

# POVERTY AND INEQUALITY LATIN AMERICAN REPORT 2013



## High quality employment and territory

SUMMARY



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### Summary

Severe territorial inequality is a significant reality in Latin America, in areas as diverse as poverty, health, education, economic activity, citizen security and gender equality. As the 2011 Latin American Report on Poverty and Inequality showed, national averages in all of those areas conceal large differences between territories that lag and those that show greater progress in every country in the region (Rimisp, 2012a). Although average outcomes have been improving, that has only just begun to translate into a reduction in territorial gaps, because only in some cases are the territories that have shown the greatest improvement in outcomes the ones that originally lagged furthest behind.

Inequality not only represents an injustice, but it is also an obstacle to overcome poverty, because it creates territorial dynamics that become real poverty and inequality traps, where long-standing social structures and institutions that are difficult to modify coexist.

Within the broader concern about poverty and inequality, the 2013 report focuses on the territorial distribution of opportunities for access to high quality employment. This report argues that **the place where people are born and live strongly determines their opportunities for access to high quality employment. With unequal distribution among territories, the difficulties that accompany unstable employment constitute serious obstacles, not only for those who experience them, but also for the equitable development of the region's countries.**

Work is the means of social integration par excellence. It enables people to generate income autonomously and enter into other areas of social and political integration, significantly shaping relationships among people and helping to raise the standard of living (ECLAC, 2012<sup>a</sup>). Besides being a central element of individual welfare, employment is crucial for overcoming poverty, and for development and social cohesion (World Bank, 2012; ECLAC, 2009; 2012a; ILO, 2012a). In addition, it is critical for economic growth, allows the acquisition of specialized knowledge, and contributes to women's empowerment and the stabilization of societies that are emerging from situations of conflict (World Bank, 2012). So important is it that the characteristics of labor markets influence the possibilities of countries and regions to move toward greater development and higher levels of social equality.

But it is not simply a matter of creating jobs. That is the bare minimum. It is important to ask what kinds of jobs are being created and under what conditions for the worker these are useful. The generation of productive employment – which has greater average value for the worker – is a precondition for sustained poverty reduction. To increase the productivity of work, higher worker skill levels and more innovation are necessary; this, in turn, results in higher incomes and contributes to the general welfare of the population. If people have adequately paid jobs, they can increase their income, participate in social security systems that strengthen their welfare, and improve their educational and health status. At the same time, poverty reduction stemming from more productive employment should go hand in hand with a decrease in inequality, because when levels of inequality are high, economic growth tends to be concentrated at the top of the pyramid, excluding the poor from development opportunities (UNRISD, 2011).

This virtuous circle is made possible to the extent that work becomes high quality employment. Well-paid, formalized jobs with social protection enable societies to progress in the security and welfare of their population, while informality is a decisive factor in poverty and income inequality in many countries (ILO, 2013). For that reason, reducing high levels of informal jobs and precarious employment conditions is a priority for development agendas around the world. It is also the main concern of this report, as we show that **many of the institutional and economic factors that are decisive for high quality employment have a clear territorial expression, which explains why the possibilities of access to high quality employment are distributed so inequitably within countries.**

The creation of high quality employment is determined by the economic-productive context and by the socio-labor institutional structure (Weller and Roethlisberger, 2011). But neither economic-productive conditions nor institutional conditions are homogeneous within countries. The purpose of this report is to assess and understand how these factors, which are decisive for high quality employment, are distributed in such a differentiated way within territories.

**We argue that territories that have a productive structure in which the primary sector carries less weight or creates more productive linkages (with a greater presence of high-productivity sectors), where higher-quality public policies are implemented (to encourage economic development and social development) and where there is more social dialogue (more unionization, more tripartite dialogue and collective bargaining) will have higher levels of high quality employment.**

The **productive structure** of Latin American countries reveals differences in productivity between economic sectors or strata. Within countries, high-productivity sectors – associated with the modern economy, the use of technology, innovation, a high degree of formal employment and high incomes – coexist with low-productivity sectors – associated with a traditional economy characterized by high informality and low incomes. The latter,

which carries greater relative weight in the Latin American economy, helps explain the persistence of inequality and limits to growth.

But the economic structure of the territory and the productivity of work associated with various activity sectors only partly explain the differentiated capacity of territories to create high quality employment. The way in which the productive structure, public policies and the capacity for social dialogue interact within territories is key to understanding the dynamics of access to high quality employment.

In the **socio-labor institutional** framework, the participation of workers in the definition of wages, the existence of contracts, the right to unionize and to strike, social protection and training, as well as the safeguarding of those conditions by oversight bodies, make it possible to avoid processes of exclusion and weakening of the bond between productivity and the quality of employment (Bensusán, 2008). Three institutional factors play a key role in achieving high quality employment: real growth in the minimum wage, an increase in unionization and the strengthening of social protection (ECLAC, 2009).

Analyses performed for the preparation of this report show that whether in the form of legal incentives to promote private investment, direct investment or public policies for social protection, or through the regulation and oversight of labor rights, public action lays positive groundwork for the existence of high quality employment. It also provides more stability when markets are changing and are affected by crises and there is a significant breakdown of the trade union culture. Here the decisive factor is the way in which the territory attracts and adapts national resources and policies to the specific needs and conditions of the productive structure and local human resources. Examples of this are the policy of incentives for export agriculture in Ica, Peru; the strong public investment in infrastructure in Rivas, Nicaragua, and the territories of Juazeiro and Petrolina in Brazil; and the municipal government's role in promoting the hiring of local labor in San Juan de Río Coco, Nicaragua.



