

2. Ratio between the number of placed workers and the number of available job vacancies.

3. Ratio between the number of placed workers and the number of admitted workers, according to the General Registry of Employed and Unemployed (CAGED).

Table 4 presents the main indicators for the intermediation service. In the latter two years there was a rapid increase in the number of workers enrolled and placed, as well as in the number of available job vacancies within companies. These figures suggest that public intermediation is gaining importance in the Brazilian labour market, though other indicators suggest the opposite is the case.

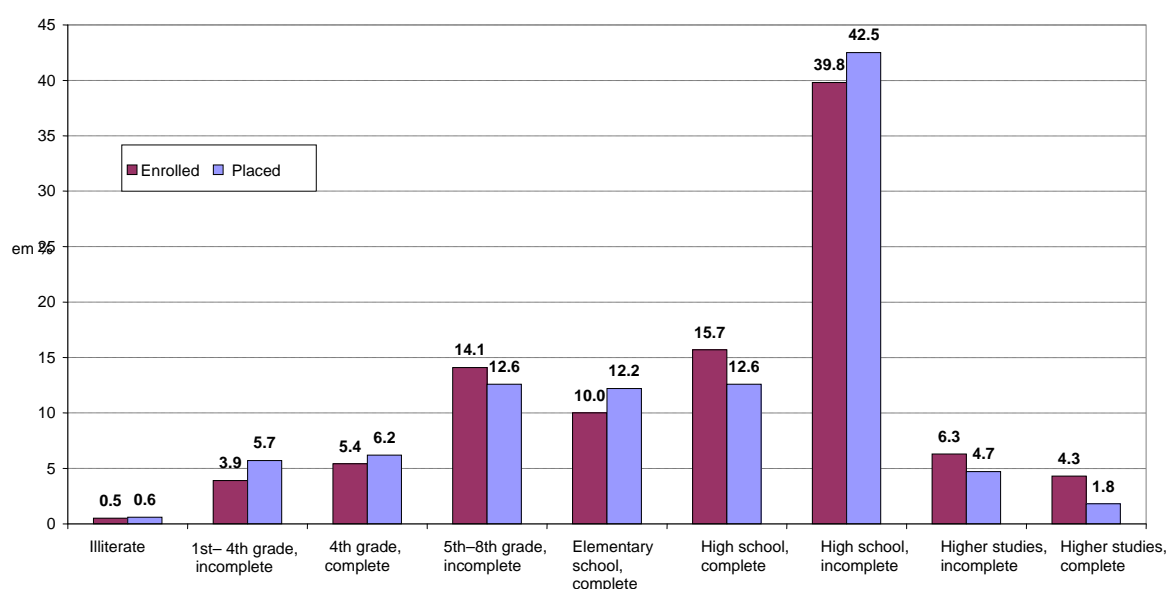
Since 2003 there has been a decline in both the adhesion rate (the share of vacancies “used” by SINE) and the admission rate (the ratio of placements via SINE and admissions to formal employment). It follows that the increase in the number of workers and companies that seek out SINE stems mainly from the economic expansion of the pre-crisis period. In other words, the system has neither become more efficient nor more effective.

One of the reasons given by the government for the poor performance of the intermediation service is that SINE receives the least skilled workers, who face the greatest difficulties in productive (re)insertion. It should be noted, however, that the data in Figure 2 suggest that the reality may be more complex. The schooling-level distribution for enrolled and placed workers is very narrow, indicating that there is no significant employer preference for more educated workers—although this could also be interpreted as evidence that companies resort to SINE to seek out workers for jobs with low skill requirements.

Similarly, the schooling level of enrolled workers is even slightly *higher* than that of the overall unemployed population: in 2007 it was estimated that 42 per cent of the unemployed had finished high school, while the figure for those enrolled in SINE is 50 per cent. Therefore, if there are indeed limitations to the performance of labour intermediation in terms of education, these apparently relate to training in specific skills, which points to the issue of integrating employment services.

FIGURE 2

Workers Enrolled and Placed by SINE by Schooling Level, 2007



Source: DIEESE (Trade Union Department for Socioeconomic Statistics), 2008.