Territorial history and identity also help explaining territorial dynamics that promote high quality employment. In several territories, **the tradition and culture of trade union organization (Brazil), as well as the existence of cooperatives (San Juan de Río Coco), put pressure on public policies and local markets dynamics in ways that are more or less conducive to decent work.**

To address the dynamics of territorial inequality and poverty, this report is divided into three parts. The first analyzes the development of territorial gaps in the six dimensions that were analyzed in 2011 (education, health, economic dynamism, income/poverty, citizen security and gender equality). The second and third parts focus on analysis of territorial factors that are decisive for high quality employment. We begin by confirming the existence of deep territorial gaps in a series of indicators related to high quality employment (Chapter 2). Chapter 3 reinforces the preceding analysis of the gaps and shows that the productive structure and other material conditions of the territory and its inhabitants are key variables correlated with the territorial distribution of high quality employment. The third part (Chapters 4, 5 and 6) analyzes how these factors, along with public

policies and social dialogue, interact in specific territories to create dynamics conducive to high quality employment.

### 1. Evolution of territorial gaps in six key dimensions of development

In all countries in the region, there are territories that lag. They tend to have common characteristics: they have smaller populations, are more rural, have a higher proportion of the population belonging to original peoples or of African descent, and, to a lesser extent, a larger proportion of their population is under age 15. The exception is in the area of citizen security, where the places with the most problems tend to be urban and have large populations. Evidence also shows that sub-national territories that lag tend to be grouped geographically, generally in places that are farther from the national capital and/or large cities, and often they are border areas. More advantaged sub-national areas, meanwhile, tend to be grouped together geographically around large urban centers.

Given this evidence, which was discussed extensively in the 2011 report, we will analyze whether the various territorial gaps identified show divergent or convergent trends – that is, whether the gaps tend to close, expand or remain unchanged.

Analysis of the indicators over time shows that average outcomes generally have been improving, but this has only just begun to translate into a decrease in sub-national territorial gaps. Average outcomes, mainly in the areas of health, education, economic dynamism and employment, and income and poverty show positive trends. Only in some indicators and in some countries, however, has that gone hand in hand with significant reductions in territorial gaps. This is because the territories that have shown the greatest improvement in outcomes in the various dimensions have not always been the ones that lagged furthest originally. Only in some cases do the territories that have shown the most progress have a low degree of urbanization, small populations and a high proportion of the population belonging to original peoples or of African descent, which, as noted above, is the predominant profile of the territories that lag the most.

**Health Dimension.** The state of health is a key element of human capital, because it enables people to enhance their skills to produce goods and services and engage in activities outside the labor market. At the country level, that translates into greater human capital available for development-oriented activities.

The main trends encountered in the analysis of this dimension indicate that:

- Health outcomes have been improving. Improvements are seen in all indicators except the adolescent pregnancy rate, which has increased in a significant number of countries.



- Territorial gaps have been decreasing, although they are far from closing. In some indicators, the greatest progress has been seen in the sub-national territories that originally lagged the most.
- The profile of the sub-national territories that have improved most in health varies from country to country. There are no crosscutting trends that are as marked as the profile of lagging countries that was identified in the 2011 Latin American Report on Poverty and Inequality.



**Education Dimension.** There is a broad consensus about the need to invest in human capital. This consensus considers education a powerful tool for driving sustainable human development increasing the productivity and competitiveness of countries, and creating more equal opportunities. Investment in human capital makes economic growth compatible with equitable development. In most of the region's countries, increasing the equity and quality of education has been defined as a priority challenge. Progress has been made, especially in coverage. In practice, however, all sectors of the population do not have equal access to high quality education. This report's results in this dimension indicate that:

- Education outcomes have been improving. In general, there is improvement in all indicators, with the exception of quality indicators, for which there is also little comparable historical information.
- Territorial gaps have been decreasing in some education indicators, although they are far from closing. Considering that the indicators most associated with coverage, in particular, have been improving, it is important to note that in some of them, the sub-national territories that originally lagged the most have shown the greatest progress.
- A significant number of sub-national territories that have shown the greatest improvement in education are relatively less urban and have a high percentage of the population belonging to original peoples or of African descent. This reinforces the argument that there is a trend toward convergence in education indicators related to coverage.

### Economic Dynamism and Employment

**Dimension.** Economic growth, through creation of jobs and increase in wages, can be crucial for overcoming poverty, as it helps families generate their own income. The analysis shows the following trends:

- In some countries, participation in the labor market and the relative weight of employment in non-primary sectors has increased.
- No clear trend is seen toward a decrease in territorial gaps. In some countries, there is even a trend in the opposite direction; in other words, some of the territories that have shown the greatest improvement are the sub-national territories that originally had the best outcomes. Unlike other dimensions, such as health and education, where the closing of gaps in some indicators may be due to public policies targeting the territories that lagged the most, in the case of economic dynamism, there may be a prevalence of economic-productive characteristics that are more structural in the territories, and therefore more difficult to change with public policies in the short and medium term.
- There is no single profile of sub-national territories that have shown the greatest increase in economic dynamism.

**Income / Poverty Dimension.** Overcoming poverty and achieving more equitable income distribution remain key issues on the agendas of Latin American countries. Although several show significant advances in this area, there are still countries that lag significantly, with territories in the interior of each country especially affected. Analysis of this dimension shows the following trends:

- Outcomes in poverty reduction, satisfaction of basic needs and increases in average income have improved. This trend is not clear in the case of income-distribution indicators.
- Territorial gaps in poverty have been reduced, because the sub-national territories that originally lagged are the ones that have progressed the most. Overall, however, this is still not enough to completely close the gaps.

- In half the countries studied (Brazil, El Salvador, Guatemala, Mexico and Peru), the sub-national territories that have decreased poverty the most are those with the lowest population, lowest degree of urbanization and larger proportion of the population belonging to original peoples or of African descent.

**Citizen Security Dimension.** One way of defining citizen security is as a situation in which people are not afraid that they will be attacked, can enjoy the privacy of their homes and can circulate in the streets knowing that their physical integrity will be respected. Citizen security is therefore a fundamental dimension of people's quality of life. The main trends highlighted by the analysis of this dimension are:

- Outcomes in citizen security have improved only in some countries, while they have worsened in others.
- There is an incipient trend toward closing territorial gaps in citizen security, because the sub-national territories that show the greatest improvement in some countries were originally those that originally lagged the most.
- There is no clearly defined profile of sub-national territories that have improved most in citizen security. We have seen that the dimension of citizen security has the peculiarity of being the only one of the six socio-economic dimensions studied in which the sub-national territories that lag the most are mainly urban and have a large population. When the characteristics of the territories that have made the most progress are analyzed, however, there is no profile that repeats consistently across all the countries.

**Gender Equality Dimension.** The concept of gender refers to behavioral and cultural norms, expectations and attributes associated with being female or male. Gender equality refers to the way in which those aspects determine how women and men relate to each other and the resulting differences in power between them. Progress toward gender equality still faces considerable challenges in both developed and developing countries. Analysis of this dimension reveals the following trends:

- There is an incipient trend toward the closing of gender gaps, although results vary from country to country and between different indicators. Notable advances include progress in closing the gender gap in participation in the work force, although the gap is still very significant in absolute terms.
- In some countries, sub-national territories that originally lagged the most are the ones that have made the most progress. This implies a certain trend toward reducing territorial gaps in this area, although they are far from closing.
- There is no clearly marked profile of sub-national territories that have made the greatest progress in reducing gender gaps.

#### Incipient decreases in territorial gaps

According to the results, the first part of the 2013 Latin American Report on Poverty and Inequality concludes that:

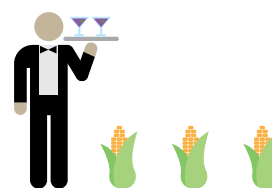
- Average improvements in the various socio-economic indicators in Latin American countries have not necessarily been accompanied by decreases in the territorial development gaps that exist in the region. Moreover, in some cases, they may coexist with growing gaps.
- The region's countries have shown greater average progress in some dimensions – particularly health, education, economic dynamism and employment, and income / poverty – than in others.
- Average progress has been lower in the dimensions of citizen security and gender equality, and there has even been some

backsliding. Nevertheless, in some indicators and in some countries, there is also an incipient trend toward the closing of territorial gaps.

- There is no clear profile of sub-national territories that have made the greatest improvements in the various dimensions. This is especially true in the areas of health, economic dynamism and employment, citizen security and gender equality. Although in the education dimension, many sub-national territories that have shown the greatest progress are relatively less urban and have a high percentage of population belonging to original peoples or of African descent, in the area of income / poverty, some of the sub-national territories that have shown the greatest decreases in poverty are those with the smallest populations, less urbanization and a larger proportion of population belonging to original peoples or of African descent.