2.3 VOCATIONAL TRAINING

Vocational training initiatives under the public employment system had a limited reach in the 2003–2008 period: the number of workers who completed the training courses never exceeded 150,000 a year, a direct reflection of limited resources. This number is clearly inadequate for the purposes of the National Plan for Social and Vocational Training (PNQ), which aims not only to serve workers who resort to SINE but also to address the needs of self-managed enterprises and the beneficiaries of welfare programmes. The PNQ has three components: PlanTeQs (territorial training plans) in partnership with municipalities, states and non-profit organisations; ProEsQs (special projects for training) in partnership with NGOs and social movements; and PlanSeQs (sectoral plans for vocational training) in partnership with firms, trade unions, social movements, municipalities and states.

The target for agreements signed in 2008 is to train 268,000 workers, a number far larger than that seen in previous years (see Table 5): 53,000 through PlanTeQs and 215,000 through PlanSeQs. Among the latter, the *Bolsa Família* PlanSeQ stands out: it aims to train 91,845 *Bolsa Família* beneficiaries by integrating vocational training and job placement in the fields of civil construction (linked to public investments in the Growth Acceleration Programme) and tourism (linked to the Ministry of Tourism).

From a strategic standpoint, the National Plan for Social and Vocational Training clearly favours the allocation of resources to PlanSeQs rather than PlanTeQs, as used to be the case. This can be interpreted as an integration not with other employment policies but rather with social and infrastructure investment policies.

TABLE 5
Evolution of Social and Vocational Training (2003–2008)

Year	Type	Enrolled trainees	Graduate trainees	Average workload– graduates	Training cost/hour graduates R\$
2003	PlanTeQ	144.557	139.433	110,88	2,35
2004	PlanTeQ	155.280	147.479	176,71	2,47
2005	PlanTeQ	124.518	117.430	181,00	2,62
	PlanSeQ	4.833	4.625		
	Total	129.351	122.055		
2006	PlanTeQ	119.332	112.716	127,23	2,54
	PlanSeQ	16.672	15.798		
	Total	136.004	128.514		
2007*	PlanTeQ	124.282	113.948	195,72	2,68
	PlanSeQ	5.300	4.664		
	Total	129.582	118.612		
2008**	PlanTeQ	38.486	33.745	198,57	3,39
	PlanSeQ	42.691	37.568		
	Total	81.177	71.313		

Source: Ministry of Labour and Employment. Training management database, 11 Sept. 2009.

* Partial data. Certain partnerships still in effect in September 2009.

** Partial data. The duration of agreements signed in 2008 is to December 2009. Partial data envision a target of 268,000: 53,000 in PlanTeQs and 215,000 in PlanSeQs

Note that there is a second offshoot of training courses that are formally outside the PNQ: they are part of PROJOVEM and are intended only for people aged between 16 and 29. Although the Ministry of Labour still oversees the use of resources and the accreditation of entities offering training courses, PROJOVEM brings together a series of initiatives aimed at young people from poor families, with a special focus on raising their level of schooling. It is managed by the National Youth Secretariat, which is directly connected to the Office of the President of the Republic. Nevertheless, given that in 2008 PROJOVEM provided services to 335,000 young people¹² and that this group makes up over 60 per cent of the unemployed population, it is fair to say that this is currently the largest training programme directly funded by the federal government.

In parallel to financing courses, the federal government has also regulated courses offered by the national vocational training services, by stipulating that 50 per cent of all vacant spots must be offered free of charge. The implementation of this measure has not yet been assessed, but given the size and extent of such institutions, at a first glance this appears to be a new way of increasing the supply of vocational training for low-income workers.

2.4 EMPLOYMENT AND INCOME-GENERATION PROGRAMMES THROUGH CREDIT

As mentioned in the previous section, employment and income generation programmes are the fourth pillar of SPETR. A recent external assessment by the Institute of Economic Research Foundation of the University of São Paulo¹³ has shown that *PROGER Urbano*, in the form of credit for investment, has had positive effects on job-creation: 6.7 new hires per business, on average, and a ratio of one job created for every R\$11,500 made available by loans. As for the working capital-credit modality, this had a slightly *negative* impact on job-creation.