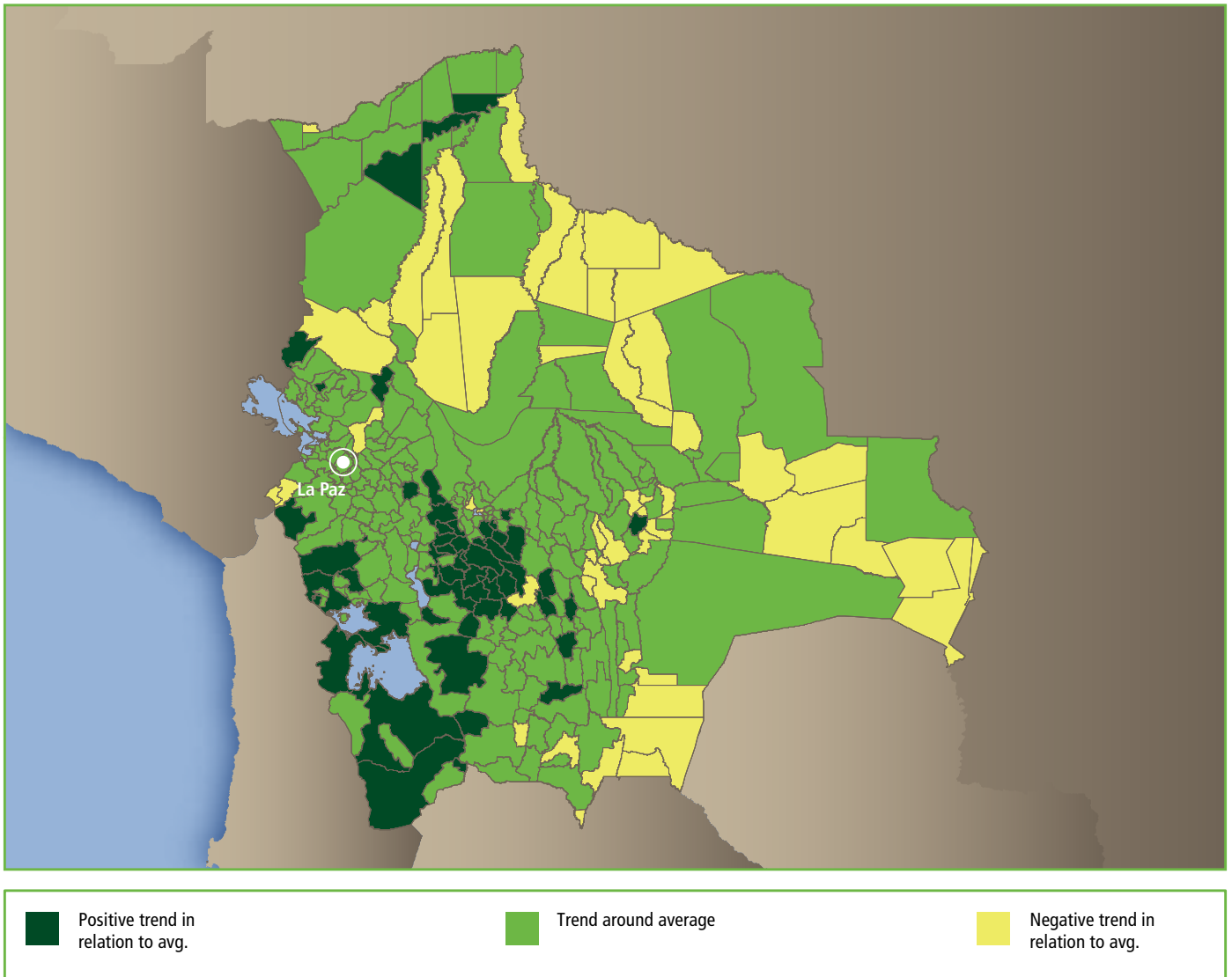
The analysis leads to a question about what might have occurred in the countries, dimensions and indicators in which territorial development gaps have decreased. One possibility is that they might have implemented public policies explicitly targeting the territories that lagged the most, or that they might have targeted the households and individuals with the greatest needs, which could have reduced territorial gaps because of their geographic location. For some indicators, territories with better outcomes may find it increasingly difficult to continue improving, resulting in an intrinsic convergent trend in the country's overall development. This could occur, for example, in indicators of educational coverage, in which territories that are close to covering the entire population can no longer continue to improve significantly; that does not occur in other types of indicators, such as educational quality, in which the most advanced territories can continue to improve, thus increasing the gap.

In any event, further study is needed of the reasons for an incipient tendency toward territorial convergence in development indicators in some countries. This implies studying the possible conditions that trigger vicious circles in some cases and virtuous ones in others. Study is particularly needed of factors that could be influenced by public policy so as to achieve that convergence and, importantly, to influence the speed at which that occurs. To strengthen efforts in that direction, it is important to implement systems for periodic monitoring of territorial gaps in the region's countries, because without relevant, accurate, timely and representative information, these gaps tend to go unnoticed. A summary of this and other public policy recommendations stemming from this report can be found in a table at the end of this executive summary.



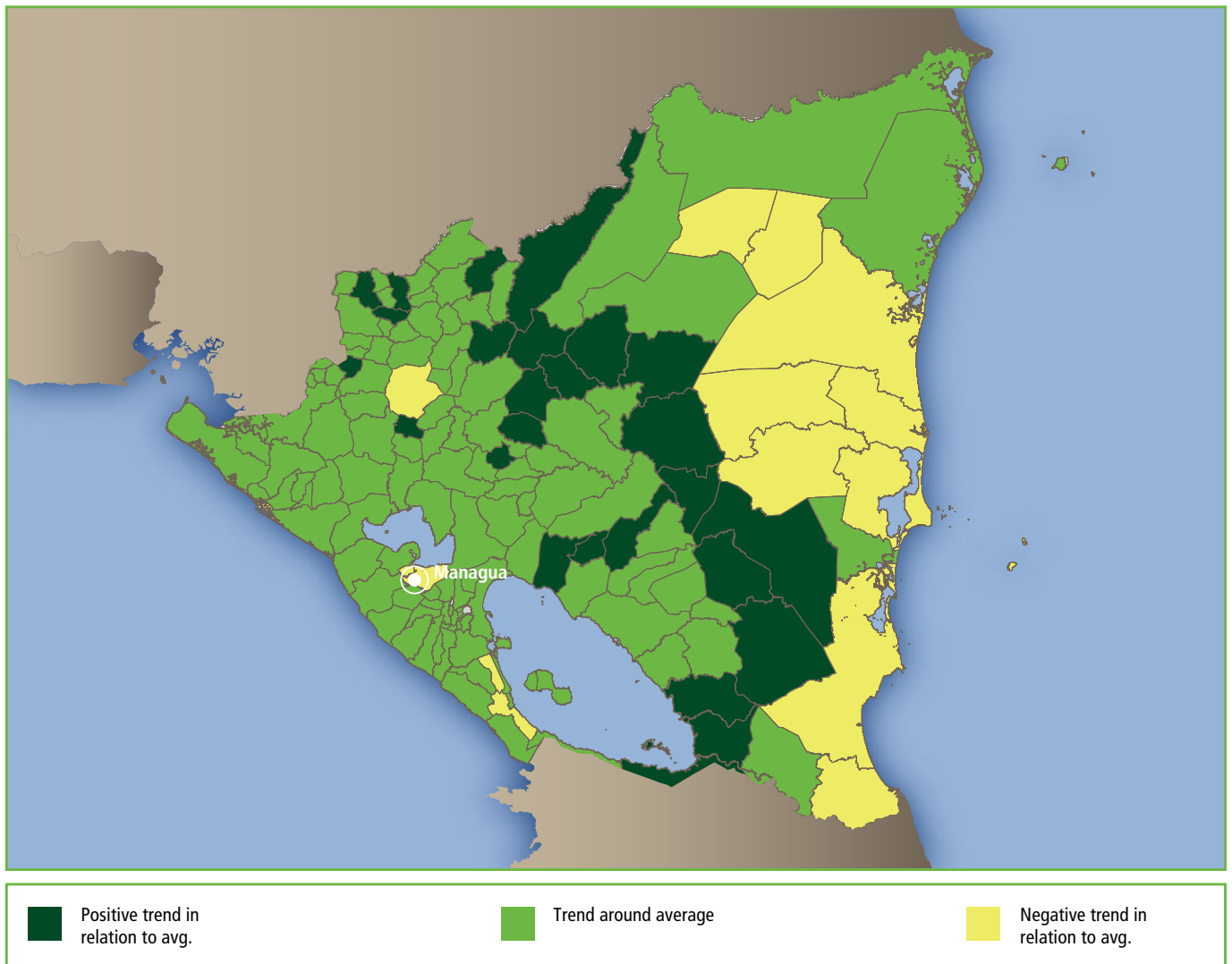
In some countries, some territorial gaps have been reduced