In the case of both modalities, formal registered employment with signed contracts prevailed. Finally, almost two-thirds of the enterprises that accessed *PROGER Urbano* had never before taken out any loans, indicating that the programme has an important impact in facilitating access to credit for those who have traditionally been excluded. But the assessment also showed a lack of integration and coordination between PROGER and SINE, as well as a lack of technical assistance and training. Perhaps this is why the effects of credit on employment are also of limited duration.

The growth of PROGER and other employment and income-generation programmes was directly linked to the possibility of making FAT resources available by financing lines of credit. In times of abundance, there was a significant expansion in the number of credit lines and the amount of allocated resources. But in recent years the dwindling of FAT resources has been leading to a decline in new allocations.

Table 6 shows that since 2002 the Minimum Liquidity Reserve (RML) has been growing at significantly high rates, in line with the exponential growth of expenditures with constitutional benefits. Between the early 2000s and 2006 there was also a considerable increase in special deposits, which allowed for a significant expansion in the volume of transactions and the total value of loans within PROGER during that period.

Clearly, the upward trajectory of these two variables was unsustainable. If the source of financial resources for special deposits is part of the RML surplus, and this surplus is being squeezed by an increase in the RML itself, it is clear that only new resource inflows to PROGER could sustain the levels that had been reached. This expected shift in the evolution of the volume of resources allocated to special deposits occurred in 2007 and was repeated in 2008, when the new allocations totalled only R\$6,086 million.

TABLE 6

Evolution of Special Deposits, Extra-Market Balances and FAT Minimum Liquidity Reserves, 2000–2008

Year	Special deposits		Extra-market balance (on 31/12)	RML (on 31/12)	(in R\$ million)	
	Balance (on 31/12)	Allocations			RML surplus (on 31/12)	
2000	15.782	2.131	6.673	2.812		3.861
2001	15.192	2.232	8.885	3.645		5.240
2002	19.972	5.481	8.707	2.567		6.140
2003	22.083	5.673	13.830	4.957		8.873
2004	27.350	6.902	15.541	5.006		10.535
2005	37.692	13.920	11.621	6.822		4.799
2006	48.482	16.202	8.157	7.552		605
2007	49.242	9.533	9.975	9.489		486
2008	45.680	6.086	17.454	9.697		7.757

Source: Ministry of Labour and Employment. General Coordination for FAT Resources.

The impacts on PROGER have been clear. Table 7 shows the volume and value of PROGER transactions by credit line. Note that the number of credit operations in 2008 fell by 16 per cent compared to 2007, and the total value of transactions fell by 19 per cent. As regards the Labour Ministry's budget, the total funds invested in PROGER credit lines in 2008 did not reach 50 per cent; it had been 66 per cent in 2007 and 87 per cent in 2006, indicating a rapid downward trend.

TABLE 7

Trends in the Use of FAT Resources in Employment and Income-Generation Programmes, 2007 and 2008

Programmes	2007		2008		Variation	
	Qty. operations	Amount in R\$	Qty. operations	Amount in R\$	Qty. operations	Amount in R\$
Urban PROGER	1.784.846	6.754.693.023	1.657.934	6.714.962.038	-7,11%	-0,59%
FAT-Entrepreneur	5.687	25.936.655	7.324	31.722.048	28,78%	22,31%
PROGER Tourism	2.290	104.650.190	2.439	131.603.837	6,51%	25,76%
PROGER Exports	232	30.021.607	136	5.619.717	-41,38%	-81,28%
Young Entrepreneur	63	922.763	4	57.891	-93,65%	-93,73%
Rural PROGER	997	27.980.433	26	862.423	-97,39%	-96,92%
PRONAF	169.811	1.637.801.739	73.244	1.142.496.418	-56,87%	-30,24%
PROEMPREGO	1.204	378.164.969	317	196.639.000	-73,67%	-48,00%
FAT-HABITAÇÃO	-	-	-	-	-	-
FAT-Construction material	89.317	222.551.477	40	2.492.519	-99,96%	-98,88%
FAT-FOMENTAR	13.692	3.326.829.718	14.695	3.491.887.000	7,33%	4,96%
FAT-INTEGRAR	-	-	-	-	-	-
FAT Working capital (rural)	3.946	716.344.391	-	-	-100,00%	-100,00%
FAT Working capital (sectoral)	7.077	1.063.264.128	3	169.000	-99,96%	-99,98%
FAT Working Capital Agr. Livestock Coop.	11	6.550.000	2	820.000	-81,82%	-87,48%
FAT Digital Inclusion	1.866	2.074.854	6	7.068	-99,68%	-99,66%
IE Economic	947	4.023.704.590	43	2.646.216.000	-95,46%	-34,23%
IE Basic inputs	203	510.940.957	39	386.133.000	-80,79%	-24,43%
FAT-EXPORT*	123	1.430.222.876	91	1.764.402.000	-26,02%	23,37%
FINEP	55	232.911.940	37	187.249.331	-32,73%	-19,61%
Total	2.082.367	20.495.566.311	1.756.380	16.703.339.290	-15,65%	-18,50%
Total Amount/Labour Ministry budget	-	66,49%	-	47,24%	-	-

Source: CPROGER/CGER/DES/SPPE/MTE. Prepared by the author.

Obs: * These do not include programmes financed by BNDES constitutional deposits.

Preliminary data. Situation on 1 Sept. 2009.

The declines, however, were not indiscriminate. Note that in *PROGER Urbano*, *FAT Empreendedor* and *PROGER Turismo*, where the average contract amounts are lower, the declines were smallest or there was even an increase in the number of transactions and volumes traded. This is because new resource-allocations in the programme in 2008 favoured investment lines for small businesses and microenterprises in urban and rural areas, despite infrastructure operations, designed mainly for medium and large enterprises.

In other words, the current resource constraints on allocations to special deposits highlight the need to rationalise and streamline employment and income-generation programmes so as to reduce the allocation of resources to credit lines with questionable impacts on job-creation, which would provide an opportunity to return to PROGER's initial goal: lending to small formal or informal entrepreneurs who have little or no access to the traditional financial system.

It is worth noting, however, that the effective "democratisation" of access to credit depends not only on redirecting resources to certain lines but also on a broader discussion about the institutional architecture of the programme. A critical matter to be revisited is how to coordinate the programme with other employment policies. Today, decision making power

is concentrated in the hands of financial institutions, so credit provision is completely separate from other support services for microenterprises, such as technical assistance and training.

While PROGER and other programmes based on FAT funds face restrictions, the National Programme of Oriented Productive Microcredit (PNMPO) has grown continuously. There were 1,274,000 microcredit operations in 2008, a 32 per cent increase over 2007. The total funds released amounted to about R\$1.8 billion, and it is worth noting that much of that (about 65 per cent) is accounted for by the performance of *CrediAmigo*, which is linked to the Banco do Nordeste.

TABLE 8

Evolution of the National Programme of Oriented Productive Microcredit (PNMPO), 2005–2008

Year	Quantity of granted microcredit operations	Yearly growth (in %)	Amount granted (in millions of R\$)	Yearly growth (in %)
2005	632.106	--	602,34	--
2006	828.847	31%	831,82	38%
2007	963.459	16%	1.100,38	32%
2008	1.274.296	32%	1.807,00	64%
Total	3.698.708		4.341,53	

Source: Ministry of Labour and Employment. PNMPO.

In addition to being highly concentrated in a single institution, the volume of borrowed funds is still far below the existing potential, since financial agents can use it to finance the programme and the bank demandable requirements which, if not used, are collected by the Central Bank without payment. To get an idea of this potential, bank demandability in December 2008 was R\$2.91 billion. It therefore seems that the programme still has not been able to create sufficient incentives for microcredit operations to become attractive to private interests and to become disseminated, as is socially desirable.

3 FINAL CONSIDERATIONS: WHERE ARE BRAZILIAN EMPLOYMENT POLICIES HEADED?

Employment policies in Brazil today face three types of issues. The first is related to the macroeconomic context, especially the fact that employment policies tend to act more on labour supply than on labour demand. The second concerns the extent to which these policies can concentrate on the needs of the most vulnerable segments, particularly low-income workers. The third is the degree to which these movements are related to the strengthening of the public employment system.