**Bolivia: Evolution of infant mortality rate, 2001-2011, at district level**



Source: Compiled by author, based on Instituto Nacional de Estadística (INE), CODEPO, UNFPA for 2001 and Sistema Nacional de Información en Salud (SNIS) 2011.

Nicaragua: Evolution of primary school enrollment rate, 1995-2005, at district level



Source: Compiled by author, based on 1995 and 2005 Population and Housing Censuses

## 2. Territorial inequality and high quality employment

The analyses in this report are based on an operational definition of high quality employment that includes the following dimensions, with their respective indicators: income from work (income from main occupation); working conditions (rate of labor formality); protection (rate of pension contributions and contributions to health insurance); and personal development (rate of access to job training). A job will be of better quality if it generates a higher income, is subject to a formal work contract, includes social security and health insurance, and offers training opportunities.

Such as the development dimensions analyzed in the first part of the report, opportunities for access to a job with those characteristics are distributed unequally within countries in the region, with rural areas, where employment in primary sectors predominates, lagging the most. Nevertheless, poor-quality employment is not exclusively a problem of rural areas or farming. The challenge, therefore, is to identify the factors that explain why some territories create more high quality employment than others, so as to design public policies that support the emergence of more higher-quality jobs in lagging territories.

### Territorial gaps and inequalities in high quality employment

An initial necessary step for responding to the question about factors that explain why some sub-national territories generate more high quality employment than others is to verify the existence of territorial gaps in this area.

Each of the eight Latin American countries included in the analysis has its own particular characteristics, including having a better or worse national average. The point is not to compare national averages, however, but to compare territories within each country. From that standpoint, trends are visible in most countries and most indicators. Those trends

show that for high quality employment, national averages conceal important sub-national differences. These include:

- Regardless of the average overall outcome for the country in the area of high quality employment, all countries have sub-national territories that lag significantly.
- Sub-national territories that lag in high quality employment share certain characteristics. In general, they have smaller populations, are less urban, have a greater proportion of the population belonging to original peoples or of African descent, have a smaller proportion of employment in non-primary sectors (services and industry) and a larger proportion of people employed in primary sectors (farming, ranching, hunting and silviculture, fisheries, mining and quarries) and, to a lesser extent, have a larger proportion of young people.
- The sub-national territories that lag generally do so because of a broad set of development dimensions, which means that the people living there face inequalities in various areas at once. The most common case of lagging areas is that of predominantly rural areas, where jobs in non-primary sectors and formal employment are lacking, and where those territories also have the poorest outcomes in health, education and income.

**Necessary change in explanatory variable to increase the value of the indicator of high quality employment by 1 percent (in a district around average)**

Indicator of high quality employment	Brazil			Mexico
	Rate of formality	Rate of contributors	Income from main occupation	Rate of contributors
Degree of urbanization	7,5%	9,1%	Not significant	4,3%
Level of education *	8,7%	6,4%	1,7%	0,3%
Relative weight of employment in non-primary sectors	1,2%	1,6%	7,2%	0,9%
Percentage of recent migrants	21,5%	31,0%	Not significant	10,6%
Population belonging to original peoples or of African descent	Not significant	-21,0%	-5,4%	7,1%

\* This effect is not directly comparable between Brazil and Mexico, as the education variable is measured differently because of the availability of information: in Brazil, the percentage of population with secondary education is used, while in Mexico, the average number of years of schooling of the population are used.

Source: Compiled by authors.

**What variables can influence higher-quality employment?**

Based on economic theory and the evidence of territorial gaps, four econometric models based on the ordinary least squares (OLS) method were estimated, using aggregate data at the district level for three operational definitions of high quality employment: employment formality rate, rate of contributors to the pension system, and average liquid income from the workers' main occupation. The first three models correspond to Brazil and the fourth to Mexico. The results are as follows:

- The indicators of employment formality rate, rate of contributors to the pension system and average net income from main occupation have a positive correlation with a greater degree of urbanization, a higher level of education of the population, greater relative weight of employment in non-primary areas, and a greater presence of recent migrants, and a negative correlation with the proportion of the population belonging to indigenous peoples or of African descent (except in the case of the contributor rate in Mexico, where that relationship is reversed after controlling for other variables).