As regards the first issue, recall that employment systems in major countries of the Organisation for Economic Cooperation and Development (OECD) have matured in a particular economic context, with high aggregate growth rates for output, employment, productivity and real wages. The activities of these systems hinged on passive policies (unemployment insurance) or active policies (intermediation and training) on the labour market's supply side. Brazil began to put its system together at a time when this model was already showing signs of strain in the core countries, given the transformations that had been shaping the new global economic environment since the early 1980s. Nevertheless, Brazil adopted the conventional

design for its employment system. The result is that the performance of major policies simply reacts to the economic cycle, without any mechanism to provide alternative (counter-cyclical) employment opportunities. The paradox here is that the federal government has important instruments for influencing the private sector through credit, investment and public procurement mechanisms, but typically it has failed to link these instruments to employment policies. A sign of change (albeit a modest one) is the coordination of sectoral plans for improving public investment.

As for the second issue, from the very beginning employment policies were confronted with significant segments of the working-age population that had been unemployed for long periods (both in terms of open unemployment and discouraged workers) or were underemployed while working in precarious conditions—mostly women and/or youths.

Since these groups will necessarily be underrepresented in programmes focusing on those dismissed from formal jobs (as was common until the 1980s), efforts were made to extend coverage. This was most evident in the attempts to include unregistered workers and those working outside the formal labour market into vocational training courses, job-creation schemes and income-generation programmes, as well as in the priority accorded to young women.

The limitation of actions to date seems to be that, in addition to extending the coverage of existing programmes, the attention paid to vulnerable groups might require new programme designs, with a different combination of and/or integration between benefits and services. For young people, this process already seems to be under way.

This point brings us to the third issue. From the perspective of an integrated public system, employment policies currently seem to be somewhat “centrifugal” or dispersed. A significant reason for this is that FAT funds are no longer central, evidenced by the decline in the FAT’s participation in training and microcredit programmes.

Since the entire institutional nature of the public employment, labour and income system has been built around the FAT (not just the programmes’ legal framework but also the main channels for social participation), it is to be expected that the links between the different programmes will weaken as funding sources become increasingly diverse. The predictable result is the creation of certain policies “outside” the public system, such as the ever-greater targeting of training resources for social-policy beneficiaries.

Although this trend is commendable, it suggests a lack of coordination and integration within the system, without which all other policies (unemployment insurance, intermediation) will remain purely passive and confined to a certain segment of the working population.