These results indicate that certain variables could be modified through public policies, and that they could be expected to result in increases in high quality employment. Certainly all of these variables are not directly controllable by public policies. Among those that could be

influenced in the medium and long term, it is worth considering that investment in education and fostering of production could help improve the quality of employment in territories, both by their contribution to the development of non-primary productive sectors and through the increase in productivity and productive linkages of primary sectors.

The analysis reveals the challenge of delving more deeply into the reasons why some sub-national territories lag behind or have moved ahead of others, both in high quality employment and in other socio-economic dimensions. This implies investigating the conditions that could serve as triggers for outstanding development in some cases and lags in others. This is particularly important considering that the analysis also shows that certain states in Brazil and Mexico show higher-quality employment even after controlling for characteristics such as degree of urbanization, level of education, relative weight of employment in non-primary sectors, proportion of the population belonging to original peoples or of African descent, and presence of recent migrants. That indicates that there are certain dynamics peculiar to territories that transcend variables related to productive structure and other material conditions of the territory.

**3. Local dynamics for generation of high quality employment**

To investigate the role of the other dimensions that we propose as relevant for explaining the territorial distribution of high quality employment – public policies and social dialogue – the third part of the report analyzes the dynamic of three pairs of non-metropolitan territories that reflect a diversity of economic sectors (coffee production, tourism, mining or related to agroindustry) in three countries with different productive structures: Brazil, Peru and Nicaragua.

The analysis of the cases indicates that besides the predominant sector of economic activity in the territory and its growth dynamic, other factors that are relevant in explaining more or less high quality employment in a territory are the role of legislation and public policies, and





the history and tradition of trade unions and/or cooperatives. In Nicaragua, and to a lesser extent Peru (though not Brazil), the existence of international cooperation and/or international observation in the territory also plays a relevant role.

### The Peruvian territories of Ilo and Ica

In recent years, Peru has experienced an upward trend in employment, although it is not consolidated. The current situation is marked by the legacy of liberal reforms of the 1990s, the recent emergence of the decent work agenda and the changing political context, which creates tensions around efforts to achieve greater labor guarantees for greater social inclusion versus simple economic growth.

Amid a generally auspicious scenario, the provinces of Ilo and Ica are medium-size territories with good outcomes in human development and a percentage of the Economically Active Population (EAP) with decent work in 2011 that exceeds 26 percent, well above the national average of 10.2 percent for that year (Gamero, 2012b). Analysis of the territories of Ica and Ilo shows that:

- Despite their geographic proximity, they are territories with different economic

### Non-metropolitan territories that create high quality employment: selected cases

Country	Territory	Economic sector	State of high quality employment	Principal factors that help explain the state of employment
Peru	Province of Ica (Department of Ica)	Export agriculture	First place in national index of decent work *	Incentive and public investment, high demand for labor, and international observation
	Province of Ilo (Department of Moquegua)	Mining	Second place in national index of decent work *	Economic dynamism, tradition of trade unionism and political culture of consensus building
Nicaragua	Functional territory of Rivas (Department of Rivas)	Tourism	Low unemployment, increase in formality and social security affiliation above national average	Incentives for private investment and international cooperation
	Functional territory of San Juan de Río Coco (Department of Madriz)	Coffee	Low unemployment and increase in welfare of families stemming from work	Incentive for investment, public investment, cooperativism and product certification processes
Brazil	Micro-region of Petrolina (State of Pernambuco)	Agroindustry	Formality and high wage income in non-metropolitan context	Public investment, tradition of trade unionism, economic diversification
	Micro-region of Juazeiro (State of Bahia)	Agroindustry	Formality and high wage income in non-metropolitan context	Public investment, tradition of trade unionism

\* See Chapter 4 for definition of Decent Work Index in Peru





structures. Ilo is located in a fairly homogeneous region characterized by the predominance of mining, which is the main issue on the public agenda and the activity around which people's income-generation strategies and identity are structured. In Ica, that role is played by agriculture, especially export agriculture, but the region is much more heterogeneous and economically diversified.

- In both cases, the region's economic dynamism has increased in the past decade, although with different characteristics. In the Department of Moquegua, where the province of Ilo is located, there has been an increase in the economic trends that had already emerged in the 1980s and 1990s, focused on mining and seaport activities. These activities have become even more important recently, but this has not brought about significant changes in social relationships or territorial dynamics. Meanwhile, in the past decade in the Department of Ica, where the province of the same name is located, there have been three different moments. Export agriculture began to gain strength at the beginning of this century, re-establishing an emphasis on a primary sector in the regional economy. That sector has seen sustained growth, although since 2007 it has been matched by a boom in the construction sector, largely stemming from reconstruction after the earthquake that occurred in August of that year. The situation changed again in recent years, with the growth of mining associated with the iron ore mine in Marcona, in the province of Nazca (contiguous to Ica).
- These two histories represent two different models of regional development and labor relations. The situation in Ilo is rooted in the growing importance of mining in the regional economy, the formation of a pyramidal productive structure that favors salaried employment, and the local tradition of collective bargaining and trade unionism, in a political culture that was characterized by participation and consensus building in the 1980s and 1990s. The situation in Ica is based on the dynamism of the regional economy, the rise of export agriculture, micro-level labor negotiations in a context

of high demand for labor, and the pressure exercised by international observation. The former case reflects a pre-labor-reform model, in which economic dynamism and social dialogue bear fruit in the area of high quality employment, while the second reflects a post-reform model, in which quality is a secondary objective and a result of indirect factors (imbalance between supply and demand of labor and increase in external supervision), rather than of a culture of negotiation in which all stakeholders assume decent employment as a goal in itself. This latter territory is not free of social tensions, which shows that despite positive indicators, there is some discontent in the local population over the distribution of the benefits of export agriculture.

#### The territories of Rivas and San Juan de Río Coco in Nicaragua

Nicaragua's situation of high quality employment is unusual, as it ranks among the lowest countries in the region. Nationwide, 47 percent of the population is salaried, only 25 percent of which had a work contract in 1998 (the most recent data available). In 2005, nearly 30 percent of wage earners contributed to the pension system, and the average monthly wage in 2009 was USD 198. Amid that scenario, two territories stand out for the economic dynamism and sharp decrease in unemployment they have experienced in the past two decades. San Juan de Río Coco, which revolves around coffee production and where there is a significant presence of cooperative organizations, and Rivas, an area where significant tourism infrastructure is being developed, along with private investment promoted by the State. In both, there are processes that have driven job creation, reaching an average unemployment rate of about 4 percent, although with different characteristics and quality, which opens the door to reflection about working conditions and the imminent challenges facing the Central American country in this area.

- In the territory of Rivas, in the department of the same name, there has been an increase in urban employment and social

security coverage associated with the hotel industry, tourism, construction and transportation. In San Juan de Río Coco, in the Department of Madriz, there has been an increase in rural employment because of coffee certification, as well as self-employment and unpaid family work (because of good coffee prices, many children work on the family farm instead of seeking paid employment). The latter, although neither formalized nor associated with social protection, imply a significant improvement in families' quality of life, enabling them to increase their standard of living, which is reinforced when accompanied by active cooperative organizations that play an essential role in providing various services to their members and their territory.

- The relatively employment situation in the two territories is related to different factors. In Rivas, it is connected with public incentives for tourism and the resulting growth of private investment in that sector; public investment in infrastructure and training, and labor oversight (which is limited, but does exist); and international cooperation. In San Juan de Río Coco, it is related to the increasing volume and value of coffee exports; the existence of an active cooperative movement, which benefits from public policy and by international market incentives; public incentives for production, investment and labor oversight; and international cooperation.
- The public role stands out in creating conditions conducive to the economic activity through incentives for private investment (Tourism Incentives Law, Coffee Law), which has increased demand for labor. Investment in infrastructure and training, as well as the promotion of cooperativism and labor oversight also contribute to the creation of jobs with better conditions.
- Another factor to consider is related to market demands. In the case of Rivas, the demand for hotel and tourism services for a growing number of visitors, especially foreign tourists, drive the development of investments and the creation of jobs that require higher and higher skill levels and are therefore associated with better conditions. In the case of San Juan de Río Coco,

the demand for high-quality, certified coffee contributed to improved conditions for coffee farm workers and the producers themselves, as production must meet international quality standards. In this case, cooperatives play a role in both private and public initiatives. They provide technical assistance to farmers; offer financial services such as loans, saving, remittances and insurance; provide inputs, food and other necessities through shops and supermarkets; commercialize products; and in most cases, they are the ones that have the coffee certification, because they finance the cost of the process. In some cases, they even maintain school infrastructure in the territory.

- International cooperation has also played an important role in capacity building in the territories, and has influenced the increased quality of jobs, often playing a role that should be played by the State, such as development of transportation and productive infrastructure, job training and strengthening of cooperative organizations.
- There is no consolidated presence of trade unions in the territories, which could help explain constraints on the quality of employment.

### Territories of Petrolina and Juazeiro in Northeastern Brazil

Brazil is currently undergoing a sharp decrease in unemployment (around 5 percent, according to the Brazilian Geography and Statistics Institute, IBGE), while placing priority on the domestic market (with growth in the commerce and services sectors), an increase in resources allocated to the social protection network (e.g., Bolsa Família), an increase in the minimum wage (equivalent to USD 293 a month in 2013) and greater oversight of labor regulation, especially in agriculture.

The northeastern region has historically been marked by rural poverty and strong barriers to urbanization and regional development. The micro-regions of Petrolina and Juazeiro form a development pole that has escaped that tendency; it is connected with fruit-producing agroindustry in the San Francisco Valley, in the semi-arid region. The two territories have similar population sizes (around 450,000 inhabitants, according to the 2010 Census), and about one-third of their inhabitants live in rural areas. They also share relatively positive indicators for employment quality (in the contexts of their respective states, omitting the metropolitan capitals).

- In the macro-region in which the territories of Petrolina and Juazeiro are located, significant State action since the 1970s, aimed at creating a fruit-producing center (the most important in the northeast) through loans, public investment, technical assistance and fiscal incentives, has combined with a long union tradition associated with the history of the Catholic Church's work in the region's communities, which laid the groundwork for an active union movement, especially in rural areas, which has strongly influenced collective bargaining on wages and working conditions.
- The fruit-producing and agroindustrial pole in the irrigation zone associated with Juazeiro (State of Bahia) and Petrolina (State of Pernambuco) holds a prominent place in indicators related to employment, formalization and wages. Although they share a positive outlook, the two territories

differ in degree of formalization and wage levels, with more positive figures in Petrolina. The reasons for the differences lie in some particular circumstances, such as the type of production and commercialization that characterizes each and the profile of the elites who shape their economic dynamism.