ANNEX

THE MAKE-UP OF THE FAT

Revenue	Liabilities and expenditures
<p>1. Primary revenue:</p> <p>1.1 PIS/PASEP collection: PIS: turnover (gross operating revenue) from private companies or non-profit organisations, use of wage-earning workers or others that may be part of the working relationship, the entry of foreign goods domestically or payment, credit, delivery, employment or remittances of money to those residing or domiciled abroad in exchange for services rendered.</p> <p>Revenue contributors: private profit-oriented companies, civil societies providing services related to the exercise of legally-regulated professions, cooperative societies that have operations with non-cooperative individuals, non-formalised extrajudicial service.</p> <p>Payroll contributors: non-profit organisations that have employees and do not usually sell goods or services, cooperative societies that do business with cooperative members, buildings condominiums.</p> <p>Revenue rate: 1.65% for firms whose tax returns are based on taxable income and 0.65% for those based on estimated profits.</p> <p>Payroll rate: 1% of payroll.</p> <p>PASEP: effective collection of revenue streams from federal, state, Federal District and municipal levels, and current and capital transfers sent to public entities.</p> <p>Contributors: corporations under public law, based on the average monthly value of current revenue collected; and the current and capital transfers received, and non-profit entities defined as employers by labour laws, including foundations, based on payroll.</p> <p>Rate: 1% of the total monthly payroll for corporate employees</p> <p>1.2 Quota-share of union dues</p>	<p>1. Reallocations of PIS/PASEP resources:</p> <p>1.1 FSE (EC n. 01: 01/04/94 to 31/12/95). 1.2 FEF (EC n. 10 and 17: 01/01/96 to 31/12/99). 1.3 DRU (EC n. 27: since 21/03/2000).</p> <hr/> <p>2. Constitutional transfers to BNDES (BNDES 40%).</p> <p>2.1 Economic and Social development Programme.</p> <hr/> <p>3. Minimum Liquidity Reserve.</p> <hr/> <p>4. Current expenditures of a constitutional nature.</p> <p>4.1 Unemployment Insurance. 4.2 Salary Bonus.</p> <hr/> <p>5. Paid Special Deposits</p> <p>5.1 BNDES. 5.2 Banco do Brasil. 5.3 Caixa Econômica Federal. 5.4 Banco do Nordeste. 5.5 Banco da Amazônia (BASA). 5.6 Financiadora de Estudos e Projetos (FINEP).</p> <hr/> <p>6. Other current expenditures at the Ministry of Labour and other agencies</p> <p>6.1 Labour intermediation (SINE). 6.2 Vocational training. 6.3 Labour surveillance. 6.4 Workplace health. 6.5 Eradication of slave labour. 6.6 Eradication of child labour. 6.7 Other current expenditures: special operations (judgments and special charges), payment of fees to financial institutions, DRT transfers, a change in the balance of resources invested in BB and CEF, other non-finalist programmes.</p>
<p>2. Financial revenue:</p> <p>2.1 Remuneration (interest + inflation adjustment) paid by BNDES on constitutional transfers (BNDES 40%). 2.2 Remuneration (interest + inflation adjustment) paid by executing agents (BNDES, BB, CEF, BNB, Financiadora de Estudos e Projetos (FINEP) and Banco de Amazônia (BASA) on special deposits. 2.3 Remuneration (interest + inflation adjustment) of investments specific to the FAT (BB extra-market). 2.4 Remuneration (interest + inflation adjustment) of funds not disbursed.</p> <p>3. Other revenue:</p> <p>3.1 Recovery of benefits not paid. 3.2 Recovery of agreements. 3.3 Fines and interest owed to FAT. 3.4 Other property revenue: the return of resources from previous fiscal years + court fines.</p>	

Source: CGFAT/Ministry of Labour and Employment. Prepared by Disoc/IPEA.

Notes: 1. Legal foundations: article 234 of the constitution; complementary laws n. 7 and 8 of 1970; complementary law of n. 26/75; law n. 9.715/98; law n. 10.637/02; decree n. 4.524/02; law n. 10.865/04.

2. Until the 2002 legislation, which changed the rates of contribution and the PIS fiscal base, private companies used to collect a fixed 0.65 per cent of their gross operating revenues.

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NOTES

1. On this point, see Azeredo (1998) and Posthuma (1999).
2. Convention no. 88 of the ILO deals with the establishment of public employment systems, particularly those designed to serve unemployed workers.
3. A more detailed explanation of the impact of reallocations in the financing of employment policies can be found in Cardoso Jr. and Gonzalez (2007).
4. Exchange rate (US\$1 = R\$1.84), obtained from an average of daily exchange rates for 2008.
5. The estimates for the amount of federal social spending were taken from Cardoso Jr. (2009: 556).
6. A situation in which fishing is prohibited in certain areas for reasons of environmental preservation.
7. Initially, PROGER was operated by Banco do Brasil (BB) and Banco do Nordeste (BNB); later, FINEP and, more recently, even BNDES, Caixa Econômica Federal (CEF) and Banco da Amazônia (BASA) have been included.
- 8 The amount of the liquidity reserve requirement is essentially determined by expenditures with constitutional benefits, because it cannot be lower than the highest of the following values: (i) the sum of the amounts paid in unemployment insurance benefits in the previous six months and 50 per cent of the amounts paid in salary bonus benefits in the preceding 12 months; (ii) the positive difference, in the current financial year, between the proceeds from PIS/PASEP collection and the total amount of disbursements made to meet the expenses the Unemployment Insurance programme, with BNDES in charge of the financing of economic development programmes.
9. For the purpose of this analysis, we have ignored the data on other modalities (fishermen, housemaids and recovered workers), which in 2008 accounted for less than 6 per cent of all beneficiaries.
10. Referring to 2006. See IPEA (2008), statistical annex, table 4.15.
11. Brazil has about 5,500 municipalities.
12. Data from Gonzalez (2009: 126).
13. See MTE (2009) for more detail.



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