- Petrolina is a territory led by a long-standing, traditional elite, which has strong ties to central power in Brazil and is oriented toward the globalized international economy. That translates into a strong ability to attract public investment and enter into market dynamics. Grapes are the area's main crop, which allows for non-agricultural market linkages (juice, wine) and economic diversification, while also being labor intensive; at the same time, production is aimed at international markets, which assumes meeting certain minimum standards, including those related to working conditions.
- Juazeiro is a territory with elites that are more local and less connected, which means they have less ability to attract public investment. The crops that predominate in the area (mangoes and others) create fewer jobs, have fewer productive linkages and are not directed mainly at the international market. Those factors affect the scope and distribution of high quality employment in the territory.



### Closing territorial gaps: better job opportunities for people, regardless of where they live

In the 2011 Latin American Report on Poverty and Inequality, we noted that Rimisp, the Latin American Center for Rural Development, is among those who believe that regional inequalities, especially when they are of the magnitude that we have seen in Latin America, are a problem and an obstacle to development. Although we share the idea that in the long run, in a world of perfect markets, a process of regional convergence such as the one postulated by the World Bank (2009) should occur, in practice, and in the time frame of one or two generations, a series of factors impedes or delays that convergence.

Given the topic of this report, that statement leads us to ask about the type of institutional reform that are needed so that the possibilities that a given territory's inhabitants have to gain access to high quality employment do not depend only on the characteristics of the economic-productive structure. We distinguish several areas of reform.

- Reforms that tend to modify the productive structure of low-productivity sectors and territories, including policies that promote economic activity that help diversify the productive structure or generate linkages between low- and high-productivity sectors; policies for development of human capital that enhance workers' skills to increase labor productivity; policies for regulation and oversight of compliance with labor laws. The gaps discussed in Chapter 2 establish clearly, for example, that investment in education and support for the development of non-primary productive sectors in lagging territories are policies that can have a positive influence on indicators of employment quality in the medium term.
- Reforms in the design and implementation of public labor and social protection policies, to move from a traditional focus on sector-based visions, programs and budgets to comprehensive approaches for meeting the needs of each territory. The invitation is to design and implement policies for comprehensive development of territories, which fully consider the diversity of territorial conditions and therefore offer goods and services that are differentiated depending on the specific conditions under which they will be implemented.
- A third set of reforms appeals to the need to increase the decision-making power of local governments (decentralization), to allow greater adaptation of national policies to local needs and supplement them with specific responses to those needs. Several of the cases documented in the third part of this report owe their relative success to the particular conjunction of national policies with timely and relevant local responses that take advantage of the economic scenario at a particular moment. Progress is needed so that this capacity for response becomes the norm, rather than the exception.
- Support policies specific to the territories that lag the most are also needed, to reduce existing gaps in employment quality and other socio-economic indicators documented in the first part of this report. As a basic starting point, there is a need for information systems that allow periodic reporting on trends in territorial gaps.
- Another challenge in the region is to stimulate social dialogue to reach agreements, from the promotion of labor standards that set minimum acceptable conditions to the strengthening of collective bargaining and the elimination of anti-union practices. From a territorial standpoint, it is crucial that progress in national legislation and regulations in these areas coincide with territorial development policies that foster the development of social, political and institutional capacities in the territories, so that social stakeholders in the territories interact and develop collective forms of action, at their own pace and with goals and objectives that they value and are able to implement.





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**LATIN AMERICAN REPORT 2013**  
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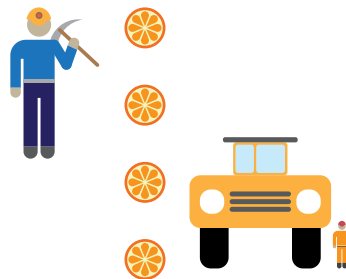
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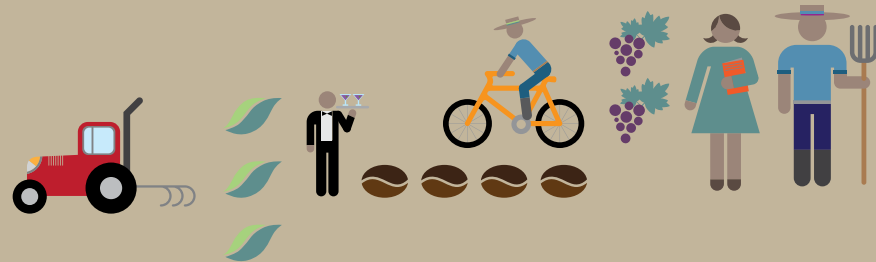
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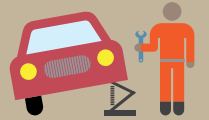
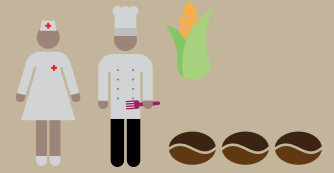
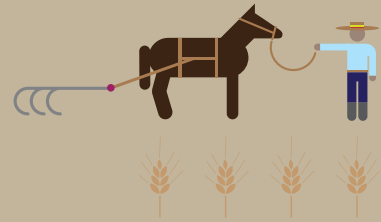
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